



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2004-5108-3C

**INDEPENDENT STATE AUDITOR'S
STATEWIDE REVIEW OF THE
FUEL ASSISTANCE PROGRAM
OCTOBER 1, 2001 TO APRIL 30, 2004**

**OFFICIAL AUDIT
REPORT
OCTOBER 4, 2004**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

The Low Income Home Energy Assistance Program (LIHEAP), also known as the Fuel Assistance Program, provides financial assistance to eligible households trying to meet the high cost of winter heating bills. The program began in 1977 with funding totaling \$5 million that the federal government provided through the federal Community Services Administration (CSA). Federal funding of the Fuel Assistance Program, which has continued annually since 1977, totaled approximately \$73 million in fiscal year 2004.

The Fuel Assistance Program, which operates between October 1 and April 30 each year, is designed to provide relief to those low-income households most vulnerable to the high cost of home heating energy in relation to gross income. Presently, the Department of Housing and Community Development (DHCD) has state administrative and fiscal oversight of the federally funded program. Local service delivery is achieved through a network of 22 Local Administering Agencies (LAAs) under contract with DHCD (See Appendix I).

Households with incomes of up to 200% of the federal poverty level are eligible for the Fuel Assistance Program. Homeowners and renters are both eligible to apply for assistance, and LAAs determine household eligibility based on annualized income and household size. On average, eligible households received fuel assistance benefits totaling approximately \$465 during fiscal year 2004.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has completed a statewide review of DHCD's Fuel Assistance Program for the period October 1, 2001 to April 30, 2004. The objectives of our review were to assess the system of administrative and accounting controls DHCD and LAAs have established relative to the operation of the Fuel Assistance Program and, where necessary, make recommendations on how to improve these controls.

To achieve our audit objectives, we reviewed all applicable laws, regulations, policies, and procedures relative to the Fuel Assistance Program; held discussions with DHCD officials; and conducted reviews of DHCD activities. We also conducted performance reviews at eight LAAs to assess their business practices and their compliance with applicable laws, rules, regulations, and guidelines. We used these reviews to assess the effectiveness of DHCD's fiscal and programmatic monitoring activities, as well as the effectiveness of DHCD's guidelines in this area.

AUDIT RESULTS

4

**INCOME VERIFICATION PROCEDURES FOR THE FUEL ASSISTANCE PROGRAM
COULD BE IMPROVED**

To help oversee the Fuel Assistance Program, DHCD has developed a comprehensive set of guidelines that enable LAAs to administer the Fuel Assistance Program uniformly across the state. These guidelines address such issues as program outreach and intake procedures, eligibility and income verification, program benefits, and dispute resolution. Our audit work at eight LAAs found that these local agencies had taken appropriate steps to ensure that DHCD's guidelines were applied uniformly to all fuel assistance

applicants throughout the state. However, our sample review of 437 applicant files found that DHCD needs to further strengthen its income verification procedures to ensure that only the target population—low-income households most vulnerable to the high cost of home heating energy—benefits from the Fuel Assistance Program. Our sample test identified certain financial factors that could indicate that some fuel assistance recipients may have had resources available to them that were not disclosed in their applications for assistance. Such indicators, which should prompt additional verification activity, included program recipients who (a) live in homes with assessed values close to or above their community’s average; (b) obtained financing for their homes while receiving fuel assistance; and (c) reported insufficient income to meet their documented living expenses. Although our sample test identified potential cases of questionable eligibility, limited financial information maintained in applicant files precluded us from reaching a definitive conclusion on any specific cases.

While strengthening income verification procedures will help improve the overall effectiveness of the Fuel Assistance Program, we found that various environmental and economic factors, over which DHCD has virtually no control, had the greatest impact upon low-income families trying to meet their annual home heating costs. These factors include (a) severe winter seasons, (b) increases in fuel consumption and costs, (c) increases in the number of program recipients, and (d) the absence of state program funding.

APPENDIX I	23
Local Administering Agencies	
APPENDIX II	24
Fuel Assistance Applications and Benefits, Fiscal Years 2003 and 2004	
APPENDIX III	26
Audit Sites Visited	
APPENDIX IV	27
Agency Wage Match Requests, Fiscal Year 2003	

INTRODUCTION

Background

The Low Income Home Energy Assistance Program, also known as the Fuel Assistance Program, provides financial assistance to eligible households trying to meet the high cost of winter heating bills. The program began in 1977 with funding totaling \$5 million that the federal government provided through the federal Community Services Administration (CSA). Federal funding of the Fuel Assistance Program, which has continued annually since 1977, totaled approximately \$73 million in fiscal year 2004.

Initially, the Fuel Assistance Program focused on providing emergency fuel assistance to eligible households that were unable to meet rising energy costs and threatened with the discontinuance of service. With the transfer of program authority from CSA to the federal Department of Health and Human Services (HHS) in 1980, the Fuel Assistance Program shifted its focus to income supplementation rather than crisis intervention. Moreover, in 1980 the Commonwealth appropriated \$15 million for the first time to supplement the federal expenditure on the Fuel Assistance Program. However, state funding of the Fuel Assistance Program was discontinued following fiscal year 1999, during which year the state expended \$750,000 on the program.

The Fuel Assistance Program operates between October 1 and April 30 each year. The program is designed to provide relief to those low-income households most vulnerable to the high cost of home heating energy in relation to gross income. Presently, the Department of Housing and Community Development (DHCD) has state administrative and fiscal oversight of the federally funded program. Local service delivery is achieved through a network of 22 Local Administering Agencies (LAAs) under contract with DHCD (See Appendix I).

Households with incomes of up to 200% of the federal poverty level are eligible for the Fuel Assistance Program. Homeowners and renters are both eligible to apply for assistance, and LAAs determine household eligibility based on annualized income and household size. For fiscal year 2004, 161,108 households applied for fuel assistance, of which 137,754 (86%) were deemed eligible by LAAs. The remaining 23,354 households (14%) were deemed ineligible for fuel assistance because these applicants submitted incomplete applications, had household incomes that exceeded the program's established limits, or provided inadequate supporting documentation of their

household's income. On average, households served received fuel assistance benefits totaling approximately \$465 during fiscal year 2004. Appendix II provides further details regarding the number of applications received and approved by LAAs during fiscal years 2003 and 2004, as well as the average and total fuel assistance benefits provided by each LAA during the two-year period.

Audit Scope, Objectives, and Methodology

The Office of the State Auditor has completed a statewide review of DHCD's Low Income Home Energy Assistance Program, also known as the Fuel Assistance Program. The review, which covered the period October 1, 2001 to April 30, 2004, included audit work at DHCD and eight LAAs (see Appendix III). In selecting LAAs for review, we attempted to obtain a representative sample (i.e., LAAs located in different parts of the state and receiving various levels of program funding) of the LAA community. At the eight LAAs, we sampled a total of 437 client files. In addition, we visited local assessor offices to identify the assessed value of property owned by 516 recipients of fuel assistance. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards for performance audits and, accordingly, included such tests as we considered necessary in the circumstances.

