



Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
Bureau of Departmental Audits

*“Every dollar wasted is a dollar that will not be available to families who need assistance.”*

Jack Wagner,  
Auditor General

**A SPECIAL PERFORMANCE AUDIT  
OF THE  
DEPARTMENT OF PUBLIC WELFARE**

**LOW INCOME HOME ENERGY ASSISTANCE PROGRAM**

**August 2011**

**Widespread Waste, Abuse,  
and Potential Fraud  
of LIHEAP**

- ✓ Benefits approved for applicants who were deceased, imprisoned, or who underreported income from July 1, 2009 to June 30, 2010
- ✓ More than \$800,000 of taxpayer monies wasted on a contract from February 2009 to January 2011
- ✓ Inadequate on-site monitoring of County Assistance Offices/Crisis Contractor Offices

**INEFFICIENT USE OF  
TAXPAYERS' DOLLARS**



August \_\_, 2011

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
225 Main Capitol Building  
Harrisburg, PA 17120

Dear Governor Corbett:

This report contains the results of the Department of the Auditor General's special performance audit of the Low Income Home Energy Assistance Program (LIHEAP) administered by the Department of Public Welfare (DPW) for the period of July 1, 2006 through December 31, 2010, including follow-up procedures performed and concluded as of June 29, 2011. This audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code and in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit found that DPW was seriously deficient in its administration of LIHEAP, especially with regard to functions related to the monitoring of LIHEAP. Specifically, our auditors determined that waste, abuse, and potential fraud exist within LIHEAP, including the awarding of cash benefits to applicants who were deceased and the awarding of benefits to applicants that our auditors documented as incarcerated or imprisoned. In addition, our auditors discovered that applicants underreported their income so that they could receive home heating services, while other applicants submitted for double payments. In one instance, an applicant, who was previously referred to the Office of Inspector General (OIG) for potential welfare fraud, was inappropriately approved for benefits. Moreover, we found applicants received benefits using variations of a Social Security number.

Additionally, taxpayer monies were wasted when DPW awarded a sole source contract to a law firm and paid the firm more than \$800,000. DPW engaged the services of the law firm to assist with monitoring procedures in conducting on-site visits to various County Assistance Offices (CAOs) and crisis contractors. However, the firm failed to discover or curtail the widespread weaknesses within LIHEAP. Furthermore, the law firm's billing practices were potentially excessive, especially during the non-winter/non-heating months when the law firm billed the Commonwealth an average of \$29,000 per month despite the fact that it performed no on-site visits to CAOs.

We offer 10 recommendations to improve and strengthen LIHEAP, so that some of our most vulnerable citizens are able to meet their home heating needs. It is our hope that you will instruct DPW to act on these recommendations.

We will follow up at the appropriate time to determine whether and to what extent all recommendations have been implemented.

Sincerely,

JACK WAGNER  
Auditor General

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## Results in Brief

### Waste, Abuse, and Potential Fraud is Widespread within LIHEAP

The purpose of this report is to communicate the results of our special performance audit of the Low Income Home Energy Assistance Program (LIHEAP) administered by the Pennsylvania Department of Public Welfare (DPW). The period under audit was July 1, 2006 through December 31, 2010, including follow-up procedures performed and concluded as of June 29, 2011; however, we concentrated our efforts in auditing the period July 1, 2009 through June 30, 2010. This audit found widespread weaknesses. Specifically, our auditors have determined that waste, abuse, and potential fraud continued to exist within LIHEAP, including:

- The awarding of cash benefits to applicants who were deceased;
- Incarcerated/imprisoned applicants;
- Applicants underreported income;
- Applicants submitted for double payments; and
- Applicants received benefits using variations of a Social Security number (SSN).

