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February 29, 2012

Aaron Gornstein
Undersecretary
Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114-2531

Re: Low-Income Home Energy Assistance Program (LIHEAP)

Dear Mr. Gornstein:

As you know, the Massachusetts Office of the Inspector General (OIG) conducted a limited risk assessment of the U.S. Department of Health and Human Services' (HHS) Low-Income Home Energy Assistance Program (LIHEAP) as administered by the Massachusetts Department of Housing and Community Development (DHCD). The OIG conducted this risk assessment as part of the OIG's review of programs that received funding from the American Recovery and Reinvestment Act (ARRA). While LIHEAP did not receive ARRA funding directly, LIHEAP eligibility provides a "gateway"¹ into the ARRA-funded Weatherization Assistance Program (WAP).² The OIG previously reviewed fraud risks in the WAP program and identified the LIHEAP gateway as a potential vulnerability.

The OIG is reviewing ARRA-related grants and funding to identify potential vulnerabilities to fraud, waste, and abuse and other risks that could negatively impact the accountability, transparency, and anti-fraud mandates contained in the statutory language and interpretive guidance of ARRA. Our risk assessment should not be construed as an audit, investigation, or a comprehensive programmatic review. The OIG intends this assessment to assist DHCD to identify and address risks.

¹ Households approved for LIHEAP are automatically eligible for WAP.

² WAP is a program of the U.S. Department of Energy (DOE).

A risk assessment is a tool used to identify vulnerabilities and efficiency issues that may affect the achievement of organizational or programmatic goals. To conduct this assessment, the OIG met with DHCD staff, reviewed DHCD's written program guidance and other related forms, and conducted an on-site risk assessment of three sub-grantees. In May and June 2011, the OIG visited three agencies that provide LIHEAP services. The number of households receiving benefits at these agencies totaled 37,028, or 18% of the total households statewide.

The Program

Since 1977, LIHEAP has assisted low-income households in paying for home energy costs. The program pays fixed benefit amounts based on household income, household size, and energy costs. Total federal LIHEAP funding across the nation totaled \$4.5 billion for Fiscal Year (FY) 2010. Massachusetts received \$197,557,683 in LIHEAP contract funds that provided heating assistance to 206,589 households. The average household received a benefit of \$801.³

Although DHCD administers the program, DHCD contracts with 21 Local Administrating Agencies (LAAs); (see Appendix A for a complete LAA listing) consisting of 20 community-based not-for-profit agencies⁴ and one municipal agency to provide benefits on behalf of households. DHCD assigns these LAAs to twenty-two service areas across the state.⁵ A majority of the LAAs that administer LIHEAP are also providers of DHCD's WAP and other energy-conservation programs.

According to the *Administrative Guidance for Program Operators* distributed by DHCD to the LAAs, "LIHEAP is intended primarily to help defray the cost of heat during the winter months (November 1 through April 30). It is an assistance program and is not intended to pay the entire winter or annual heating costs for eligible households." Most payments are made directly to utility companies, heating-oil vendors, or primary-heat-source vendors (propane, wood, or coal) rather than to eligible households, although there are some exceptions. Eligible households whose heat is included in their rent may receive benefit payments directly.

LAAs determine household eligibility based on several factors, including earned income, financial assistance from other state and federal programs (Social Security, veterans, unemployment, etc.), non-wage income (interest, dividends, trust, etc.), heating costs, and the number of household members. In order to qualify for this benefit program, applicants must reside in Massachusetts and meet the income eligibility guidelines outlined in the "LIHEAP Income Eligibility and Benefit Level Chart" for the applicable fiscal year (<http://www.mass.gov/hed/docs/dhcd/cd/liheap/chart.pdf>). For

³ The average benefit is calculated by dividing the total contract expended program funds of \$197,557,683 by the number of households served 206,589, coming out to \$801 per household. The maximum benefit for FY 2010 was \$1,070 for deliverable fuel and \$960 for utilities.

⁴ Nineteen of the LAAs are designated as Community Action Agencies (CAAs). In 1964, federal law created the CAAs to implement federally established community action programs.

⁵ The New England Farm Workers Council, Inc., services two areas: Springfield and Fitchburg.

example, in FY 2011 a household of four individuals must have a yearly income that does not exceed \$59,137.

Recent budget cuts to LIHEAP by the federal government⁶ make the prevention and detection of fraud, waste, and abuse a critical step in ensuring that only eligible households receive a portion of the shrinking pool of LIHEAP benefits.

The LIHEAP Process

The following is a description of the LAA LIHEAP process (see Appendix D for a process flowchart).

Application⁷

New applicants contact an LAA (by telephone or as walk-ins) to schedule an appointment to apply for LIHEAP assistance. On the day of the appointment, applicants check in and meet with an intake employee.⁸ The intake appointment is intended to gather information, help applicants complete the LIHEAP application, and ensure that all required eligibility documentation is obtained.⁹ Once completed, the application is signed by both the applicant and the intake employee and forwarded to other staff for certification.

Approximately two-thirds of all applications are “recertifications” (applications from households that received benefits in the preceding year). The recertification process differs from that for new applicants in that the LAA mails applications to the prior year’s recipients (the mailed applications do not include income information). Recertification applicants are responsible for submitting any changes in income, rent, energy costs, and/or number of household members. Recertification applicants do not have to apply in person and do not have to provide a form of identification since identification should have been provided for the applicant’s initial eligibility determination in a prior year.

All completed applications go through an LAA “certification” process to determine the applicant’s LIHEAP eligibility and to ensure that all required documents are obtained. Households claiming zero or very low income are subject to a “wage match” process. The LAAs (through DHCD) submit applicant name(s), Social Security number(s), and application dates to the Massachusetts Department of Revenue (DOR) for a determination of wages reported by the employer(s) or individual(s). DOR reports

⁶ The U.S. Health and Human Services FY 2012 LIHEAP budget is 28% less than the FY 2011 level.

⁷ A flowchart of the application, certification, and payment processes and the DHCD on-site program review process is located in Appendix D.

⁸ All applicants (who meet certain emergency criteria per DHCD guidelines) may apply for an “emergency” delivery of oil, prevention of shutoff, or restoration of utility service. Emergency applications are approved contingent upon a full documentation review. LAAs will pursue payment restitution from an applicant later found to be ineligible.

⁹ Applicants have 30 days to provide the LAA with all necessary documents or the application request may be denied.

back to DHCD the wage information that DOR has received from the employer or individual. In addition, applicants claiming self-employment are required to provide written permission for LAAs to request copies of the applicants' tax returns from the Internal Revenue Service (IRS).

Fuel Vendors¹⁰

In FY 2010, DHCD instituted a policy to verify the business authenticity of delivered-fuel vendors. The policy requires each vendor to sign a contract, provide its employer identification number (EIN), provide its legal name and "Doing Business As" (DBA) name, and attach a copy of its business certificate/permit. The contract between the fuel vendor and the LAA must have provisions for: (1) billing and payments; (2) non-discrimination of low-income customers; (3) privacy and client confidentiality; (4) proof of delivery; and (5) access to records. In Massachusetts, DHCD sets LIHEAP heating-oil prices that vendors must conform to. The heating-oil contract includes a provision for this Margin-Over-Rack (MOR)¹¹ heating oil pricing system.

Payments¹²

The payment process is segregated into delivered fuel (oil, propane, wood, etc.) and non-delivered fuel (natural gas and electricity). Non-delivered fuel is provided by public and municipal utilities. LAAs provide the utilities with a list of LIHEAP clients and benefit amounts. Utilities then bill the LAAs monthly for these clients. The LAAs pay the utility bills according to the charge (or costs) of the monthly usage. LIHEAP clients are responsible for paying the difference between the utility charge and the benefit amount. Utilities provide a discount rate for LIHEAP-eligible households.

Delivered fuel is provided by individual vendors. To receive payment, these vendors must submit delivery tickets and/or computer invoices for services provided. Tickets for oil, propane (not canisters), and kerosene include a meter reading indicating the number of gallons delivered and cost per gallon. Tickets for wood deliveries specify the age, log size, and cut of the delivered wood. The client must also sign a statement indicating the delivery is satisfactory. Occasionally, an applicant may purchase fuel directly, as in the case of wood pellets. In these cases, the LAA requests a proof of purchase from the applicant. The LAA reviews all invoices/payment requests to ensure that applicants have not exceeded their yearly benefit levels.

¹⁰ Fuel vendors include suppliers of heating oil, coal, propane, wood, or other fuel sources not provided by a public or municipal utility.

¹¹ Margin-Over-Rack refers to the calculation of a per-gallon price for heating oil. This is defined as the lesser of a vendor retail price (with any applicable discounts) or a margin of 40 cents per gallon over the average per-gallon rack (or terminal) price based on the Oil Price Information Service (OPIS).

¹² The OIG did not assess the mechanics of the payment process itself since a large portion of payments are paid directly to utilities and since LAAs primarily use staff outside the LIHEAP program for the payment process. Accounting staffers who process payments are governed by separate procedures and by different financial and internal controls. DHCD should consider performing a risk assessment of LAA financial processes.

Eligible applicants whose home-heating costs are included in their monthly rent receive direct payments from LAAs. However, payments cannot exceed 30% of the total monthly rent amount. The landlord must provide a written verification of the rent amount and affirm that heating costs are included in the rent before the LAA issues payment.