The objectives of our review were to assess the system of administrative and accounting controls DHCD and LAAs have established relative to the operation of the Fuel Assistance Program and, where necessary, make recommendations on how to improve these controls. Our specific objectives were to:

- Obtain an understanding of the Fuel Assistance Program, including the responsibilities and activities of DHCD and the system of administrative and accounting controls that DHCD has established over the program.
- Review DHCD's guidelines, procedures, and other relevant information to determine whether they provide adequate guidance to LAAs relative to program activities.
- Assess the effectiveness of the system of administrative and accounting controls established by DHCD by conducting reviews at a sample of eight LAAs to assess their business practices and determine the extent to which these LAAs were complying with all applicable laws, rules, and regulations. We also assessed the extent to which DHCD's guidance and other administrative controls were ensuring that fuel assistance funds were being properly safeguarded and expended in the most economical and efficient manner and for their intended purposes.

To achieve our audit objectives, we reviewed all applicable laws, regulations, policies, and procedures relative to the Fuel Assistance Program; held discussions with DHCD officials; and conducted reviews of DHCD activities. The purpose of these discussions and reviews was to obtain an understanding of how DHCD administers the Fuel Assistance Program and to determine whether DHCD had established administrative and accounting controls to ensure that LAAs expended public funds in an allowable, reasonable, and allocable manner.

We also conducted reviews at eight LAAs to assess their business practices and their compliance with applicable laws, rules, regulations, and guidelines. We used these reviews to assess the effectiveness of DHCD's fiscal and programmatic monitoring activities, as well as the effectiveness of DHCD's guidelines in this area.

AUDIT RESULTS

INCOME VERIFICATION PROCEDURES FOR THE FUEL ASSISTANCE PROGRAM COULD BE IMPROVED

To help oversee the Fuel Assistance Program, the Department of Housing and Community Development (DHCD) has developed a comprehensive set of guidelines that enable Local Administering Agencies (LAAs) to administer the Fuel Assistance Program uniformly across the state. These guidelines address program outreach and intake procedures, eligibility and income verification, program benefits, and dispute resolution.

Our audit work at eight LAAs found that these local agencies had taken appropriate steps to ensure that DHCD's guidelines were applied uniformly to all fuel assistance applicants throughout the state. However, our sample review of 437 applicant files indicated that DHCD should consider strengthening its income verification procedures to ensure that only the target population—low-income households most vulnerable to the high cost of home heating energy—benefit from the Fuel Assistance Program. Although our sample first verified that LAAs ensured that fuel assistance recipients met DHCD's program guidelines, it also identified certain financial factors indicating that recipients may have resources available to them that were not disclosed in their applications for assistance. Such indicators, which should prompt additional verification activity, included program recipients who (a) live in homes with assessed values close to or above their community's average; (b) obtained financing for their homes while receiving fuel assistance; or (c) reported insufficient income to meet their documented living expenses. However, the limited financial information maintained in applicant files precluded us from reaching a definitive conclusion on any specific cases.

Our audit identified programmatic, economic, and environmental factors that have impacted the effectiveness of the Fuel Assistance Program. Although strengthening income verification procedures may help ensure the Fuel Assistance Program is serving only its target population, we found that various environmental and economic factors, over which DHCD has virtually no control, had the greatest impact upon low-income families trying to meet their annual home heating costs. The environmental and economic factors included (a) severe winter seasons, (b) increases in fuel consumption and costs, (c) increases in program recipients, and (d) the absence of state program funding.

Program Guidelines

For fiscal year 2003, DHCD promulgated a comprehensive 160-page manual entitled, "Fiscal Year 2003 Low Income Home Energy Assistance Program Administrative Guidance For Program Operators." The manual, whose procedures DHCD required LAAs to implement, included sections covering outreach and intake procedures, eligibility and benefits, income verification, applicant notification, appeals, program monitoring, fiscal controls, and program reports. Our audit work at eight LAAs found that they had taken appropriate steps to ensure that DHCD's guidelines were applied uniformly to all fuel assistance applicants throughout the state. Moreover, to help ensure consistent application of these guidelines, DHCD actively monitored program activities through its site visits to LAAs.

By consistently applying DHCD's guidelines to program applicants, LAAs successfully limited program benefits to eligible households and denied benefits to households that submitted incomplete applications, had household income that exceeded program limits, or provided inadequate support for their household's income. LAAs accepted 87% of the applicants and denied fuel assistance to 13%, or 20,233 of the 158,179 households that applied for fuel assistance during fiscal year 2003 (see Appendix II).

DHCD's program guidelines require applicants to annually declare gross income from all sources, including:

- Wages and salaries (including bonuses, overtime, and taxable benefits/contributions), self-employment earnings (less allowable LIHEAP deductions) and strikers' benefits
- Social Security and Supplemental Security Income benefits
- Temporary Assistance for Families with Dependent Children (TAFDC)
- Unemployment compensation, worker's compensation, and temporary disability insurance payments
- Pensions and annuities, dividends, interest of more than \$100, and estate or trust income
- Rental income less allowable deductions
- Royalties, cash prizes, and lottery winnings

- Alimony, child support, mortgage, or rent payments in lieu of or in addition to support payments
- Regular ongoing cash support given to or on behalf of a household by others
- Department of Transitional Assistance rent allowances, any scholarship or scholastic grant that can be used for current maintenance (e.g., housing, food, clothing) and is not covered under the Higher Education Act or its amendments, and any other payment considered by the state to be income

Additionally, DHCD's guidelines require LAAs to obtain from applicants documentation that supports declared household income. In most cases, such documentation must validate at least the most recent four weeks or 30 days of income, but not more than the 52 weeks of income preceding the date of application. Acceptable forms of documentation include the following:

- Wages: Pay stubs, a letter from the employer on company letterhead, Department of Employment and Training (DET) printout that includes wage information, and W-2 forms and completed Internal Revenue Service (IRS) Form 1040 for households applying in December or January
- Unemployment Benefits: Copies of DET check stubs, a copy of DET claim record, or an official signed statement from DET
- Fixed Income: Copy of current benefit checks (Social Security benefits, SSI, Emergency to the Elderly, Disabled and Children, TAFDC only), copy of benefit check stub (Retirement/Pension, Veterans' Benefits), bank statements showing direct deposits, and IRS Form 1099
- Alimony and Child Support: Copies of canceled alimony/support checks, court order or most recent amendment, notarized letter from support source, and Department of Revenue payment history
- Interest Income: Bank statement, a signed and dated letter from an authorized bank representative, and IRS Form 1099
- Dividends: Copy of dividend check, copy of yearly statement, a letter from dividend source, and IRS Form 1099

However, DHCD's application form (Massachusetts Energy Assistance) does not provide a specific location for applicants to detail all sources of household income and amounts. Instead, applicants simply provide oral testimony to LAA intake workers regarding household income. Applicants must subsequently support their testimony with documentation. In addition, with the exception of households that earned income through self-employment, DHCD's guidelines

do not require LAAs to obtain tax returns from households applying for fuel assistance. By not requiring tax returns in the application process, DHCD limits LAAs' ability to independently verify the accuracy of the oral representations made by program applicants. Consequently, in most cases, the reasonableness of program benefits awarded by LAAs is dictated by an applicant's willingness to be forthright about his/her financial situation. Such a process provides inadequate assurance that limited fuel assistance funds are given to needy recipients and does not provide adequate safeguards to protect these funds against waste, fraud and abuse.