Additionally, taxpayer monies were wasted when DPW awarded a sole source contract to a law firm and paid the firm more than \$800,000. DPW engaged the services of a law firm to assist with monitoring procedures in conducting on-site visits to various County Assistance Offices (CAOs) and crisis contractors. However, the law firm failed to discover or curtail the widespread weaknesses within LIHEAP. Our auditors determined that management's use of the law firm's services, which cost taxpayers up to \$480 per hour, resulted in a lack of documentation, non-compliance with contract terms, and the absence of on-site visits during months of being paid for services. The law firm's billing practices were potentially excessive, especially during the non-winter/non-heating months when the law firm billed the Commonwealth an average of \$29,000 per month despite the fact that it performed no on-site visits to CAOs.

#### What is LIHEAP?

LIHEAP is a program that enables the Commonwealth to help low-income households meet their home heating needs. \$257 million was spent on LIHEAP from July 1, 2009 to June 30, 2010, which benefitted 434,000 families in Pennsylvania. The program consists of three components:

- ✓ Cash benefits paid directly to utility companies or fuel dealers on behalf of the applicant.
- ✓ Cash benefits paid to applicants when heat is included in rent.
- ✓ Crisis payments made directly to utility companies or fuel dealers to resolve supply shortages or other household energy-related emergencies.

Federal/state regulations require Pennsylvania to provide fiscal control and accounting procedures to ensure proper disbursement of funds, which includes monitoring payments.

This report conveys the current condition of LIHEAP. The findings contained in this report, while disconcerting, should not come as a surprise to management at DPW because many of the weaknesses mirror similar deficiencies that we identified previously in a special performance audit released in 2007.<sup>1</sup> The fact that many of these weaknesses are still present four years after the release of our 2007 audit demonstrates that management was either lax in its implementation of the recommendations provided in our prior audit report or potentially chose to disregard our recommendations. As a result, these identified deficiencies significantly heighten the potential for waste, fraud, and abuse within a worthwhile program intended to assist some of the most vulnerable segments of our society.

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<sup>1</sup> See A Special Audit of the Department of Public Welfare's Low Income Home Energy Assistance Program, June 2007.

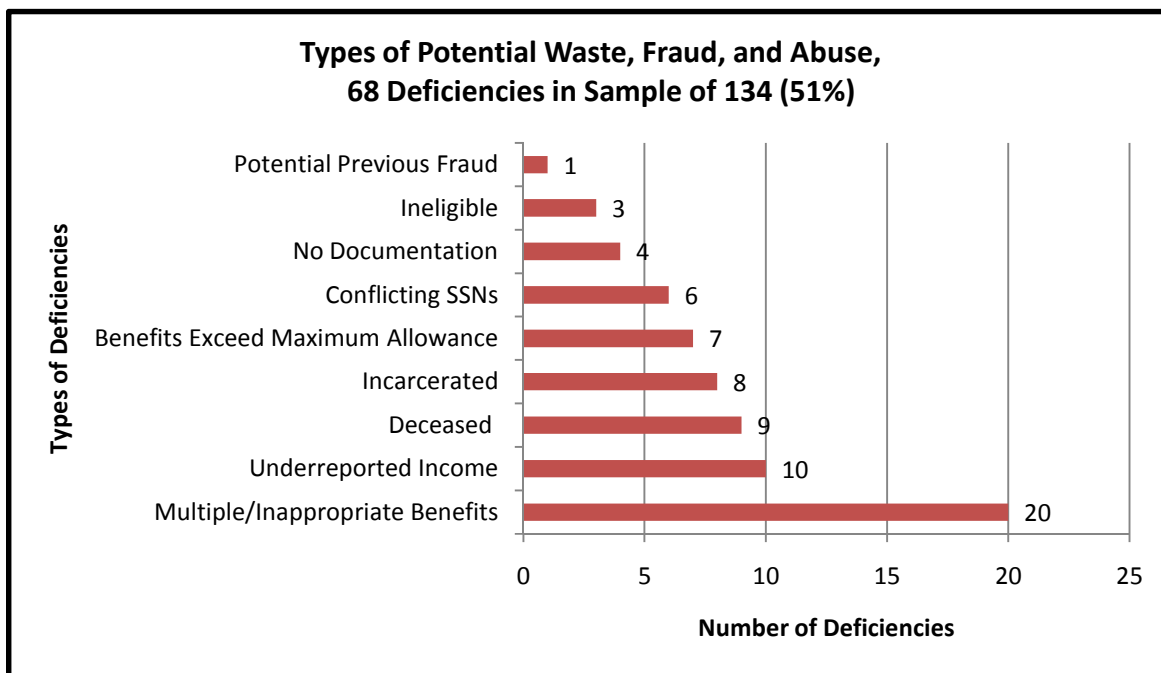
## Widespread Weaknesses within LIHEAP Applications