A. Accuracy and Verification of Documentation

As part of its review, the OIG selected a random¹³ sample of 216 applications from two LAAs and compared the information listed in the agencies' LIHEAP online database¹⁴ for all adults (age 18 and older) associated with each household to information from commercially available reporting services and publicly available web-based search functions. The OIG subdivided the selected files into categories based on the head of the household's primary income source as defined by DHCD¹⁵ as follows: wages (10%); self-employed (10%); receipt of government assistance (50%); zero or low income (20%); and other (10%).

The OIG review identified a significant number of "red flags" (possible inaccuracies) in the information submitted by the LIHEAP applicants. The nature of some of these red flags could be indicative of applicant fraud. The OIG found the following:

A 1. Program intake procedures reviewed by the OIG did not obtain sufficient documentation to establish both the identity and employment of household members.

LIHEAP intake procedures do not require LAAs to obtain documentation sufficient to establish the identity and employment authorization of adult household members. Under current policies:

- Only the head of the household is required to provide photo identification.
- There are no documentation requirements for persons under the age of 18. (Some LAAs do obtain copies of children's birth certificates and Social Security cards if provided by the applicant.)
- LAAs are not required to obtain documentation verifying an individual's date of birth for first-time applicants.

Intake procedures permit LAA staff to accept photocopies of required identification documents such as a Massachusetts driver's license or a passport as proof of identity. Photocopies could be used to hide falsified or altered documents. Document authentication can only be done properly by reviewing actual documents. LAAs reviewed rarely requested corroborating documentation to establish identity or

¹³ Based on the desired sample size and population for each category, the OIG generated a random starting point and selected files on an interval basis.

¹⁴ The OIG review did not include a review of the actual case files for the sampled applicants.

¹⁵ The one exception is "government assistance," which is a compilation of all income sources involving federal or state assistance such as Social Security, disability, food stamps, etc.

employment. LAAs also do not conduct field inspections to verify the accuracy of the information submitted in the application. LIHEAP clients who later receive WAP benefits will be subject to an energy audit; however, this inspection is not designed to verify applicant data or to act as a substitute for gateway diligence.

Roughly two-thirds of all LIHEAP recipients (approximately 138,000 households per year) are repeat benefit recipients or recertifications. Some households have been receiving benefits for 20 years. Failure to adequately document and verify applicant and household member identities could mean that ineligible recipients may have received thousands of dollars in benefits for years and may have gained access to additional state and federally funded programs such as WAP.

A 2. Social Security numbers are not verified.

LAAs use Social Security numbers (SSNs) for evidence of an applicant's identity. However, the Federal Trade Commission (FTC) recently noted that the "use of the SSN as an authenticator—as proof that consumers are who they say they are—is widely viewed as exacerbating the risk of identity theft"¹⁶. One reason for concern is that six percent of Americans have more than one SSN and over 100,000 are associated with five or more SSNs.¹⁷ Based on the sample of applicant households reviewed, the OIG found the following:

- a. Twenty percent¹⁸ of the sample had adult members with multiple SSNs, as compared to the estimated national rate of six percent of adults.**
- b. Twenty-two percent of the sample had individuals with SSNs also associated with another person's identity¹⁹. Specific examples include:**
 - An applicant had a second SSN associated with an individual in Florida (no apparent relation). The individual in Florida shared another SSN with a deceased person.
 - An applicant had an SSN associated with both an 85-year-old individual from Florida and an individual living in Puerto Rico.
 - An applicant shared an SSN with an individual whose name is also the name of a marina in New Hampshire.

¹⁶ 2007 Federal Trade Commission (FTC) Identity Theft Task Force.

¹⁷ According to 2010 press reports, approximately six percent of Americans have more than one SSN.

¹⁸ The percentage is exclusive of potential duplicate SSNs due to human error such as typos, transpositions, miscopying, and inaccurate reading of handwritten figures.

¹⁹ Four percent of the reviewed SSNs appear to be associated with deceased persons.

c. Six percent of the applicant households reviewed had individuals with missing or inaccurate SSNs and/or dates of birth. For example:

- The SSNs for several individuals could not be verified.
- Several household members had incomplete or missing dates of birth.

Not verifying SSNs creates program vulnerability and does not check against identity theft.

A 3. Forty-five percent of the reviewed households had adult members with multiple concurrent mailing addresses.

An applicant's household address is the basis for payment of LIHEAP benefits. LIHEAP Administrative Guidance defines residence as:

...a household's permanent dwelling space in Massachusetts with cooking, sleeping, [and] sanitary facilities. A residential building contains 1 or more dwelling units occupied by 1 or more tenants. Residences do not include hotels, motels, inns, lodging houses, dormitories, or university-owned housing and other similar dwelling places which are not considered either permanent housing or residences.

However, while an individual may have more than one residence, the program only permits one domicile at any one point in time. According to DOR:

Domicile or legal home is defined as consisting of three elements: 1) actual physical residence, 2) at a fixed dwelling place, and 3) with the intention to remain permanently. An individual may have more than one residence, but may only have one domicile at any one point in time.

The OIG was not able to verify six percent of the sampled LIHEAP client addresses found in the LAA database. Questionable applicant addresses are red flags of possible benefit fraud.

A 4. Applicants did not disclose ownership of potential "non-domicile" property.

The OIG identified four percent of the sample households as having individuals who potentially owned "non-domicile" property (property in addition to their current residence). Ownership in non-domicile property could be an indicator that the client (or other household adults) may have additional (unreported) income from rent or property-related income. This could also indicate a second home that could be used to misrepresent a primary domicile residence. Although LIHEAP is not required to include all assets in eligibility determination, an applicant with real property assets should receive additional scrutiny by the LAA.

A 5. Some case files showed an underreporting of the number of adults (age 18 or older) residing at the same address and/or an incomplete list of income sources.

Based on the OIG's review, 34% of sampled households had more adults (age 18 and older) residing at the applicant's address than the number listed in the LIHEAP database. Current certification procedures do not require LAAs to independently verify household status by, for example, conducting site visits or interviewing landlords. In addition, LAAs do not always contact employers or review IRS W-4 tax forms obtained from employers to verify applicants' employment status. Since LIHEAP is an income-based program, failure to report all adults living in the household could be an attempt to underreport total household income to obtain LIHEAP assistance.

A 6. LIHEAP clients passed away during the heating season.

The OIG found three instances of an applicant or household member who died during the heating season. The OIG stresses the importance of the LAA review of recertification applications to identify any changes in the number of household members from year to year.

Recommendations: *Accuracy and Verification of Documentation*²⁰

Documentation

The IRS I-9 Employment Eligibility Verification form (see Appendix B) specifies a list of acceptable identification documents necessary to establish both the identity and legal status of adult household members and children under the age of 18 residing at their domicile residence. All legal U.S. residents must meet the minimum IRS I-9 documentation requirements to seek or obtain gainful employment. DHCD and its LAAs should amend their intake procedures to comply with IRS I-9 document requirements. For household members under the age of 18 who are not able to provide identification documents, the IRS recommends the following:

- School record or report card.
- Clinic, doctor, or hospital record.
- Daycare or nursery school record.

If children attend school or receive medical care at locations a significant distance away from the address listed on the application, it may be an indication they reside elsewhere and that they are being listed as residing with the applicant in order to obtain or increase LIHEAP assistance. For example, this might include children in the custody of one parent but claimed as residing with another parent.

²⁰ A 2011 GAO report on "Personal ID Verification" urges agencies to place a higher priority on using standardized forms of identification.

Applicants who cannot provide adequate documentation should be subject to an alternative verification process. Because LIHEAP is intended to help defray the cost of heat during the winter months and as such could be an emergency, the supplemental verification process could be a “post-audit” process conducted before the next heating season. This would allow eligible applicants to receive benefits but would hopefully prevent ineligible applicants from receiving benefits for a second time. DHCD and LAAs should consider the following as part of their alternative verification process:

- Require the individuals to sign an affidavit under the pains and penalties of perjury as to their age and identity.
- Match household member names, Social Security numbers, and dates of birth against other state-agency databases.
- Conduct field work, web-based research, and/or telephone interviews to verify address and number of adult household members.

Training

The OIG recommends that intake and certification employees be trained to be vigilant when reviewing identity documentation. On an annual basis, DHCD, in conjunction with LAAs, should work to establish document-identification training so that LAA staff will be able to spot fraudulent documents and detect possible identity theft. This would deter fraud in LIHEAP and other benefit programs. Intake procedures should also be amended to require applicants to submit original documents only, as photocopies could be used to disguise fraudulent identities.

Given the significant number of households with multiple SSNs and/or SSNs associated with non-related third parties (living and deceased), implementing a training program to help LAA staff identify fake identity documents may reduce DHCD and LAA exposure to individuals attempting to fraudulently gain access to state and federal assistance by submitting false or altered identification documentation.

Verification

A client having multiple concurrent addresses is sufficient justification for additional research by LAAs to verify the accuracy of the information provided on the LIHEAP application. If an applicant has more than one residence or mailing address, LAAs should consider additional verification by comparing addresses to state records, including the registry of deeds, local property-tax records, voter-registration information, and motor-vehicle registration that can help to identify the primary residence (domicile) for the individual.