DHCD Should More Fully Utilize the Massachusetts Wage Reporting and Financial Institution Matching System

In an effort to detect or prevent abuse within the Fuel Assistance Program, the Legislature under Chapter 62E, Section 3, of the General Laws authorized and directed the Commissioner of Department of Revenue (DOR) to design, develop, implement, and operate a state Wage Reporting and Financial Institution Matching System (WRMS). Among other things, this law required the Commissioner to enter into inter-agency agreements with other agencies of the Commonwealth, including DHCD, to facilitate the implementation and utilization of the WRMS system. Presently, the WRMS system enables DHCD to match wages declared by applicants with wages reported to DOR by applicants' employers.

DHCD has instructed LAAs to meet with applicants as a first step towards resolving any mismatch (i.e., applicant's stated wages differ from employer-reported data). Moreover, according to DHCD guidelines, if an LAA ultimately determines that an applicant has incorrectly under-reported his/her household income, an LAA can adjust the household benefit level, terminate benefits to the household, seek repayments incorrectly made to or on behalf of the household, or reduce any future benefits by amounts not repaid.

However, our audit found that DHCD has made limited use of the WRMS system. In fact, of the 158,179 households that applied for fuel assistance during fiscal year 2003, DHCD requested DOR to perform wage matches on only 64 applicant households, or .04% (see Appendix IV).

DHCD and LAA officials explained that the WRMS system is currently used "as needed" and that wage match requests originate solely from the LAAs. Moreover, these officials stated that LAAs only submit wage match requests if they suspect that an applicant is not being forthright

about his/her household income. Lastly, the officials explained that the WRMS system is not used for random testing or post-audit testing of fuel assistance recipients.

However, the Legislature intended that the WRMS system would be utilized as a post-audit mechanism for the purpose of verifying eligibility and detecting or preventing fraud, error, and abuse in the Fuel Assistance Program. Specifically, Chapter 62E, Section 3, of the General Laws states, in part:

The commissioner shall design, develop, implement and operate a wage reporting and financial institution match system: (1) for the purpose of verifying financial eligibility of a participant in an entitlement program of the commonwealth or any political subdivision thereof or their respective agencies, including the director of housing and community development, a local administering agency and a local housing authority, and including, the division of health care finance and policy with respect to payments for free care services made from the uncompensated care pool pursuant to section 18 of chapter 118G.....

The commissioner is hereby further authorized and directed to enter into such inter-agency agreements with other agencies of the commonwealth as said commissioner deems are necessary to facilitate the implementation and utilization of the reporting system. Such written agreements shall include provisions requiring such agencies, their subgrantees, or local administering agencies, including local housing authorities, to provide at a date specified by the commissioner a list of persons receiving benefits from such programs. Information in such lists shall include the recipient's name, social security number and other data required to assure positive identification. Such information shall be utilized in the reporting system as a post audit mechanism for the purpose of verifying eligibility and detecting and preventing fraud, error and abuse in said programs....

Results of Sample Testing Reveal That DHCD Should Consider Strengthening Its Income Verification Process

In order to assess the effectiveness of DHCD's income verification procedures, we sample tested 437 applicant files from across the Commonwealth. The purpose of the test was to ensure that LAAs adhered to program guidelines and awarded fuel assistance to eligible households (i.e., low-income households most vulnerable to the high cost of home heating energy). Our initial sample test found that LAAs complied with program guidelines in that applicants were required to identify all household members, declare household income, and provide documentation to support the reported household income. Moreover, in each sample case, we found that LAAs awarded benefits consistent with amounts specified by the Fuel Assistance Program's Income Eligibility Chart.

However, our expanded sample test, which involved the original 437 applicant files as well as property tax records of 516 fuel assistance recipients, raised potential questions about the financial status of households receiving fuel assistance. Specifically, we identified recipients that (a) lived in homes with assessed values as high as \$989,000; (b) obtained financing for their homes while receiving fuel assistance; and (c) reported insufficient income to meet their documented living expenses. Although our expanded sample test identified potential cases of ineligible recipients receiving benefits, the limited financial information maintained in each applicant's file prevented us from reaching a definitive conclusion on any specific case. Moreover, before achieving closure on any case, households in question would need the opportunity to bring forward additional information, if available.

Real Estate Owned by Fuel Assistance Recipients

Presently, DHCD's program guidelines do not require LAAs to consider the value of assets owned when determining a household's eligibility for fuel assistance. Our sample test of real estate owned by fuel assistance recipients found that most owned homes with assessed values below their community's average valuation. However, property tax records maintained at local assessor offices revealed that 81 of the 516¹, or 15.7% of the program recipients reviewed, owned residences with assessed values close to or above their community's average. For example, residential properties located in one town have an average assessed value of \$837,000. Yet, during fiscal year 2002, a resident received \$300 in fuel assistance despite owning a house with an assessed value of \$989,000, or 18% above the town's average valuation. Similarly, during fiscal year 2002, a resident of another town whose assessed property values averaged \$414,000 received fuel assistance totaling \$300 despite owning a house with an assessed value of \$593,000, or 43% above the town's average valuation.

Certainly, residency in an expensive house should not automatically exclude a household from obtaining fuel assistance, as there are many elderly throughout the Commonwealth who are retired, are on fixed incomes, and have resided for many years in homes that have appreciated in value over time. It has placed them in the unenviable position of being "house rich and cash

¹ The selection of the 516 households was not made on a statistically random basis, thus the results of our sample testing are not representative of the entire population served by the Fuel Assistance Program. Instead, we specifically selected households for review that live in the most affluent communities within the Commonwealth. This was done in an effort to identify households living in highly valued homes. We believe that such home ownership indicate the possibility that some program recipients did not meet the program's target population "Low-Income households most vulnerable to the high cost of home heating energy in relation to gross income."

poor” and in need of assistance from this important program. However, the Fuel Assistance Program is designed to provide relief to those low-income households most vulnerable to the high cost of home heating energy, and therefore individuals who own homes with such high assessed values and require significant resources to maintain their homes may represent instances in which the program provides benefits to ineligible recipients.

As a result, DHCD must be mindful of its responsibility to ensure that all program recipients represent the state’s most financially needy population. As previously reported, LAAs currently award fuel assistance benefits based upon financial representations made by program applicants. Although LAAs require applicants to provide documentation supporting these representations, the majority of applicants are not required to submit income tax returns, which would serve as an independent means of verifying household income. In addition, LAAs do not require applicants to submit any documentation regarding mortgage and real estate tax payments or participation in a municipality’s deferred tax program. Without such documentation, LAAs may not be able to truly and accurately assess the financial means of households applying for fuel assistance.

Home Mortgage Financing Obtained by Fuel Assistance Recipients

Our audit identified two families that qualified for the Fuel Assistance Program while, at the same time, qualified for home mortgage financing from private lending institutions. Generally speaking, to qualify for conventional home loans, an applicant’s housing expenses should not exceed 26% to 28% of his/her gross monthly income. For Federal Housing Administration (FHA) loans, the ratio is slightly higher: 29% of gross monthly income. Monthly housing expenses include mortgage principal and interest, taxes, and insurance, often abbreviated PITI. Thus, for example, most lending institutions would approve a home mortgage for a family earning \$30,000 annually, or \$2,500 monthly, if the mortgage resulted in monthly PITI payments totaling up to \$700 (\$2,500 times 28%).