Auditors determined that the weaknesses within LIHEAP created a convenient opportunity whereby applicants were able to receive LIHEAP benefits through potentially fraudulent methods.

Our sampling methodology initially consisted of a random sample of LIHEAP applications for the period July 1, 2009 through June 30, 2010. We selected and tested 69 LIHEAP transactions and found deficiencies in six (an error rate of 8.6%), including one that involved a potential fraud (individual deceased). Based on our results and various high-risk areas identified by performing data analysis and data mining techniques, we expanded our coverage and selected an additional 65 transactions. Of these 65, we found deficiencies with 62 (95 percent) (see Chart 1 on page 3 for a breakdown of the types of deficiencies found in our sample of 134 transactions). The deficiencies uncovered by our auditors include:

- An applicant, who was previously referred to the Office of Inspector General (OIG) for potential welfare fraud, was inappropriately approved for benefits;
- Applicants/household member deemed ineligible;
- Documents were missing from applicant files;
- Applicants used different SSNs to receive multiple payments;
- Applicants filing more than one application using the same SSN;
- Applicants receiving benefits exceeding the maximum allowance;
- Applications approved for benefits while applicant/household members were incarcerated;
- Applicants/household members using SSNs associated with deceased individuals;
- Applicants/household members underreporting income on their LIHEAP applications (Note: Income must be reported for three full months prior to application submission date, known as the 90-day look-back period); and
- Applicants receiving multiple cash/inappropriate payments.

Chart 1: Types of Deficiencies Found that Require Immediate Corrective Action



DPW management indicated that, of the 68 deficiencies, it agreed with 26, which it will forward to the OIG. Of the remaining 42 transactions, DPW said 27 were caused by CAO caseworkers’ administrative errors and the balance of 15 payments was properly processed. However, we disagree with DPW’s conclusions on these 42 transactions. The transactions lacked the required documentation to support allowability and/or the existing documentation indicated potential inappropriate activity. Based on our results, we will forward all 68 deficiencies to the OIG.

In addition to our sample for the July 1, 2009 through June 30, 2010 period, we also performed some data mining and data analysis on information provided by DPW for the period July 1, 2010 through December 31, 2010. We limited our work to certain trends that had been validated by our analysis during the previous 12-month period. We selected 12 transactions, pulled the corresponding documentation available in DPW’s imaging system and found 12 deficiencies regarding conflicting SSNs, benefits exceeding maximum allowance, deceased applicants, incarcerated household member, or improper payments. As a result, we believe that waste, abuse, and potential fraud continues to occur during the 2010-11 heating season. We will forward these additional 12 transactions to the OIG.

As part of administering LIHEAP, DPW must have adequate controls in place, including proper reviews/approvals, to ensure that applicants requesting LIHEAP benefits are eligible and receive the appropriate benefit amounts. Adequate written procedures, training, and documented supervisory review and approval are essential to ensure that applicant information and support are sufficient to determine eligibility in compliance with applicable regulations. Furthermore, proper documentation must be present to include support for household income, heating bills, or documentation from a landlord that the landlord pays for heat and the type of fuel used.