DHCD and/or LAAs should also consider using web-based reporting services to verify application information. If an LAA suspects unreported household members,

then it should take additional steps to ensure the accuracy of application data, including site inspections, obtaining lease documents, requiring landlord statements, etc. Currently, only adult members of zero-income households and those who claim self-employment are required to sign and complete IRS Form 4506 (Request for Copy of Tax Return). Although DHCD has the right to request IRS Form 4506 from any applicant at any time, the OIG recommends the policy be expanded to include all adult household members. Form 4506 provides LAAs with a powerful income and residence verification tool for households they suspect may not have listed all income sources on their applications. In addition, requiring all adult household members to complete and sign the form may act as a deterrent for individuals contemplating fraud to obtain LIHEAP assistance. According to the Association of Certified Fraud Examiners (ACFE), the second greatest reason that people refrain from committing fraud is “fear of being caught.”

DHCD and the LAAs do not need to use Form 4506 to obtain all applicant tax returns. However, a yearly sample should be taken for a post-audit review process. As stated earlier, LIHEAP benefits do not need to be withheld, especially in situations designated as emergencies. However, DHCD should try to prevent ineligible applicants from fraudulently receiving “emergency” benefits for more than one season. The emergency nature of the program creates a risk because the need to provide heat to those in need is of greater importance (and rightly so) than draconian eligibility controls. However, since about two-thirds of applicants are renewals, stringent eligibility controls should be applied after the initial (first year) heating emergency is addressed.

B. Intake Process

OIG staff met with the LIHEAP staff of three LAAs to review the intake, certification, and oversight processes to identify potential risks and weaknesses. As a result of its review, the OIG identified the following issues related to the LIHEAP intake process.

B 1. LAA case files lacked required documentation.

From a review of a sample of case files at the three LAAs, the OIG found that some files seemed to lack all of the documentation required in the application process. This lack of documents paints an incomplete picture of an applicant’s program eligibility. It also makes it difficult for LAA and DHCD staff to later review files to determine whether intake and certification staff correctly processed applications and granted the appropriate benefits.

The OIG found documentation such as pay stubs without place of employment specified, unverified (and not notarized) employer letters, and unsigned leases. When asked by the OIG, LAA staff responded that current policies did not require follow-up with employers or landlords to verify information.

B 2. LAA records are inconsistently maintained.

The OIG found applicant information to be kept partially in paper files and partially in the LAAs' online LIHEAP database. Keeping information that is inconsistent in content in different places creates confusion and is a deterrent to meaningful applicant and program review.

B 3. Although the forms used are based on DHCD templates, the format, style, and content varies among LAAs.

LAAs use a variety of forms to verify wage income, rental status, and energy needs. These forms include:

- The "Low/No Income Interview Form" that allows the applicant to document how he/she sustains the household expenses on less than \$200 per month.
- The "No (Zero) Income Statement" in which all household members attest that they do not have any non-cash government assistance.
- The "Tenant/Landlord Form" completed by the landlord to verify the tenant's residency, type of heat used, and whether the cost of heating is included in the rent.

Although the forms used are based on DHCD templates, the format, style, and content varies among LAAs. The lack of uniformity and consistency of these forms does not ensure adequate and consistent information capture and could impede DHCD review and oversight.

B 4. There appears to be a lack of uniform job qualification requirements for intake and certification staff.

The OIG found that neither DHCD nor the LAAs established minimum educational or employment qualifications for the intake and certification staff functions. These vary across LAAs and could create inconsistent intake quality.

B 5. Some files lacked documentation that wage matches had been performed for all zero-income household members over the age of 18.

This is a particular concern for the recertification applications, since a household may initially apply for benefits when some members are under the age of 18. Household members who subsequently reach 18 years of age may not be identified by the LAA (as part of the recertification process) and would therefore not be included in the wage-match process.

B 6. Limited oversight for the appeals process poses a risk since one staff member may have unilateral responsibility to assign benefits to potentially ineligible applicants.

If an applicant is denied benefits or believes that a benefit amount is too low, he or she may appeal. The appeal is “heard” or reviewed by an LAA manager who may then grant benefits under limited oversight.

Recommendations: *Intake Process*

Applications

Information reflected in the case files should match the information stored in the online database. In this way, LAA and DHCD staff will be able to more easily review files and check the online information against the documentation submitted by applicants. Additionally:

- LAA staff should follow up with an applicant's employer and landlord to verify documentation. This should be done for incomplete documentation and on a sample basis for all applications.
- LAAs should use the same forms as approved by DHCD. These forms should be notarized upon completion and signed by applicants, landlords, and others under the pains and penalties of perjury.

Wage Match

Also, the number of wage-match discrepancies (about 10% according to some LAA staff) illustrates the need for LAAs to verify application information. LAAs should consider expanding current wage-match-sampling parameters.²¹ Households whose wage income does not match DOR records should be subject to additional income verification, including obtaining and reviewing federal tax returns (through the use of IRS Form 4506). In addition, DHCD should also ensure that LAAs have a uniform process for dealing with wage-verification information.

Oversight

While site visits are an important tool, the OIG understands that LAA staff cannot visit every applicant household and place of employment. The OIG recommends that DHCD consider conducting annual on-site verifications on a sample basis to confirm applicant information. This should also be used to follow-up on suspicious applicants or applications with red flags.

²¹ According to a sample-size calculator (based on 200,000 households statewide), agencies need to review 598 random case files to arrive at confidence level of 95% with a margin of error of plus or minus four percent. Currently, there are 22 LAAs administering LIHEAP, which translates to approximately 30 case files per LAA for sample wage verifications. Since the wage-verification process is automated, DHCD should consider using larger samples.

Payments

As noted earlier, a percentage of applicants have utility costs included in their monthly rental payments. In these cases, current policy calls for LIHEAP payments to be made directly to applicants rather than to a utility provider or fuel vendor. A risk exists for these cases since the LIHEAP payment is effectively a cash payment to the applicant that may or may not be used toward rent payments. According to DHCD, legal and policy issues prohibit these payments from being made directly to a landlord or utility provider. The OIG believes that DHCD should further review this issue to determine if an alternative payment method can be found. For example, have LAAs make payments directly to landlords in exchange for lowering rental payments for the amount of the LIHEAP payment during the heating season.

Appeals:

Appeals should be heard and reviewed by multiple LAA staff, and the appeal decision should be well-documented. DHCD should monitor the local appeal process during the heating season, rather than waiting for a review during the routine annual on-site review process performed by DHCD.

C. Internal Controls

C 1. LAA staff has unrestricted access to the LIHEAP online database.

The OIG found that, with the exception of LIHEAP applications for LAA staff members,²² LAA staff is allowed unrestricted access to the LIHEAP electronic database. This access to personally identifiable information creates a risk for identify theft as well as other fraud schemes because:

- Staff at any level (intake, certification, payment) can unlawfully use or alter applicant information.
- Staff members could collude with applicants to alter applicant information for the purpose of obtaining or increasing benefits.
- After the certification (post-approval) process is complete, a staff member could alter information to grant or increase benefits for an applicant.

Although the program database tracks changes to applicant files, according to LAA staff, program management rarely reviews these tracked changes. According to the LAAs, given the volume of applications, the number of available supervisory staff, and the need to make quick decisions, they do not have the time required to review every change to an applicant's file or monitor the changes made under certain criteria (to identify trends) such as by staff person, by applicant, or by date. The volume of

²² A significant number of LAA staff is eligible for LIHEAP benefits. The files and electronic information of LAA staff members seeking LIHEAP assistance are segregated from other applicants to maintain employee confidentiality.

applications and related system changes, combined with management's lack of resources to review every tracked change, increases the potential risk that fraud and abuse can occur.

C 2. Staff is not required to routinely change passwords.

The LAAs reviewed do not have a written policy requiring employees to periodically change their system passwords or to remove employees from the system upon termination of employment. For example, LAAs employ a number of "seasonal" staffers who work during the LIHEAP season (September through April/May). At the end of the season staff members are laid off, encouraged to collect unemployment, and then rehired prior to the start of the next LIHEAP program season.²³ According to LAA managers, they do not delete the passwords of these seasonal employees when they are laid off. Upon their return, employees are allowed to use their old passwords.

C 3. LAA staff relies on the honor system when processing applications for clients who may be known to staff.

According to LAAs, many staff members live in the community they serve, have been dealing with the same clients across different LAA programs for many years, and, because of the nature of LAA work, may know many members of the community. All LAAs have policies prohibiting employees from dealing with family and friends.²⁴ However, policy compliance is based on trust that staff will avoid or self-disclose any potential conflicts. Without self-disclosure, these potential conflicts might never be identified. Conflicts of interest increase the risk that an employee, in an attempt to help a friend or relative, will alter applicant data in order to help the person qualify for assistance or to increase the amount of assistance. This could also be part of a fraud scheme to generate benefits in exchange for payment (a bribe or kickback). This risk is compounded by having low-paid employees in positions of responsibility, with wide data access, and with minimal oversight.

C 4. LAAs may permit the same employee to perform both intake and certification functions.

The OIG determined from its review that one LAA allowed LIHEAP employees to perform both intake and certification functions for the same applications. The intake process is designed to help the applicant complete the application. The certification process is designed to verify the accuracy and legitimacy of the application and to identify if additional documentation may be needed.

The intake and certification processes are distinct processes and should be segregated. Allowing one employee to initiate, authorize, and/or record a transaction not only increases opportunity for errors in the application, but also increases the LAA's risk

²³ Many staff members have worked under this arrangement for years.