The two households in question reported to the Fuel Assistance Program monthly gross income amounts totaling \$2,292 and \$2,010. These income levels, coupled with each household’s family size, qualified them for fuel assistance during fiscal year 2002. However, based upon the income-to-PITI ratio commonly utilized by most lending institutions (28%), these households would probably have needed to demonstrate additional income in order to qualify for home

mortgage financing. For example, the household with \$2,292 in gross monthly income has \$642 (28% times \$2,292) available per month to cover PITI. Yet, on August 31, 2001, this household received a \$285,000 home mortgage requiring monthly PITI payments totaling \$1,492. Thus, the household appears to be deficient \$850 per month (\$1,492-\$642) of the amount necessary to meet its financial obligation. The table below details the two instances noted in which households possibly reported dissimilar information to the Fuel Assistance Program and private lending institutions.

<u>Date of Financing</u>	<u>Mortgage</u>	<u>Monthly Mortgage</u>	<u>Gross Monthly Income</u>	<u>Available Monthly Income (28%)</u>	<u>Monthly Deficit</u>
August 31, 2001	\$ 285,000	\$ 1,492	\$ 2,292	\$ 642	\$ (850)
September 7, 2001	\$ 101,000	\$ 939	\$ 2,010	\$ 563	\$ (376)

Again, we must reiterate that the limited financial data maintained in the Fuel Assistance Program files prevented us from attesting to the accuracy of the information declared by these households.

Potential Under-Reporting of Income by Fuel Assistance Recipients

Our sample review identified 16 fuel assistance recipients who potentially under-reported their household income to LAAs during the 2001/2002 winter heating season. In each case, these applicants declared household income that was insufficient to cover their home mortgage, real estate taxes, and basic family living expenses. Moreover, eight of these 16 recipients declared income to LAAs that was insufficient to even cover their mortgage and real estate tax payments, let alone provide for such items as food, clothing, utilities, insurance, medicine, and transportation. For example, one recipient whose home had an assessed value of \$531,500 declared household income totaling only \$10,044 annually. Yet our review of records maintained by LAAs and local tax assessors revealed that this recipient's annual mortgage and real estate taxes totaled \$12,054. Thus, the recipient's annual mortgage and real estate tax expenses exceeded her household income by \$2,010 (\$10,044 - \$12,054). The table below details

the 16 fuel assistance recipients who potentially under-reported household income to LAAs during the 2001/2002 winter heating season.

<u>Applicant</u>	<u>Fuel Assistance</u>	<u>Property Value</u>	<u>Annual Property Expenses</u>	<u>Annual Household Income</u>	<u>Net Available Annual Income</u>
1	\$ 315	\$ 755,800	\$ 72,000	\$ 15,766	\$ (56,234)
2	846	190,300	34,800	12,456	(22,344)
3	595	581,200	11,915	5,136	(6,779)
4	315	280,700	21,240	14,898	(6,342)
5	285	554,800	28,800	25,996	(2,804)
6	595	108,300	13,024	10,624	(2,400)
7	645	531,500	12,054	10,044	(2,010)
8	595	278,200	5,083	3,644	(1,439)
9	465	531,900	10,666	11,246	580
10	595	578,700	6,960	7,856	896
11	548	601,000	25,296	27,841	2,545
12	645	498,500	7,200	9,881	2,681
13	465	525,000	17,124	20,352	3,228
14	300	412,900	21,000	24,804	3,804
15	495	351,300	10,140	14,288	4,148
16	495	342,100	18,780	23,268	4,488

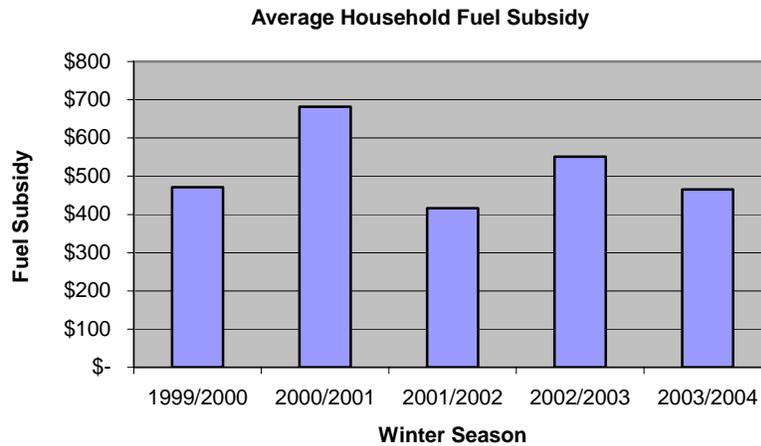
Environmental and Economic Factors Impacting the Fuel Assistance Program

While strengthening income verification procedures may help improve the overall effectiveness of the Fuel Assistance Program, we found that environmental and economic factors, which DHCD has virtually no control over, may have the greatest impact upon low-income families trying to meet their annual home heating costs. These factors include (a) effects of severe winter weather upon fuel consumption, (b) increases in fuel costs, (c) increases in the number of program recipients, and (d) the absence of state program funding, as discussed below.

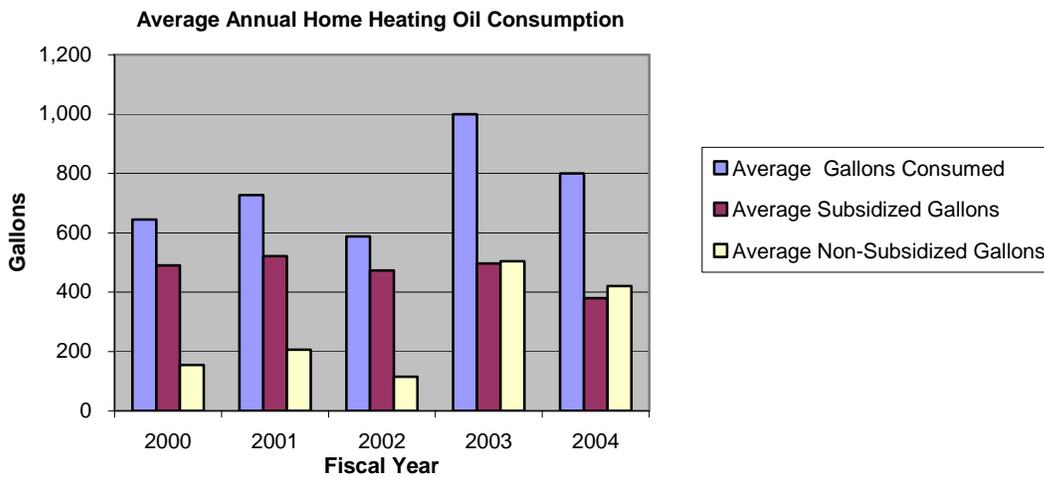
a. Effects of Severe Winter Weather upon Fuel Consumption

During abnormally cold heating seasons, households require additional home heating fuel (natural and propane gas, electricity, fuel oil) to keep warm. Such increases can create a financial burden for low-income families, since historically fuel subsidies have not kept pace with seasonal increases in demand for home heating fuel. Consequently, as low-income households deplete their fuel subsidies, they may need to choose between heating their homes or buying food, medication, or other basic needs. For example, comparing the 2001/2002 winter season, which

was considered a warm² season by the Massachusetts Division of Energy Resources (DER), to the 2002/2003 winter season, which DER considered a cold season, the average fuel assistance subsidy increased from \$416 to \$551, or a 32% increase.



Yet, during the same time period, households on average increased their fuel oil consumption from 588 to 1,000 gallons, or a 70% increase.