Our auditors determined that not all CAOs have written policies or procedures on how to process, approve, and store LIHEAP applicant files. In addition, DPW personnel were not adequately supervised in the performance of their LIHEAP duties within the CAOs. DPW's LIHEAP User Manual and the LIHEAP Handbook, used by the CAOs to administer the program, were inadequate in addressing specific LIHEAP application procedures to make them consistent throughout DPW's 67 CAOs. Consequently, there is an increased risk of inappropriate spending and noncompliance with the LIHEAP State Plan and federal regulations because of the various deficiencies noted above.

Additionally, various data exchanges are not being effectively utilized by DPW. We noted that, although DPW has the capability to verify SSNs, as well as whether individuals are deceased, incarcerated, etc., through data exchanges, DPW was not monitoring data exchange activity to ensure that LIHEAP caseworkers were adequately addressing discrepancies identified through the exchange information.

## Potential Waste Associated with Excessive Contract Expenditures

Our auditors determined the existence for potential waste associated with excessive contract expenditures. The expenditures incurred by DPW derived from management's reliance on a sole source contract for outside legal services for monitoring the LIHEAP Program, which resulted in the agency spending more than \$800,000 for services from February 2009 through January 2011. We disagree with the necessity of this contract. DPW did not provide us with documentation to justify the hiring of a law firm to perform work that could have been performed by DPW employees. While expenditures associated with the contract were significant and covered many months, we concentrated our audit efforts on the months of the contract that corresponded with the period July 1, 2009 to June 30, 2010 for services rendered totaling \$361,655 (see Table 1 below). The cost of services provided by the Philadelphia law firm is potentially disproportionate in comparison to its achieved results as explained later in the report, calling into question DPW's reliance on a sole source contract that may not have been beneficial to the Commonwealth because these services could have been performed by DPW.

Based on the documentation provided by DPW, auditors identified the following deficiencies relevant to excessive contract expenditures:

- Excessive billing practices during the fiscal year ended June 30, 2010 that include \$203,471 billed by the law firm to DPW for seven months in which no on-site monitoring services were performed (see Table 1 below);
- Noncompliance with contract provisions regarding detailed documentation supporting expenditures of services rendered for 10 of 12 months; and
- Contract was not competitively bid; as a result, management's reliance on a sole source vendor potentially inflated contract costs. From February 2009 to January 2011, DPW paid more than \$800,000 for contract services.

Table 1: On-site Visits/Expenditures of Contracted Law Firm for Fiscal Year ended June 30, 2010

	July 2009	August 2009	September 2009	October 2009	November 2009	December 2009
On-Site Visits by Law Firm	None	None	None	None	1	7
\$ Billed by Law Firm for Work	\$53,684	\$47,228	\$11,156	\$12,187	\$52,917	\$26,320
	January 2010	February 2010	March 2010	April 2010	May 2010	June 2010
On-Site Visits by Law Firm	4	6	7	None	None	None
\$ Billed by Law Firm for Work	\$26,277	\$26,274	\$26,396	\$26,302	\$26,400	\$26,514

Source: Contract Information, Pennsylvania Department of Public Welfare

\*Note: Table includes seven months when no on-site visits were made but payments that total \$203,471 were made for services rendered.

The terms of the contract state that the law firm shall submit monthly invoices to DPW. Each invoice shall be itemized, listing the services performed by attorneys or legal assistants to include date, hours worked, and rate. Furthermore, DPW would reimburse the law firm for non-labor costs for travel, meal costs, and lodging costs. The billing rates per contract ranged from \$480 per hour for partners, \$295 per hour for associates, and \$150 per hour for paralegals.

Invoices submitted by the law firm did not provide adequate detail, only general descriptions. For example, the summary invoices noted "Outside Professional Services." This is contrary to the terms of the contract, which require invoices to include a sufficient level of detail to demonstrate that cost billed to DPW were reasonable, actual, and in accordance with terms established by the contract. When we questioned the lack of documentation supporting the services rendered, DPW indicated that it provided our auditors with all available documents. Nevertheless, with no detail support to substantiate services rendered, we question the validity of these expenditures.