²⁴ LAA managers informed the OIG that it is LAA policy to take disciplinary action against any employee found to be helping a friend or relative.

of fraud, waste, and abuse since employees have increased opportunity to alter applications and possibly approve inappropriate benefits to households. The November 1999 Government Accountability Office (GAO) report entitled *Standards for Internal Control in the Federal Government* endorses “segregation of duties.” The report states:

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Recommendations: *Internal Controls*

Segregation of Duties

According to the ACFE, one of the most important classes of internal controls used to prevent or detect fraud is segregation of duties. When an organization enforces segregation of duties, no one person can process a sensitive transaction from start to finish. However, assigning different people to these tasks is not enough. There must also be effective oversight.

DHCD should work with LAAs to develop a better system of access controls that restrict employees’ access to the database to that portion of the system necessary to complete their job function. Data changes that effect household eligibility or benefit level should require supervisory authorization and subsequent review. The OIG recommends that any errors “identified” through the management-review process be documented for future DHCD review and that LAAs should determine which staff member made the change and why.

LAAs should establish a robust system of internal controls to help deter and detect potential employee conflicts of interest. These internal-control procedures should include, but not be limited to:

- Periodically interviewing employees concerning the intake process and asking questions about process vulnerability.
- Establishing a written policy clearly defining what constitutes a conflict of interest and prohibiting any such behavior by employees. The policy should require employees to complete an annual disclosure statement that should require employees to provide detailed information regarding the names and employers of immediate family and household members who may have dealings with the LAA. In addition, LAAs should conduct annual staff training on ethics policies, controls, and oversight.
- LAAs should amend their procedures to prohibit the same employee from performing both the intake and certification function for the same applicant.

DHCD should work with all LAAs to ensure that intake and certification processes are conducted in a uniform manner across agencies.

Safeguarding Personal Information

Passwords play a critical role in the fight against computer intrusion and fraud. Data security standards²⁵ recommend that businesses, at a minimum, adopt the following safeguards:

- Passwords should be at least eight characters (alphanumeric and one special character) in length. If the system does not allow eight characters or more, passwords should be the maximum length allowed by the system. A 2003 GAO report²⁶ outlined parameters for user accounts and passwords:

A computer system must be able to identify and differentiate among users so that activities on the system can be linked to specific individuals. Unique user accounts assigned to specific users allow systems to distinguish one user from another, a process called identification. The system must also establish the validity of a user's claimed identity through some means of authentication, such as a secret password, known only to its owner. The combination of identification and authentication, such as user account/password combinations, provides the basis for establishing individual accountability and controlling access to the system. Accordingly, agencies should (1): implement procedures to control the creation, use, and removal of user accounts and (2): establish password parameters, such as length, life, and composition, to strengthen the effectiveness of account/password combinations for authenticating the identity of users.

- Agencies should change passwords (at least) quarterly and close out passwords immediately upon an employee severance.
- New user accounts should be assigned random passwords that must be changed by the user immediately upon initial log-in.
- Password use must be monitored. Logs must be maintained for invalid log-in attempts. Any failed log-in attempt that deviates from the normal or accepted range of activity must be noted in an exception report. The exception report should be reviewed by management.
- Passwords should never be transmitted or displayed on a monitor, printed, or stored in plain text.

²⁵ Standards promulgated by entities such as the Federal Deposit Insurance Corporation (FDIC), Carnegie Mellon Information Security Office, and the ACFE.

²⁶ GAO report: 03-837 "Computer Controls over Key Treasury Internet Payment Systems."

- Avoid reusing a previous password. If a user account has been previously compromised, either knowingly or unknowingly, then reusing a password could allow that user account to be hacked.

D. DHCD Oversight

DHCD oversight of LIHEAP consists of both on-site visits and remote “desk” reviews of LAA files. The on-site review of LAA files is usually conducted by three DHCD staffers, a lead reviewer, and two associates. Although the DHCD review includes verifying that all required documents are present in the application files, DHCD does not independently review applicant information or conduct any verification of this information except for the previously referenced DOR wage verification. A major risk identified by the OIG is that LAAs know in advance when DHCD will perform site reviews, although the LAAs do not know which information/case files that DHCD intends to review.

OIG staff accompanied DHCD staff on one of its on-site reviews and had the lead reviewer demonstrate what is done during an on-site visit. The OIG determined the following based on a limited review of DHCD LAA oversight:

D 1. DHCD assigns staff members to the same annual reviews.

Although the DHCD team that conducts the assessment is different, DHCD assigns the same lead staff member to the same LAA for review each year. Use of the same lead staff member from year to year can give rise to complacency, affinity issues, and possible co-optation of staff. Familiarity can also lead to DHCD staff becoming overly sympathetic to or forgiving of LAA failings. DHCD staff stated that using the same lead staff member each year is due to DHCD resource constraints.

D 2. DHCD guidelines for determining if fuel vendors are legitimate business entities do not include document verification.

Recently, DHCD has required LAAs to obtain documents from fuel vendors to ensure that these vendors are legitimate business entities. DHCD enacted this new policy in response to a GAO finding in other states that phony vendors had been used to defraud LIHEAP. Using resources such as the Massachusetts Secretary of State’s corporate filings, the OIG tested the legitimacy of a sample of 15 LIHEAP heating-oil vendors from one LAA. The OIG found that two out of the 15 vendors (13%) did not have required state or local business filings.

Although the two vendors submitted certificates of insurance with the LAA, this is not adequate proof of legitimacy. Failing to register as a business and/or obtain all required licenses and permits (which is a violation of DHCD policy) is a violation of state and local laws and could be a tactic to commit fraud, including tax fraud. LAAs should only conduct business with properly licensed and registered businesses.

Recommendations: DHCD Oversight

Staff Rotation

DHCD should make every effort to routinely rotate the staff assigned to LAAs. Staff members should not review the same agency for three consecutive years. If complete staff rotation is not possible, DHCD should, at a minimum, rotate the team leader. Implementation would reduce risk and provide a fresh set of eyes on LAA performance.

Surprise Visits

DHCD should consider surprise or non-routine inspection visits and should not inform LAAs in advance which files/applicants will be sampled. DHCD views its oversight role as 1) to ensure LAA contract compliance and 2) to ensure that applicants are treated appropriately. DHCD should consider integrating a third component into its oversight process: the proactive detection of fraud, waste, and abuse.

Vendor Verification

While the OIG commends DHCD's new guidance (see Appendix C), the OIG believes that DHCD should specify to LAAs precisely what documentation should be required of fuel vendors. At a minimum, LAAs should obtain copies of the following documents:

- Truck inspection permits issued by a local fire department (every two years).
- For corporations: filings with the Secretary of State or with local city or town clerks.
- Certificates of insurance.
- Statements of tax compliance.

E. Fraud Prevention

E 1. Employee cross-training and rotation.

LAAs administer a large number of benefit programs. Based on the OIG's review, most LAAs use staff solely for the program to which they are assigned, with the possible exception of management and administrative staff. While we understand there are efficiencies gained by having staff work for and understand one program, especially because of the different requirements across programs, we believe that LIHEAP and possibly other programs can benefit from job rotation and cross-training. Using job rotation could also reduce risk of fraud, waste, and abuse.

Recommendations: *Job Rotation*

Cross-Training

Significant numbers of LIHEAP staffers across LAAs are not employed full-time. As a result, for the two-to-four-month span that LIHEAP employees are laid off by the LAAs, they must collect unemployment and avail themselves of the same benefit programs, including LIHEAP, which the LAAs administer. Cross-training staff to work in other benefit programs might prevent LAA staff from having to rely on public assistance in the off-season, thereby reducing overall costs for the commonwealth.

Job Rotation

Fraud risk increases when the same small group of individuals provides intake and certification services year after year to essentially the same households. Because oversight resources at the LAA level and by DHCD are limited, the risk is compounded. One possible mitigation measure would be to rotate staff. For example, intake workers could be cross-trained to perform intake work for other benefit programs. Using cross-trained staff is job rotation. Additionally, LAA certification and management staff could also be used on a rotating basis. Alternatively, staff from other LAA-level programs could be used on a limited basis to review work performed by other programs. This may not only mitigate risk, but also ensure that any lessons learned by one program could be shared across other programs.

E 2. Fraud awareness and prevention policies: Some LAAs may not have policies in place to prevent fraud, waste, or abuse.

Anti-fraud policies are important for accountability, transparency, and maintenance of a robust control environment. Developing an anti-fraud policy makes it clear that an organization will not tolerate fraud by employees and vendors and that it takes potential fraud seriously. The language in these policies should be detailed and specific to the appropriate behavior of employees. The policies should also clearly state inappropriate employee and vendor behavior and the specific repercussions for violations. Policies should be distributed to all employees, and periodic training in, review of, and enforcement of these policies should be conducted.

Recommendations: Fraud Prevention

LAAs should establish anti-fraud and code-of-conduct policies. For further information, grantees can find useful information including the “Guide to Developing and Implementing Fraud Prevention Programs”²⁷ and the State Comptroller’s “Toolkit for Departments to Combat Fraud, Waste and Abuse”²⁸

²⁷ www.mass.gov/ig/oigarra/arra_fraud_advisory.pdf

²⁸ www.mass.gov/Aosc/docs/business_functions/bf_int_cntrls/fraud_waste_toolkit.doc

E 3. Reporting fraud, waste, or abuse.