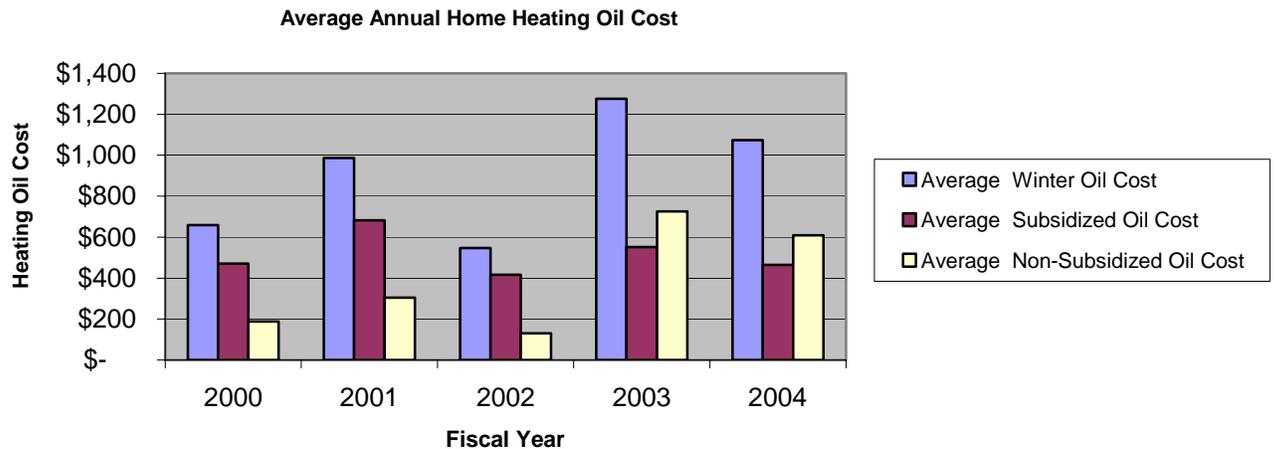


² DER’s designation of warm versus cold winter seasons is based on a formula using “Heating Degree Days,” a concept that enables interested parties to relate each day’s temperature to the demand for fuel to heat buildings. To calculate the heating degree day, the day’s average temperature is compared to 65. If the average temperature is above 65, there are no heating degree days that day. If the number is less than 65, the number of heating degree days is equal to the difference between 65 and the day’s average temperature. For example, if the day’s high temperature is 60 and the low is 40, the average temperature is 50 degrees: 65 – 50 = 15 heating degree days. By calculating the total heating degree days for various winter seasons, comparisons can be made regarding the severity of winter seasons.

b. Increases in Fuel Costs

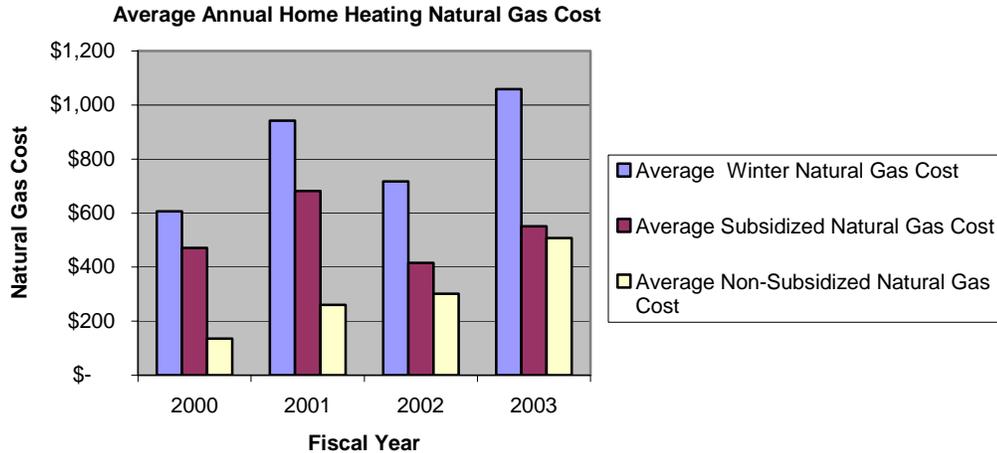
Moreover, the average cost of fuel oil during this two-year period increased from \$.88 to \$1.11 per gallon, or a 26% increase. Consequently, on average, out-of-pocket fuel oil expense for households participating in the Fuel Assistance Program increased from \$131 to \$725, or a 453% increase over the two-year period.

The chart below illustrates for the five winter seasons ended April 30, 2004, the average fuel oil cost for low-income households participating in the Fuel Assistance Program.



Similarly, low-income households that heat their homes with natural gas have experienced financial hardships during this time. As previously identified, the average fuel assistance subsidy increased from \$416 to \$551, or a 32% increase over the four-year period ended April 30, 2003. However, during this period the average annual cost of natural gas per household increased from \$606 to \$1,058, or a 75% increase.

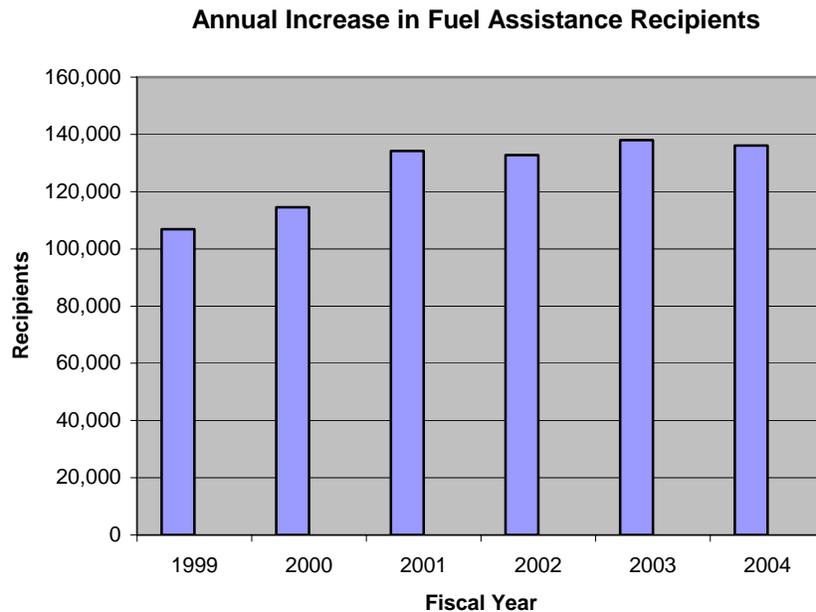
Consequently, on average, out-of-pocket natural gas expense for households participating in the Fuel Assistance Program increased from \$136 to \$507, or a 273% increase over the four-year period.