In addition, we reviewed six completed monitoring reports and found that the contracted law firm failed to discover or curtail many of the widespread weaknesses within LIHEAP, demonstrating inadequate monitoring practices. We noted that the law firm monitors failed to:

- Make unscheduled visits for investigative or follow-up purposes;
- Address the process and security for bar-coded applications returned by the post office, as required in the Bureau of Program Evaluation/Division of Corrective Action (BPE/DCA) LIHEAP Field Visits Procedure guidelines;
- Assess the timeliness of posting LIHEAP applications to the electronic Client Information System (eCIS) used by DPW;
- Follow up with CAOs or crisis contractors to verify that corrective action was undertaken with regard to incomplete supervisory reviews;
- Disclose significant weaknesses in the monitoring reports. Monitors state in the reports that significant problems were found but DPW was addressing them, so the monitors did not disclose the problems. We disagree. Significant problems found during on-site monitoring should be documented; and
- As part of the audit, we visited two CAOs and a crisis contractor. We interviewed management and staff, performed reviews at the sites, and took a sample of transactions to evaluate the policies and procedures and internal controls in place at these offices. For one of the sites we visited, we reviewed the completed monitoring report prepared by the law firm and noted that the report failed to mention any of the deficiencies found by the auditors. For example, security of application/files, no office specific policies and procedures as required by State Plan, lack of access to the PROMISE™ system and Client Information System (CIS), and ineligible LIHEAP applicants were being inappropriately referred to DCED for weatherization services.

We found that the services rendered were inadequate and did not require the expertise/expense of a law firm.

When we presented these deficiencies to management, DPW indicated that the law firm hired a forensic accounting firm, an independent subcontractor, to perform the majority of procedures relating to this contract. We obtained a copy of the subcontract on June 29, 2011 and found that the subcontract was executed in February 2009, only one month after the execution of the original sole source contract. By hiring a law firm as a sole source (Procurement Manual, Part III, Chapter 5, Section A.2. allows for the hiring of law firms with no-bid sole source contracts), which then subcontracts the work out to a forensic accounting firm (which is not covered in the sole source waiver for law firms mentioned above), DPW appears to have circumvented and violated the state procurement rules and caused unnecessary costs to be paid to the law firm serving as the intermediary in this contract arrangement. In addition, this was the first time that DPW indicated that a subcontractor was performing the monitoring duties for the law firm. We requested copies of DPW's and others' written approval for the use of the subcontractor on June 27, 2011, but have yet to receive those approvals.

DPW also indicated that these contracts benefitted LIHEAP greatly, pointing to cost savings due to reduction in errors in the 2010-2011 LIHEAP heating season resulting in savings significantly greater than the cost of the contractors. However, DPW did not provide any documentation, support, or details regarding the alleged savings that it is claiming.

## Inadequate Monitoring

In addition to contracting with the law firm to perform monitoring services, DPW employed a team of four department monitors who did not work full time on LIHEAP to perform its systematic reviews of processing LIHEAP cash and crisis applications at the CAOs and crisis contractors. DPW provided a list of 38 monitoring reports completed during the fiscal year ended June 30, 2010, of which we selected a sample of nine reports to review, three performed by DPW monitors, and six performed by the law firm. In addition to the deficiencies previously noted with the law firm monitors, we found the following:

- Documentation supporting the monitors' work was insufficient to allow an independent review to determine the adequacy of the results/conclusions;
- In some instances, the CAO or crisis contractors' responses to the monitors questions indicated that a deficiency or weakness existed; however, we found that these potential deficiencies were not followed up on to ensure proper resolution;
- The sample selection process or methodology was not documented for the transactions tested; and
- The monitors did not address the processing of exceptional crisis applications (receiving LIHEAP prior to the start of the program) or ask the CAO about potential fraud as required by monitoring guidelines.