The OIG has learned from its review of various programs that some agencies may have encountered possible fraud by applicants for benefits but have not reported it. For example, agencies have found that applicants may have submitted false or misleading income information in order to qualify under program-eligibility requirements. The OIG informed agencies of their responsibility to refer these cases of suspected fraud to appropriate authorities. The OIG found that some agencies remained unaware of this requirement and believed that a denial of the benefit application would be sufficient. However, this action is insufficient; agencies must report suspected fraud.

The following information has been excerpted from a reporting advisory released previously by the OIG:

If you or your firm receives federal funding either directly or indirectly to provide goods or services to the government then you may be a “contractor.” Contractors and their employees have an obligation under federal law and regulation to report fraud, waste, or abuse to federal authorities.

You may be in violation of and subject to prosecution under the Federal False Claims Act if you know of a crime and fail to report the crime. For example, if you know that the business you work for is sending invoices with false information to the government and you fail to report it, even if you did not assist with the preparation of the invoice you may be in violation of the law.

According to federal regulations, you must “timely notify” the relevant Federal Office of Inspector General (OIG) [each major federal agency has an Inspector General] whenever there is “credible evidence” that a violation of criminal law or the False Claims Act has occurred. You must disclose this evidence when you believe that fraud, bribery, gratuity, or conflict-of-interest violations have occurred in the award, performance, or closeout of a contract, subcontract, grant, or agreement.

Recommendation: Fraud Reporting

Suspected fraud, waste, or abuse must be reported to appropriate oversight agencies. DHCD should help LAAs develop consistent reporting mechanisms.

E 4. LAAs can take certain steps to prevent and detect possible fraud, waste, and abuse in programs.

The following information is from a previously released OIG advisory regarding proactive fraud prevention and detection. The OIG recommended the following steps:

- Do a fraud risk assessment, including evaluating your control environment, and decide whether you need outside experts to help develop adequate systems, controls, and programs to fight fraud.
- Develop a clear, comprehensive, and enforceable code of conduct for all employees, including ethics rules and fraud-prevention policies.
- Perform background checks on new hires.
- Provide regular training on fraud prevention for new and longtime employees.
- Ask your external auditor to perform an in-depth review of at least one program every year.
- Segregate duties and add layers of approval so that an individual can't disburse funds all on his or her own.
- Require employees to take vacations and/or periodically rotate their duties to expose fraudulent routines.
- Regularly review financial and program data to identify (and investigate) trends or anomalies.
- Enforce anti-fraud controls and procedures by making sure system overrides and/or sloppy record-keeping trigger a review.
- Conduct surprise audits or reviews.
- Ask your staff whether they think there is fraud in your organization and where it occurs.
- Make sure your employees know you're interested in rooting out fraud by making it easy to report through an employee assistance program, a confidential hotline, or easy access to responsible officials.
- Report fraud or abuse to the proper authorities.

Recommendation: *Prevention*

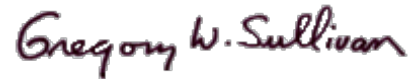
LAAAs should introduce proactive anti-fraud measures within their programs. The OIG advisory is located at: http://www.mass.gov/ig/oigarra/fraud_prevention.htm.

LIHEAP Risk Assessment
February 2012

I appreciate your cooperation in this review of the Massachusetts LIHEAP program. In addition, a copy of your response to our review is attached as Appendix E.

Please do not hesitate to contact my office with any questions or concerns you may have regarding this review.

Sincerely,

A handwritten signature in dark ink that reads "Gregory W. Sullivan". The signature is written in a cursive, slightly slanted style.

Gregory W. Sullivan
Inspector General

cc: Steven Carvalho, DHCD
Deborah Goddard, DHCD
Louis Martin, DHCD
Gerald Bell, DHCD
Akm Rahman, DHCD
Leverett, Wing, DHCD

Appendix A: LIHEAP FY2010 Contract Funds²⁹

LIHEAP FY 2010 Contract Funds			
Agency	Total Funds	Households Served	Average Benefit Per Household
Action for Boston Community Development, Inc.	\$ 17,437,655	17,526	\$ 995
Action, Inc	\$ 2,176,335	2,286	\$ 952
Berkshire Community Action Council, Inc.	\$ 7,279,210	7,688	\$ 947
Community Action	\$ 4,793,120	5,461	\$ 878
City of Cambridge	\$ 2,101,130	2,058	\$ 1,021
Community Action Programs Inter-City, Inc.	\$ 4,325,670	4,652	\$ 930
Citizens for Citizens, Inc.	\$ 17,077,305	18,255	\$ 935
Community Teamwork, Inc.	\$ 10,560,545	11,894	\$ 888
Community Action of the Franklin, Hampshire, and Quabbin Regions	\$ 7,727,855	8,639	\$ 895
Greater Lawrence Community Council, Inc.	\$ 9,309,910	9,497	\$ 980
Lynn Economic Opportunity, Inc.	\$ 4,315,955	4,697	\$ 919
New England Farm Workers Council, Inc. (Fitchburg)	\$ 8,815,157	12,231	\$ 721
New England Farm Workers Council, Inc. (Springfield)	\$ 11,847,675	9,135	\$ 1,297
North Shore Community Action Programs, Inc.	\$ 3,414,335	3,660	\$ 933
People Acting In Community Endeavors, Inc.	\$ 12,755,410	13,194	\$ 967
Quincy Community Action Programs, Inc.	\$ 3,782,000	4,044	\$ 935
Self Help, Inc.	\$ 14,163,805	16,161	\$ 876
South Middlesex Opportunity Council, Inc.	\$ 5,499,160	6,016	\$ 914
South Shore Community Action Council, Inc.	\$ 11,221,160	12,133	\$ 925
Tri-City Community Action Program, Inc.	\$ 5,575,735	5,781	\$ 964
Valley Opportunity Council, Inc.	\$ 15,422,840	16,823	\$ 917
Worcester Community Action Council, Inc.	\$ 14,304,445	14,758	\$ 969
Total	\$ 193,906,412	206,589	\$ 960

²⁹ Source: DHCD.

Appendix B: Internal Revenue Service Form I-9: List of Acceptable Documentation

List A

Documents that Establish Both Identify
and Employment Authorization

1. U.S. Passport or Passport Card
2. Permanent Resident Card or Alien Registration Receipt Card (Form I-551)
3. Foreign passport that contains a temporary I-551 stamp or temporary I-551 printed notation on a machine readable immigrant Visa.
4. Employment Authorization Document that contains a photograph (Form I-766).
5. In the case of a nonimmigrant alien authorized to work for a specific employer incident to status, a foreign passport with Form I-04 or Form I-94A bearing the same name as the passport and containing an endorsement of the alien's nonimmigrant status, as long as the period of endorsement has not yet expired and the proposed employment is not in conflict with any restrictions or limitations with any restrictions or limitations identified on the form.
6. Passport from the Federated States of Micronesia (FSM) or the Republic of the Marshall Islands (RMI) with nonimmigrant admission under the Compact of Free Association between the US and the FSM or RMI.

--OR--

List B

Documents that Establish Identity

1. Driver's License or ID card issued by a State or outlying possession of the US provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address.
2. ID card issued by federal, state, or local government agencies or entities provided it contains a photograph or information such as name, date of birth, gender, height, eye color, and address.
3. School ID card with photograph
4. Voter's registration card
5. U.S. Military card or draft record
6. Military dependent's ID card
7. U.S. Coast Guard Merchant Mariner Card
8. Native American tribal document
9. Driver's license issued by a Canadian government authority

**For persons under age 18 who are unable to
present a document listed above:**

1. School record or report card
2. Clinic, doctor, or hospital record
3. Day-care or nursery school record

--AND--

List C

Documents that Establish Employment
Authorization

1. Social Security Account Number card other than the one that specifies on the face that the issuance of the card does not authorize employment in the U.S.
2. Certification of Birth Abroad issued by the Department of State (Form FS-545)
3. Certification of Birth issued by the Department of State (Form FS-1350)
4. Original or certified copy of birth certificate issued by a State, county, municipal authority, or territory of the U.S. bearing an official seal.
5. Native American tribal document
6. U.S. Citizen ID Card (Form I-197)
7. Identification Card for Use of Resident Citizen in the U.S. (Form I-179).
8. Employment authorization document issued by the Department of Homeland Security.

Appendix C:
DHCD LIHEAP Program Changes in Response to June 2010 U.S. GAO Report

DHCD provided the following summary to the OIG:

- (A) Program-Integrity Supplement in FY 2011 LIHEAP State Plan. The DHCD state plan outlines the following:
- a. Ongoing monitoring for compliance with state and federal LIHEAP policies and procedures.
 - b. Mechanisms available to the public to report fraud, waste, and abuse.
 - c. New policy determining housing units that are condemned, without occupancy permits, and/or with inoperable or hazardous heating sources as ineligible for LIHEAP.
 - d. Performance Verification System (PVS) that will match applicants and other members of LIHEAP households' Social Security number (SSNs) against the State's Vital Records Process to verify income.
 - e. Privacy protection and confidentiality.
 - f. Vendor payment procedures.
 - g. Verification of authenticity of energy vendors.