Throughout the Commonwealth, the majority (80%) of households heat their homes with fuel oil or natural gas. The remaining households utilize electricity (10%), propane gas (3%), and other fuel sources (7%). The Division of Energy Resources, which provided the OSA with the fuel oil and natural gas data presented in this report, did not have data readily available regarding the use of electricity as a fuel source. Consequently, at this time, we cannot report upon low-income households that utilize electricity as a fuel source.

c. Increases in the Number of Program Recipients

In addition, our review found an increase in the number of households that received fuel assistance over the past five winter seasons. Specifically, for the winter season ended April 30, 1999, LAAs awarded program subsidies to 105,665 households. Over the next five seasons, the number of program recipients grew significantly to 136,046 households, or a 29% increase. Consequently, with the growth in the number of households receiving fuel assistance, and with fuel consumption and fuel prices fluctuating with winter conditions, the funds available for the Fuel Assistance Program cannot always meet the needs of the Commonwealth's most financially vulnerable households. The following chart highlights the increase in program recipients over the past four winter seasons.



d. Absence of State Funding

Finally, fluctuations in state funding for the Fuel Assistance Program have directly impacted DHCD's ability to help low-income households meet their annual home heating fuel needs. State funding began in 1980, at which time the Legislature appropriated \$15 million to supplement federal expenditures on the Fuel Assistance Program. However, over time, state funding for this program diminished and ultimately ceased. In this regard, for fiscal years 1996 through 1999 the Commonwealth appropriated state funds for the program that averaged \$864,454 annually, which represents a 94% decrease in program funding from the state's original \$15 million state appropriation in 1980. Over the past five fiscal years (fiscal years 2000 through 2004), the Commonwealth has not appropriated any state funds for the Fuel Assistance Program, but rather has totally relied upon federal funds to carry out the program's objectives.

The Commonwealth's decision to eliminate direct state funding for the Fuel Assistance Program has not significantly hindered the program's effectiveness during milder winter seasons. During these periods, households utilize far less home heating fuel as compared to colder weather to heat their homes. Moreover, funding provided by the federal government, for the most part, is sufficient to meet the needs of households participating in the Fuel Assistance Program. For example, during the warm 2001/2002 winter heating season, program recipients who utilized

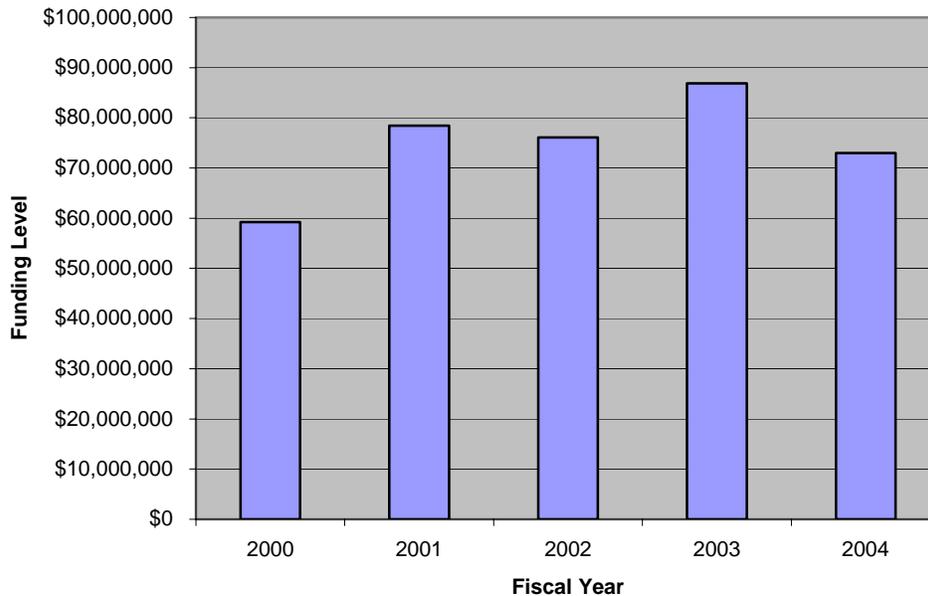
fuel oil for their homes consumed about 588 gallons, which cost approximately \$546. Since these households received an average fuel assistance subsidy totaling \$416, their out-of-pocket cost for the 2001/2002 winter heating season totaled only \$130.

However, during extremely cold winter seasons, the absence of state funding can create a financial hardship for families that rely upon the Fuel Assistance Program. During such cold periods, households utilize greater amounts of home heating fuel to keep warm.

As previously reported, fuel assistance subsidies have not kept pace with fuel consumption and overall fuel costs during cold periods. Consequently, households, in most instances, incur greater out-of-pocket fuel costs during these times, which may require families to choose between staying warm and providing for other basic life needs. For example, during the 2002/2003 winter heating season, households that utilized fuel oil consumed on average 1,000 gallons to heat their homes at an average seasonal cost of \$1,278. Since these households received an average fuel subsidy totaling \$551, each household's average out-of-pocket cost for the 2002/2003 winter heating season totaled \$727 (\$1,278-\$551).

The federal government has consistently funded the Fuel Assistance Program over the years. From the program's inception in 1977 through the 2003/2004 winter heating season, federal funding for this program in Massachusetts has grown from \$5 million to approximately \$73 million annually. This represents an average annual funding increase of 54%.

The following chart details the federal funding provided to the Fuel Assistance Program over the five winter heating seasons ended April 30, 2004.

Annual Federal Funding of the Fuel Assistance Program in Massachusetts

Note: Fiscal Year 2004, Federal Government Funding through February 5, 2004.

Recommendation

1. Presently, LAAs determine household income based upon oral representations provided by program applicants. To help ensure that applicants disclose all household income, we recommend that DHCD amend its program application to incorporate a checklist of potential income sources. Moreover, applicants, with the assistance of an intake worker, should review the checklist and identify their applicable household income. Finally, as presently required, applicants should continue to certify under penalty of perjury all statements they make on the Fuel Assistance Application.
2. Presently, DHCD does not require LAAs to obtain complete documentation from applicants relative to household income and expenses. To better ensure that LAAs award program benefits solely to families that are most financially vulnerable to the high cost of home heating fuel, we recommend that LAAs obtain income tax returns and mortgage and real estate tax statements from program applicants. These documents will enable LAAs to independently verify household income and living costs incurred by property owners.
3. Presently, DHCD does not perform the post-audit review of the Fuel Assistance Program required by Chapter 62E, Section 3, of the General Laws. In order to comply with this law, we recommend that DHCD collaborate with the Department of Revenue to develop an administrative mechanism for the purpose of verifying eligibility and detecting or preventing ineligible recipients from receiving benefits.

4. Presently, the Commonwealth does not directly fund the Fuel Assistance Program, which can create a hardship for low-income families during severe winter seasons. We recommend that DHCD include within its budget submission to the Legislature a provision creating a “rainy day” fund within the Fuel Assistance Program. If authorized and funded by the Legislature, such a “rainy day” fund should be drawn upon only during the most severe winters and after all federal funding for the program has been depleted.

Auditee’s Response

In response to our audit report, DHCD officials provided the following general comments:

DHCD remains committed to strengthening LIHEAP to ensure that the most needy families and individuals benefit from the program. During the past two months, DCS has met with members of the Community Action network in Massachusetts including representatives of the 22 provider agencies, the Massachusetts Energy Directors Association, the Energy Policy Advisory Group, to discuss the impact of program modifications. In addition, we held two focus groups to create an opportunity for dialogue with and feedback from the network. We appreciate the observations outlined in the draft audit report; your recommendations are timely given our discussions concerning strategies for improving the overall effectiveness of the program.