To exacerbate the situation, the error rates noted in these nine reports plus the error rates noted in ten additional reports performed by DPW monitors revealed that DPW and the law firm had detected high error rates in many of the CAOs. Specifically, 10 of the 19 reports (53 percent) identified error rates greater than 20 percent, including three reports disclosing errors ranging from 57 to 98 percent. These DPW results indicate that internal control deficiencies continue to exist in LIHEAP. Furthermore, it shows that corrective action plans must be generated and immediately implemented by respective CAOs and the monitors must follow up within a short period of time to ensure that these deficiencies are adequately resolved.

In addition to the inadequate on-site monitoring noted above, DPW does not require CAOs to have written standard operating procedures to ensure consistency across the 67 CAO offices. As a result, DPW failed to ensure that CAOs had county-specific, standardized, written procedures to process LIHEAP applications; failed to establish and verify that controls are adequate at CAOs; and failed to assess the adequacy of application processing, written procedures, and controls at crisis contractors to minimize the risk of fraud and abuse.

While prudent auditing and monitoring practices dictate that standard operating procedures should exist to systematically select and monitor sites, DPW management did not adhere to its standard written procedures for conducting, documenting, reviewing, and reporting on the monitoring visits. Moreover, management failed to recognize the need to adequately document the procedures performed to ensure that the monitoring reports are adequately supported with documentation of the process.

DPW management was surprised when we presented our preliminary results and asserted its belief that respective monitors are satisfactorily performing in accordance to DPW's expectations. We disagree. DPW's monitoring process and procedures need to be improved. Without an adequate overall monitoring of the processing of LIHEAP applications at the CAOs and crisis contractors, DPW lacks assurance that LIHEAP applications are processed accurately and the internal controls are adequate for preventing, detecting, and reporting noncompliance and any fraud and abuse. Also, the lack of an effective monitoring system presents a greater opportunity for undetected fraud, noncompliance, and abuse at the CAO and crisis contractor levels.

## Recommendations

We recommend that DPW:

1. Seek recipient reimbursement for all overpayments due to potential fraud or administrative error;
2. Terminate the use of the sole source contract as soon as permitted by the terms of the contract and shift the law firm's monitoring duties to DPW employees. Contracts should be competitively bid and defined in detail. The contract process should not be circumvented through a law firm to a subcontractor;
3. Ensure that appropriate edit checks are developed immediately to detect irregularities or potential fraud and abuse on applications submitted with similar addresses, names, and SSNs;
4. Immediately improve eCIS controls to ensure that every SSN entered into the system is valid and associated with a legitimate individual and to prevent applicants from being awarded two cash benefits and/or receiving crisis benefits that exceed maximum limits;
5. Ensure that each CAO/crisis contractor is properly utilizing the data exchanges;
6. Conduct additional monitoring procedures to look for fraudulent, suspicious, and questionable transactions, including performing data analysis as well as comparing LIHEAP information to exchange data for applicants who are incarcerated, deceased, receiving high wages, etc;
7. Institute adequate supervisory oversight to ensure workers comply with policy and procedures, including requesting and obtaining statements from applicants when zero income is reported, and requesting and obtaining income from all adult household members for the entire 90-day look-back period;
8. Maintain detailed documentation to support justification of sole source procurement and payment of expenditures, and to substantiate services rendered;
9. Strengthen the monitoring process by improving each monitor's documentation, developing written procedures to follow-up on issues noted within the on-site monitoring process, and requiring that the monitors' documentation of on-site monitoring be reviewed and approved by a supervisor to ensure that procedures performed were adequate and well documented and that the conclusions reached were reasonable and properly supported; and
10. Strengthen internal controls by utilizing the implemented corrective measures of continued training of CAO personnel, revisions to the LIHEAP Manual and Handbook, safeguarding of assets and guidance on the control environment, and verification that the related internal controls in this system are operating effectively.