- (B) Local Administrating Agency (LAA) Fraud, Waste, and Abuse Training at LIHEAP Conference

Each year, DHCD hosts a LIHEAP training conference for LAAs. The FY 2011 LIHEAP conference was held on September 14, 2011, and attended by over 190 staff from all 22 LAAs, including six hours of training on the following topics:

- a. Fraud, waste, and abuse prevention training conducted by the Massachusetts Comptroller's Office.
- b. LIHEAP program-integrity measures.
- c. LIHEAP fiscal policies and procedures.

Additional topics included the application-certification process, FY 2011 guidance changes, and implementation of LIHEAP performance measures.

- (C) Participation on Health and Human Services (HHS) National Performance Measures Implementation and Program Integrity Working Groups

DHCD staff sits on both the National Performance Measures Implementation and Program Integrity Working Groups (PMIWG and PIWG, respectively).

While DHCD has required LAAs to submit program goals and outcome measures as part of the LIHEAP contracting process, nationally, there is currently no standard collection of goals and outcome measures. The PMIWG was formed as a way to collaborate with state LIHEAP directors to create appropriate LIHEAP

outcome and performance measures and assist states in developing a plan to collect those goals and outcomes.

The PIWG will identify LIHEAP program-integrity issues, research program-integrity systems currently used by LIHEAP grantees, identify areas where additional guidance is needed from federal agencies, and identify best practices and solutions for improving program integrity. This working group consists of 30 members and is focused on three key areas: data sharing, fiscal management, and program oversight.

(D) Program-Integrity Supplement to the FY 2011 Guidance

In March 2011, DHCD continued to provide policy and guidance to LAAs for the fuel-assistance program by distributing to the LAAs a supplement to highlight the various methods that should be used to retain and strengthen LIHEAP program integrity. Many of the policies were familiar to LAAs, as they were a reiteration of set LIHEAP policies as detailed in the guidance. However, there are new details and items that were developed as a result of the LIHEAP training conference, monitoring activities, and federal, state, and local best practices. The supplement provided clearer management and direction concerning fraud, waste, abuse, and program integrity.

(E) Ongoing and Future Enhancements to the LIHEAP Program

(F) Performance Verification System

The Office of the Chief Legal Counsel at DHCD is currently processing an Interagency Service Agreement (ISA) between DHCD Emergency Assistance programs and the Social Service Administration (SSA). DHCD's goal is to include LIHEAP on the ISA. This will allow DHCD to process the LIHEAP household database against the SSA database. This will assist LAAs to verify the validity of SSNs, applicant identity, and related Social Security income and assist in determining the accuracy of household composition.

(G) Direction on Improving Information-Sharing Process

For FY 2012, DHCD plans to provide guidance to LAAs on establishing a more integrated information-sharing process between LIHEAP and energy-conservation services. DHCD will work with the LIHEAP and energy conservation software developers to institute a mechanism by which information can be shared between the two units. The Administrative Guidance will be updated to detail action that LAAs should take to improve the communication and coordination between the two units. Additionally, a presentation on this topic will be included in the annual LIHEAP training.

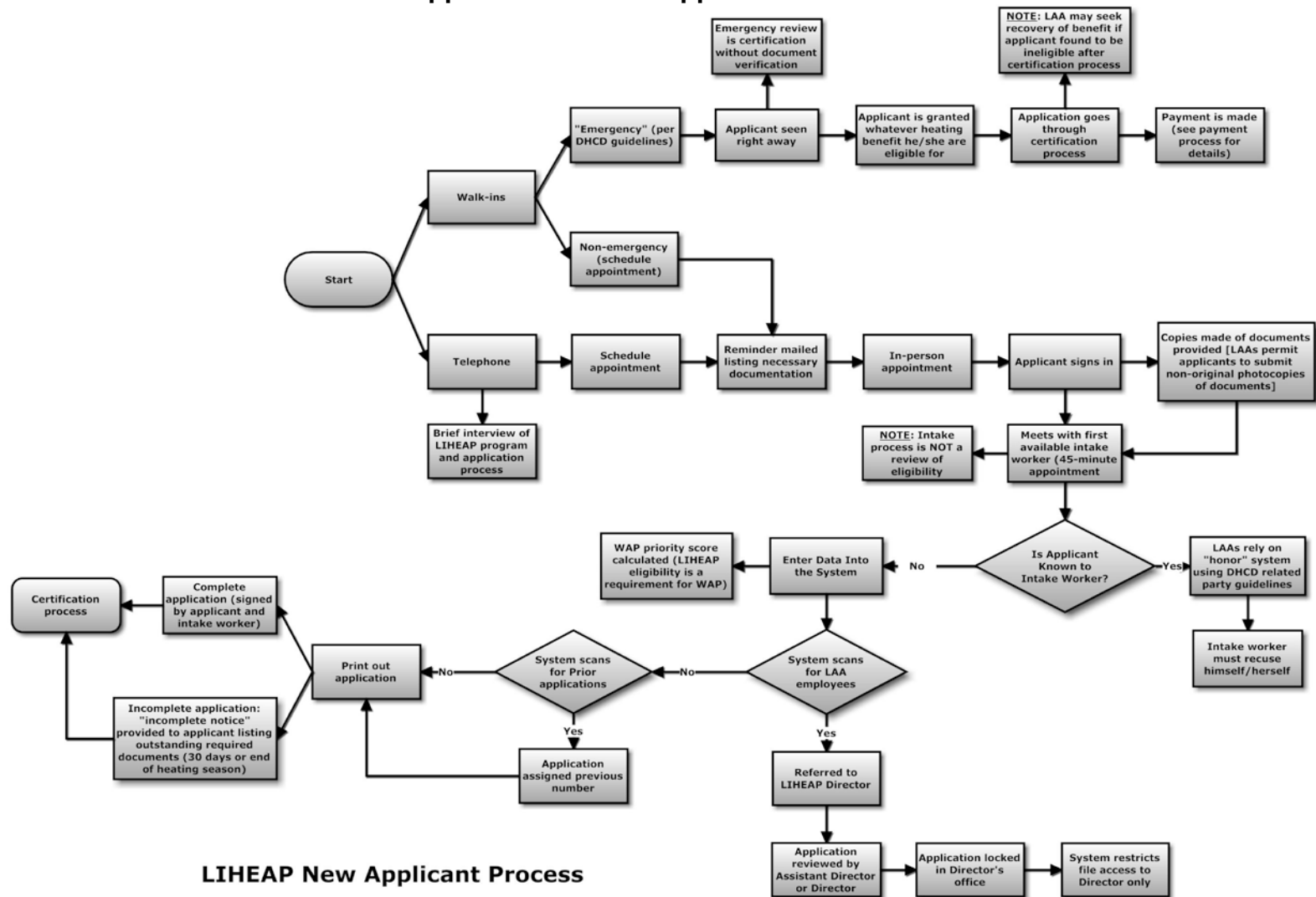
(H) Targeted File Review During On-Site Assessment

DHCD has developed a targeted file review methodology, which is different from randomly selecting files from various certification groups such as self-employed, incompletes, appeals, etc. DHCD employs the targeted approach in response to allegations of fraud, whistleblower complaints, a high number of certain types of constituent complaints, and/or certification anomalies detected during the weekly and monthly review of statistical and/or financial reports.

The actual target methodology may vary from agency to agency depending on local trends, but in general it includes the following file-sampling standards:

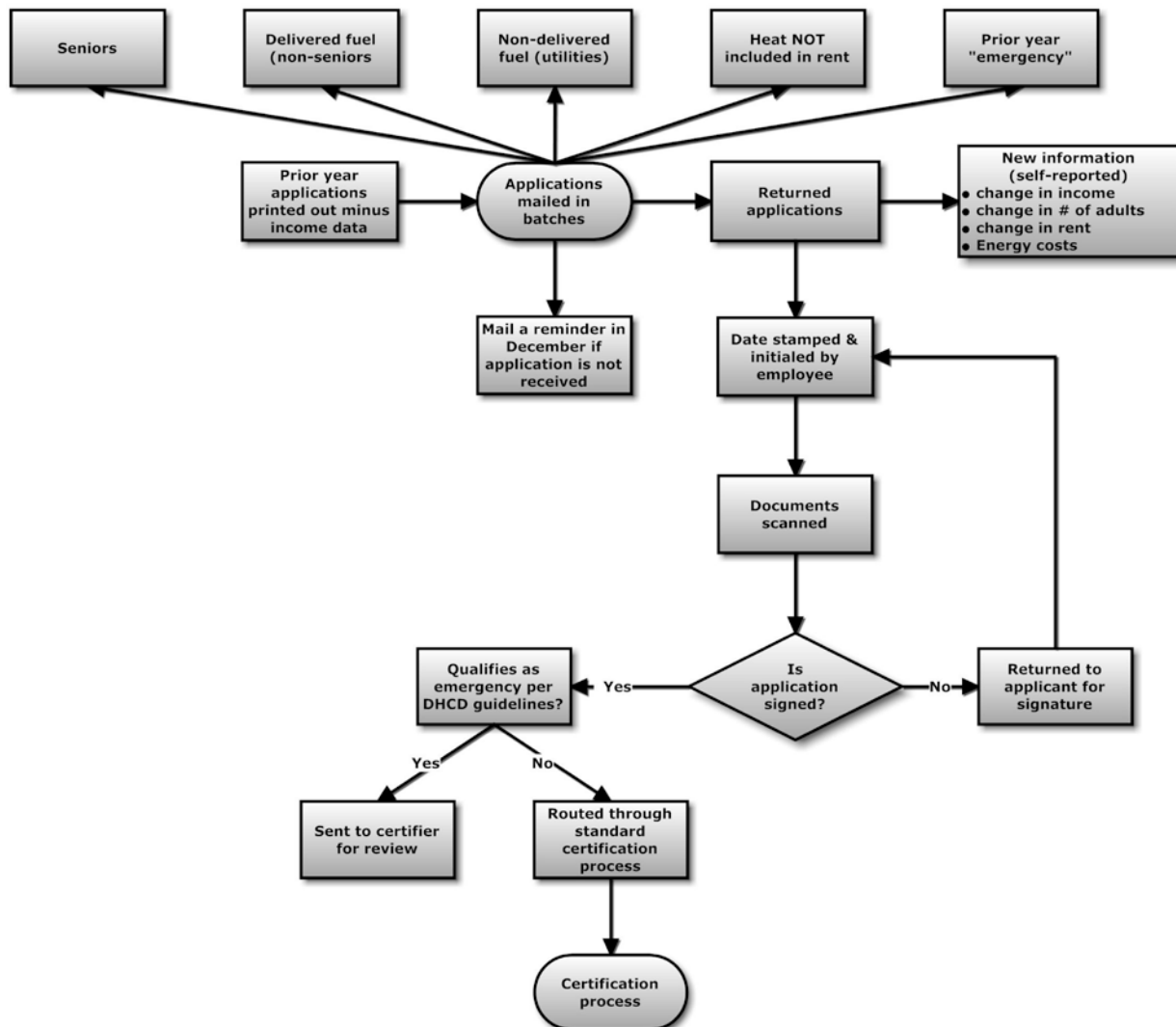
- Applicants whose monthly housing costs exceed monthly income.
- Applicants with no countable household income.
- Applicants whose household income exceeds 60% of the estimated state median income for a family of four.
- Applicants with no reportable housing costs.
- Applicants whose eligible benefit amount exceeds prior years' heating costs.
- Applicants who are currently employed at LIHEAP administering agencies.
- Prior year's applicants with high housing costs, low income, and ownership of a second home.