In response to our audit results, DHCD officials provided the specific responses, which are excerpted below:

1. *Fuel Assistance Application* – *DHCD reviewed sample LIHEAP application forms that were being utilized at the different agencies and made several revisions including listing all potential sources of income for the household on the form. In addition, we developed an income worksheet to be completed by agency staff for new and re-certified applicants. All LIHEAP applicants must sign the application and certify under penalty of perjury statements made on the form.*
2. *Documentation of Income and Expenses* – *DHCD has amended the application form to include questions concerning monthly housing expenses (which are defined on the form as principal, interest and taxes) and ownership of real estate property in addition to the primary residence (i.e., second home, vacation home, income properties, etc.).*

Currently, applicants must complete and sign a statement if the monthly housing costs exceed income or if s/he is reporting zero income. The LIHEAP agencies have agreed to revisit these forms and amend as necessary to obtain complete documentation of an applicant’s ability to meet expenses. In the case of homeowners, few agencies stated they collect property tax statements; however, DHCD has requested all agencies obtain real estate tax statements for homeowners whose expenses exceed income. DHCD will monitor this process to ensure solid oversight by agencies.

DHCD is concerned about the unintended consequences of requiring agencies to obtain income tax returns. Currently, sub-grantees are required to obtain income documentation that represents the four consecutive weeks prior to the application date. The potential shortcoming of relying on income tax returns is verification and validity of information that may be outdated, and therefore is an unreliable source of documenting

current income data. Since the program was designed, in part, to address emergency energy needs by defraying heating costs during winter months, current income data (as opposed to annual income) is most beneficial in capturing the financial circumstances at the time of application. In addition, many LIHEAP clients do not file income tax returns. Further, this may result in an undue hardship on the agencies' resources whose staff may not have the capacity to review and analyze income tax forms.

The ad-hoc working group will consider other strategies to ensure agencies are collecting documentation that verifies and supports household income relative to living expenses.

3. *Post-Audit Review – Several years ago, DHCD initiated wage match procedures intended to identify applicant households who had not reported or underreported wages/income on the fuel assistance application. The purpose of the wage match program was to match (on a sample basis) adult household members on LIHEAP applications with the wage information database within the Department of Revenue (DOR). Unfortunately, the challenge at that time was obtaining current data from the DOR system.*

Currently, DHCD utilizes the Wage Reporting and Financial Institution Matching System (WRMS) through DOR when DCS receives a request from a sub-grantee that suspects an applicant has underreported or has not been forthright about income. The procedures for obtaining information from DOR and the accuracy of data provided have significantly improved.

DHCD acknowledges that the wage match system is underutilized, and has not recently been used for post-audit testing of fuel assistance recipients. We are in the process of reviewing generally accepted sampling methods to broaden the scope of wage matches and to reinstate the system for post-audit reviews.

4. *Commonwealth Rainy Day Fund – DHCD is sensitive to the potential out-of-pocket expenses fuel recipients may incur during harsh winters. DHCD manages program resources as effectively as possible and has safeguards in place in anticipation of severe winter seasons. DHCD establishes a reserve each year from its federal appropriation to set aside funds for emergency LIHEAP needs. This enables the agencies to serve additional households with fuel assistance benefits. The reserve funds assist the agencies in supplementing their actual expenditures for program benefits that typically exceed the original contract award, particularly in extremely cold winters.*

Massachusetts has been highly commended for its successful partnerships with the utilities and exemplary utility-sponsored discount programs. Designed to reduce a household's energy burden or percentage of income spent on home energy, the utility-sponsored programs reduce the cost of energy through direct payment subsidies and the amount of energy used through weatherization. As a result, the combination of payment resources through the LIHEAP and the Weatherization Assistance Program (WAP) with the utility rate discount programs reduces the energy burden while reducing arrearages and shutoffs.

Auditor's Reply

1. *Fuel Assistance Application – Based on its response, DHCD is taking measures to amend its program application to help ensure that applicants disclose all household income.*

2. Documentation of Income and Expenses – Based on its response, DHCD is taking measures to address our concerns relative to monthly housing expenses and ownership of real estate property.

However, we again urge DHCD to obtain income tax documents from program applicants. This requirement should be imposed upon all applicants who must annually file tax returns. Applicants who are unwilling to comply with this requirement should be excluded from consideration for fuel assistance benefits.

The collection of income tax documents would not prevent LAAs from identifying families with emergency energy needs. Such situations, e.g. an individual recently becoming unemployed, would be discernable through the applicant intake process as well as DHCD's requirement that LAAs obtain income documentation from applicants that represents four consecutive weeks prior to the application date.

In addition, the collection of income tax documents would supplement, not supplant, DHCD's existing policies. While DHCD's existing policies enable LAAs to ascertain an applicant's most recent income (prior 4 weeks income), requiring applicants to submit current tax returns would enable LAAs to independently verify financial representations made by applicants during the intake process. Moreover, the collection of tax returns would help illuminate the household's other sources and amounts of income, e.g. interest, dividends, alimony, business and rental income etc. Knowledge of these other income sources is critical to calculating a household's total annual income, which combined with family size, is the basis under which LAAs award fuel assistance benefits.

Lastly, the OSA does not believe that utilizing applicants' tax returns to verify household income would impose a "hardship" upon agencies' resources and staff. A reasonable person would expect low-income households to have basic, uncomplicated tax returns since they have limited income sources and few offsetting expenses. As such, abstracting income data from specific tax line items would become a routine process for LAA intake workers. Moreover, this process would only require the most rudimentary training in order to complete. Finally, without tax returns DHCD cannot reasonably assure the Commonwealth that households have reported all sources of income and that only low-income households most vulnerable to the high cost of home heating energy are benefiting from the program.

3. Post-Audit Review – Based on its response, DHCD is taking measures to more effectively utilize the Commonwealth's wage match system.
4. Commonwealth Rainy Day Fund – The OSA acknowledges that DHCD has taken appropriate action to increase the overall effectiveness of the Fuel Assistance Program. However, program statistics compiled through our review indicate that during severe heating seasons fuel subsidies have not kept pace with the demand and cost of home heating fuel. Therefore, the OSA continues

to recommend that DHCD include within its budget submission to the Legislature a provision creating a “rainy day” fund within the Fuel Assistance Program.

APPENDIX I

Local Administering Agencies

Action, Inc. 24 Elm Street Gloucester, MA	Action For Boston Community Development, Inc. 178 Tremont Street Boston, MA
Berkshire Community Action Council, Inc. 1531 East Street Pittsfield, MA	Community Action, Inc. 25 Locust Street Haverhill, MA
Community Action Program Inter-City Inc. 100 Everett Avenue, No. 14 Chelsea, MA	City of Cambridge Department of Human Services 51 Inman Street Cambridge, MA
Citizens For Citizens, Inc. 264 Griffin Street Fall River, MA	Community Teamwork, Inc. 167 Dutton Street Lowell, MA
Franklin Community Action Corporation 393 Main Street Greenfield, MA	Greater Lawrence Community Action Council, Inc. 305 Essex Street Lawrence, MA
Lynn Economic Opportunity, Inc. 113 Munroe Street Lynn, MA	New England Farm Workers Council, Inc. 435 Main Street Fitchburg, MA
New England Farm Workers Council, Inc. 1628 Main Street Springfield, MA	North Shore Community Action Programs, Inc. 98 Main Street Peabody, MA
People Acting In Community Endeavors, Inc. 166 Williams Street New Bedford, MA	Quincy Community Action Program, Inc. 1509 Hancock Street Quincy, MA
Self Help, Inc. Fagan Drive Avon, MA	South Middlesex Opportunity Council, Inc. 300 Howard Street Framingham, MA
South Shore Community Action Council, Inc. 265 South Meadow Road Plymouth, MA	Tri-City Community Action Council, Inc. 110 Pleasant Street Malden, MA
Valley Opportunity Council, Inc. 300 High Street Holyoke, MA	Worcester Community Action Council, Inc. 484 Main Street Worcester, MA