## Summary of Agency Response and Auditors' Conclusions

Secretary Gary D. Alexander of the Pennsylvania Department of Public Welfare (DPW) provided a written response to our audit findings. What follows is a summary of Secretary Alexander's response and our auditors' conclusions as they relate to the Secretary's response. We have reprinted the formal response from Secretary Alexander in its entirety in Appendix B.

As a preliminary matter, we find the tone of Secretary Alexander's formal response to be disconcerting because of his resistance to our suggested recommendations and the refusal of DPW to implement corrective action, especially in light of the Secretary's verbal receptiveness to our concerns during a meeting with Auditor General Jack Wagner on May 24, 2011. In the meeting, requested by Secretary Alexander, the Secretary expressed his desire for efficiency and stated his dislike of errors made by his department. Moreover, in the same meeting, Secretary Alexander mentioned that the Commonwealth's data exchanges, which state agencies use to determine eligibility for benefits, were not functioning properly and need to be improved.

For unexplained reasons, a significant segment of Secretary Alexander's formal memorandum refers to our earlier 2007 special performance audit of LIHEAP, an audit that the Secretary partially disputes; however, we completed that audit more than four years ago when DPW was under the oversight of a different administration and Secretary Alexander was employed elsewhere. Therefore, while we appreciate his thorough assessment, we suggest that the Secretary review the numerous exchanges of correspondence between DPW and the Department of the Auditor General since the last audit; he will find that our auditors were able to rebut these same arguments when expressed by the previous administration because our findings were sound. Consequently, we continue to stand by the findings contained in our 2007 special performance audit and believe that any effort by DPW to contest them four years after the fact is without merit and nothing more than an attempt to obscure the seriousness of the present findings contained in our 2011 special performance audit of LIHEAP.

Additionally, we must note that the United States Government Accountability Office (GAO), the non-partisan research arm of Congress, recognized the reliability of the findings contained in our 2007 special performance audit. At the request of the U.S. House Committee on Energy and Commerce, the GAO used our 2007 special performance audit as a basis to determine whether fraud and abuse existed in other state programs (see GAO-10-621, [LIHEAP Fraud Prevention](#)). Furthermore, in June 2009, the Philadelphia district attorney, relying in part on information uncovered by the Department of the Auditor General, charged 18 people – including 16 state and city employees – with stealing more than \$500,000 of LIHEAP funds.

On an annual basis, since the release of the original LIHEAP audit, the Department of the Auditor General has continued to audit and follow up on the changes DPW has made regarding LIHEAP. Although we have seen that DPW has made changes to how it administers LIHEAP, such as implementing a new computer system, we continue to find deficiencies, including potential fraud and abuse, that DPW is not preventing or detecting.

The Secretary asserts that “it is also important that the public be given accurate information” and that our identified deficiencies are a “misrepresentation and [do] not reflect the professional and responsible manner in which DPW administers the program.” We base our audit findings on actual audit evidence provided by DPW and the test work that corresponds with such audit evidence. Nevertheless, DPW continues its long-established pattern of unpredictability, indicating to our auditors that it initiates the changes necessitated by our audit findings, while it publicly pronounces its disagreement with these same findings.

With regard to our current special performance audit of LIHEAP, Secretary Alexander credits our 2007 special performance audit as an impetus for change but mentions, “DPW continues to make significant program improvements to further increase the accuracy of the program,” an acknowledgement that deficiencies still exist within LIHEAP and that such deficiencies impede the accuracy of LIHEAP. This is precisely the picture that our current special performance audit of LIHEAP depicts. According to our test work, various types of deficiencies are present throughout LIHEAP that potentially affects the viability of the program.