Appendix D-1: New Application Process

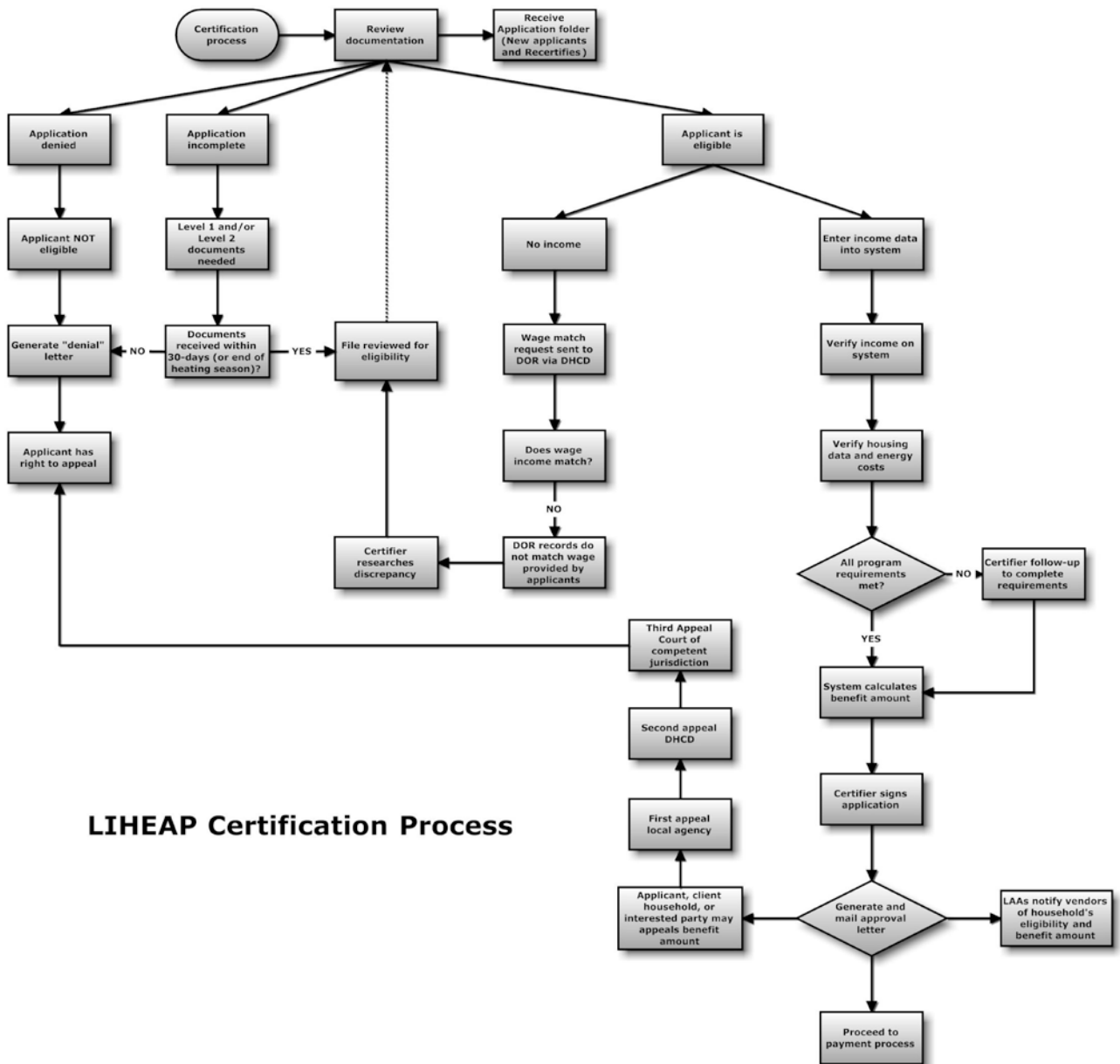


Appendix D-2: LIHEAP Repeat Client (Recertified) Application Process

Re-Certification Process

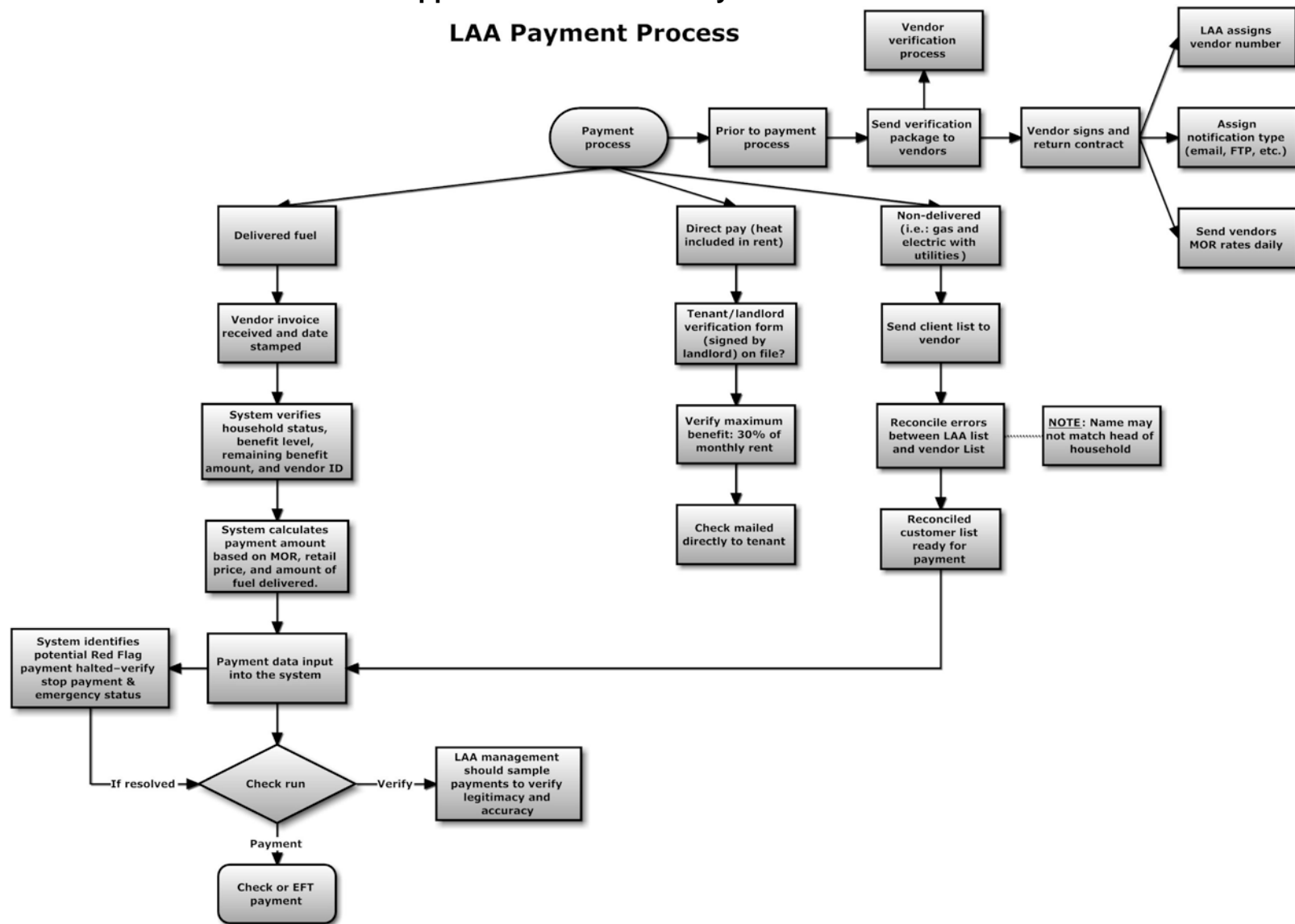


Appendix D-3: LIHEAP Certification Process



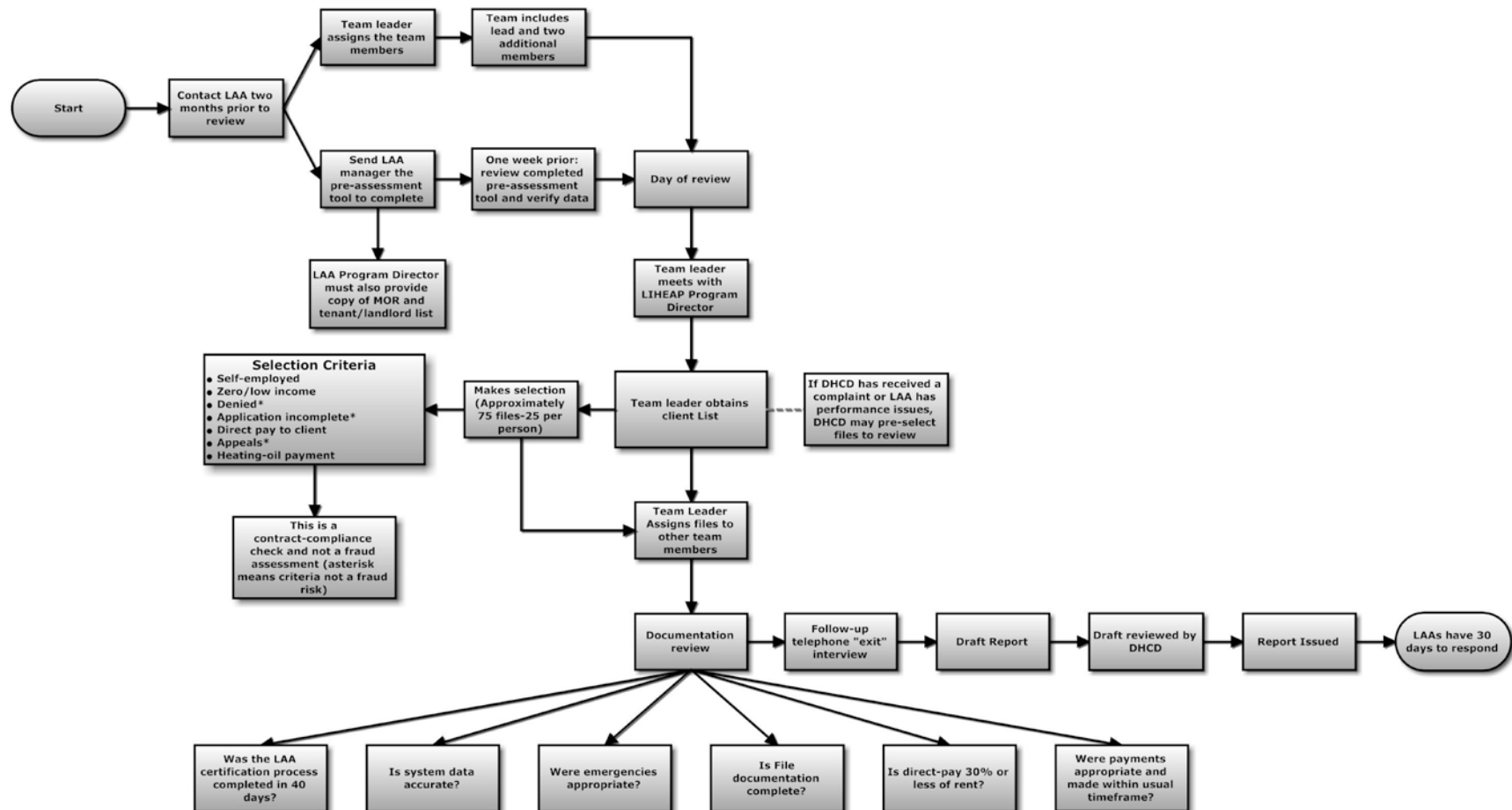
Appendix D-4: LIHEAP Payment Process

LAA Payment Process



Appendix D-5: DHCD LIHEAP (On-Site) Process Review

DHCD LIHEAP Program Review Process





Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Deval L. Patrick, Governor ◆ Timothy P. Murray, Lt. Governor ◆ Aaron Gornstein, Undersecretary

February 16, 2012

Mr. Gregory W. Sullivan
Inspector General
Office of the Inspector General
One Ashburton Place, Room 1311
Boston, MA 02108

Re: OIG LIHEAP Risk Assessment January 2012

Dear Mr. Sullivan:

We have reviewed the risk assessment report of the Low-Income Home Energy Assistance Program (LIHEAP) issued by the Office of the Inspector General (OIG). We appreciate your observations and recommendations. Thank you for giving the Department of Housing and Community Development (DHCD) an opportunity to respond.

DHCD recognizes the potential vulnerabilities inherent, on both the grantee and sub-grantee levels, in administering LIHEAP, a much-needed emergency resource. As noted in your report, DHCD has, despite fiscal constraints, instituted mitigating measures to strengthen program operations and payment processing (see also Appendix C: DHCD LIHEAP Program Changes in Response to June 2010 U.S. GAO Report). Highlighted below are several measures, which either support or mirror the recommendations in your report.

- DHCD is in compliance with its LIHEAP State Plan Program Integrity Supplement (see www.mass.gov/hed/docs/dhcd/cd/liheap/002programintegrity.pdf), as required by and submitted to the U.S. Department of Health and Human Services (HHS) in October 2010. The Supplement outlines our plan in 13 different areas – Single Audit, sub-grantee compliance monitoring, fraud reporting, verification of applicant identities, collection of Social Security Number (SSN), cross-checking of SSN, income verification, privacy protection and confidentiality, benefit determination process, procedures for unregulated energy vendors, verifying the authenticity of energy vendors, sub-grantee training and technical assistance, and audits of sub-grantee agencies.
- As stated in the FY 2012 LIHEAP State Plan, one's SSN is not a required identifier. However, DHCD, through its 22 local sub-grantees, collects SSNs from almost all applicant household members. To establish an applicant's identity, obtaining an SSN is only one aspect of the process. An applicant's SSN is never the sole determinant.
- DHCD is currently negotiating a data exchange contract with the Social Security Administration that will allow our sub-grantees to authenticate electronically an applicant's SSN, his or her fixed income amounts, and other pertinent information during the LIHEAP application certification process. A similar initiative is currently underway to verify whether an applicant receives a benefit from the Massachusetts Department of Transitional Assistance, and if so, the benefit amount – for all members of the household.
- As noted in your report, the authenticity of both regulated and unregulated vendors is being documented and verified. For example, this year, we have begun to verify vendor information using the Massachusetts Secretary of State's Office from a randomly selected pool of LIHEAP- contracted vendors.

- Our ongoing membership at the national level in the HHS' Performance Measure Implementation and Program Integrity Work Groups will further enhance our program integrity measures in the areas of vendor certification, client address normalization, and post audits of the LIHEAP certification process.

In regards to the 216 randomly selected case files that the OIG reviewed, some of which raised questions, DHCD respectfully requests that you provide the LIHEAP application identifiers for those "problem" files. DHCD and our sub-grantees would then have an opportunity to take a "second look", which would allow us to ascertain whether valid proof of identity and eligibility had indeed been confirmed through sub-grantee procedures that comply with currently applicable LIHEAP guidelines. Furthermore, DHCD may be able to take this opportunity to use this report and the case files to which the report refers as part of a training.

As noted in your report, LIHEAP is administered in partnership with 22 local sub-grantee agencies, known as Local Administering Agencies (LAAs). The LAAs are required to maintain accessible intake sites and home visit capacity, as well as provide general publicity, bilingual assistance for applicants, and use of existing networks to reach out to target households both within and outside of their service delivery network. We acknowledge the efforts of the sub-grantee network in administering this program. The collective knowledge-base of the LIHEAP Advisory Group and our other partners¹ will not only help us reduce risks and strengthen the administration of home energy assistance to low-income households, but also further advance the progress we have already made during the last two heating seasons.

Again, DHCD appreciates the OIG's observations and recommendations and we look forward to continuing to work with you to strengthen LIHEAP.

Sincerely,



Aaron Gornstein
Undersecretary

cc: Neil Cohen, OIG
Steve Carvalho, Chief of Staff
Deborah Goddard, DHCD
Leverett Wing, DHCD
Louis Martin, DHCD
Gerald Bell, DHCD
Akm Rahman, DHCD

¹ Our partners include, but not limited to the Massachusetts Energy Directors Association, Massachusetts Association for Community Action, and the Department of Public Utilities.