APPENDIX II

Fuel Assistance Applications and Benefits

Fiscal Year 2003

<u>LAA</u>	<u>Applicants</u>	<u>Eligible Applicants</u>	<u>Ineligible Applicants</u>	<u>Applicants Served</u>	<u>Total Benefits</u>	<u>Average Benefit</u>
Action For Boston Community Development Action, Inc.	16,645	13,562	3,083	13,502	\$ 7,150,862	\$ 530
Berkshire Community Action Council, Inc.	1,685	1,478	207	1,464	773,242	528
Community Action, Inc.	5,538	5,053	485	5,023	2,915,134	580
City of Cambridge Department of Human Services	3,268	2,887	381	2,863	1,575,035	550
Community Action Program Inter-City, Inc.	2,146	1,883	263	1,829	919,490	503
Citizens For Citizens, Inc.	3,167	2,953	214	2,939	1,580,858	538
Community Teamwork, Inc.	13,115	12,156	959	12,099	6,858,952	567
Franklin Community Action Corporation	8,950	7,523	1,427	7,475	4,236,542	567
Greater Lawrence Community Action Council, Inc.	6,234	5,383	851	5,305	2,802,950	528
Lynn Economic Opportunity, Inc.	7,802	6,876	926	6,399	3,648,796	570
New England Farm Workers Council, Inc.	3,769	3,229	540	3,196	1,677,275	525
North Shore Community Action Programs, Inc.	16,487	14,116	2,371	14,021	7,675,325	547
People Acting In Community Endeavors, Inc.	3,228	2,853	375	2,834	1,511,671	533
Quincy Community Action Program, Inc.	10,455	9,548	907	9,436	5,463,680	579
Self-Help, Inc.	3,334	2,806	528	2,770	1,464,971	529
South Middlesex Opportunity Council, Inc.	11,201	9,449	1,752	9,375	5,168,500	551
South Shore Community Action Council, Inc.	5,372	4,262	1,110	4,254	2,192,349	515
Tri-City Community Action Council, Inc.	9,885	8,545	1,340	8,487	4,665,955	550
Valley Opportunity Council, Inc.	4,521	3,897	624	3,863	2,061,872	534
Worcester Community Action Council, Inc.	11,050	9,911	1,139	9,805	5,415,072	552
	10,327	9,576	751	9,486	5,383,923	568
Total	<u>158,179</u>	<u>137,946</u>	<u>20,233</u>	<u>136,425</u>	<u>\$ 75,142,454</u>	<u>\$ 551</u>

APPENDIX II (Continued)

Fuel Assistance Applications and Benefits

Fiscal Year 2004

<u>LAA</u>	<u>Applicants</u>	<u>Eligible Applicants</u>	<u>Ineligible Applicants</u>	<u>Applicants Served</u>	<u>Total Benefits</u>	<u>Average Benefit</u>
Action For Boston Community Development Action, Inc.	17,409	13,495	3,914	13,437	\$ 5,919,257	\$ 441
Berkshire Community Action Council, Inc.	1,753	1,498	255	1,486	682,918	460
Community Action, Inc.	5,565	4,990	575	4,973	2,444,905	492
City of Cambridge Department of Human Services	3,461	3,027	434	3,013	1,413,990	469
Community Action Program Inter-City, Inc.	2,111	1,815	296	1,811	753,708	416
Citizens For Citizens, Inc.	3,328	3,009	319	3,006	1,368,142	455
Community Teamwork, Inc.	12,098	12,114	984	12,034	5,862,200	487
Franklin Community Action Corporation	9,221	7,716	1,505	7,612	3,610,751	474
Greater Lawrence Community Action Council, Inc.	6,352	5,377	975	5,350	2,482,455	464
Lynn Economic Opportunity, Inc.	7,897	6,752	1,145	6,659	3,131,305	470
New England Farm Workers Council, Inc.	3,997	3,381	616	3,330	1,470,064	441
North Shore Community Action Programs, Inc.	16,782	14,002	2,780	13,647	6,329,340	464
People Acting In Community Endeavors, Inc.	3,288	2,788	500	2,641	1,252,061	474
Quincy Community Action Program, Inc.	10,308	9,405	903	9,334	4,638,263	497
Self-Help, Inc.	3,385	2,896	489	2,884	1,294,520	449
South Middlesex Opportunity Council, Inc.	11,244	9,321	1,923	9,282	4,309,028	464
South Shore Community Action Council, Inc.	5,396	4,238	1,158	4,226	1,843,048	436
Tri-City Community Action Council, Inc.	9,784	8,231	1,553	8,149	3,498,515	429
Valley Opportunity Council, Inc.	4,553	3,901	652	3,870	1,720,271	445
Worcester Community Action Council, Inc.	11,446	10,139	1,307	9,952	4,707,641	473
Total	<u>10,730</u>	<u>9,659</u>	<u>1,071</u>	<u>9,350</u>	<u>\$ 4,501,188</u>	<u>\$ 481</u>
	<u>161,108</u>	<u>137,754</u>	<u>23,354</u>	<u>136,046</u>	<u>\$ 63,233,570</u>	<u>\$ 465</u>

APPENDIX III**Audit Sites Visited**Local Administering Agencies:

- | | |
|--|---|
| 1 Action for Boston Community Development, Inc.
178 Tremont Street
Boston, MA | 5 South Middlesex Opportunity Council, Inc.
300 Howard Street
Framingham, MA |
| 2 Greater Lawrence Community Action Council, Inc.
305 Essex Street
Lawrence, MA | 6 South Shore Community Action Council, Inc.
265 South Meadow Road
Plymouth, MA |
| 3 People Acting In Community Endeavors, Inc.
166 Williams Street
New Bedford, MA | 7 Valley Opportunity Council, Inc.
300 High Street
Holyoke, MA |
| 4 New England Farm Workers Council, Inc.
1638 Main Street
Springfield, MA | 8 Worcester Community Action Council, Inc.
484 Main Street
Worcester, MA |

APPENDIX IV

Agency Wage Match Requests

Fiscal Year 2003

	<u>Applicants</u>	<u>Agency Wage Match Requests</u>
Action For Boston Community Development Action, Inc.	16,645 1,685	3 1
Berkshire Community Action Council, Inc.	5,538	0
Community Action, Inc.	3,268	0
City of Cambridge Department of Human Services	2,146	0
Community Action Program Inter-City, Inc.	3,167	3
Citizens For Citizens, Inc.	13,115	0
Community Teamwork, Inc.	8,950	2
Franklin Community Action Corporation	6,234	0
Greater Lawrence Community Action Council, Inc.	7,802	0
Lynn Economic Opportunity, Inc.	3,769	0
New England Farm Workers Council, Inc.	16,487	13
North Shore Community Action Programs, Inc.	3,228	0
People Acting In Community Endeavors, Inc.	10,455	0
Quincy Community Action Program, Inc.	3,334	0
Self-Help, Inc.	11,201	0
South Middlesex Opportunity Council, Inc.	5,372	11
South Shore Community Action Council, Inc.	9,885	16
Tri-City Community Action Council, Inc.	4,521	1
Valley Opportunity Council, Inc.	11,050	0
Worcester Community Action Council, Inc.	10,327	0
Unidentified	-	14
Total	<u>158,179</u>	<u>64</u>