DPW provided no evidence to support its claim that error rates continue to improve. In addition, based on DPW’s own monitoring reports from visiting several county assistance offices during the 2009-10 heating season, DPW reported error rates ranging from 20% to 50% and, in one case, reported an error rate of 98%. These error rates corroborate other evidence that significant internal control deficiencies continue to exist.

As indicated in our special performance audit, the Secretary’s assertion that outside monitoring has improved accuracy is questionable. Moreover, the terms of the monitoring contract are less than transparent and do not project an adequate cost consciousness that ensures public accountability, which we detail in the findings contained in this special performance audit and in other findings. DPW contracted with a law firm from Philadelphia because it allegedly possessed the expertise to monitor the way that DPW administers LIHEAP. However, despite the alleged expertise of the law firm, it was necessary for the law firm to engage a subcontractor to perform the actual monitoring duties. During our audit, DPW never disclosed to our auditors that such a subcontract existed. We believe that our findings accurately reflect monitoring practices that are costly and less than adequate; it would be more cost effective to handle this monitoring responsibility within DPW rather than enter into a contract. Conversely, Secretary Alexander indicates that the subcontractor “continues to contribute to the overall improvement of the LIHEAP program.”

With regard to the Secretary questioning our sampling techniques, our sampling methodology first consisted of a random sample of LIHEAP applications; we selected and tested 69 LIHEAP transactions and found deficiencies in six (an error rate of 8.6%), including one that was potential fraud (individual deceased). Based on our results and various high-risk areas identified by performing data analysis and data mining techniques, we expanded our coverage and selected an additional 65 transactions. The results of these 65 again corroborate our concerns regarding continued potential fraud, waste, and abuse and DPW’s inadequate controls to prevent and detect these suspicious transactions. We did not project our results indicating a 95% error rate. Rather, we performed this testing to provide value-added information to DPW in order to improve its LIHEAP operations and to ensure that only eligible applicants are properly and appropriately approved for LIHEAP benefits.

Secretary Alexander affirms DPW's sustained pattern of disagreement with our audit findings as he concludes his memorandum, "As in prior years, our 2009/10 responses (which I have included with this memorandum) disagree with many of [The Department of the Auditor General's] findings." Consequently, it appears that the standard response from DPW is an automatic rebuke of the Department of the Auditor General, when offered recommendations that afford DPW the opportunity for corrective action.

## Appendix A: Objective, Scope and Methodology

### Objective

The objective of this special audit was to determine whether DPW authorized the proper amount of LIHEAP benefits to eligible applicants.

### Scope

Our audit covered DPW's duties and responsibilities with regard to LIHEAP for the period July 1, 2006 through December 31, 2010, including follow-up procedures performed and concluded as of June 29, 2011.

### Methodology


The methodology in support of the audit objectives included:

- Reviewing appropriate laws, LIHEAP Final State Plans, LIHEAP Handbook, LIHEAP User Manual, LIHEAP Advisory Committee meeting minutes, training presentations, DPW's response to the 2009-2010 Single Audit findings, Bureau of Program Evaluation/Division of Corrective Action (BPE/DCA) LIHEAP Field Visits Procedure, the Office of Income Maintenance (OIM) 2009-2010 LIHEAP Cash and Crisis Applications Monitoring Process, related information from DPW's website, and newspaper articles;
- Interviewing and corresponding with DPW management within OIM's Bureau of Policy, Bureau of Operations, Bureau of Program Support, Bureau of Program Evaluation, County Assistance Offices, and a county crisis contractor and conducting walk-throughs to assess controls and gain an understanding of policies and procedures used in administering cash and crisis LIHEAP benefits;
- Using data provided by DPW, we stratified the population and randomly selected a sample of 69 LIHEAP transactions from the period July 1, 2009 through June 30, 2010 for detail testing to include verifying eligibility, adequate documentation, and proper amount of payment. Based on our results and various high-risk areas identified by performing data analysis and data mining techniques, we expanded our coverage and selected an additional 65 transactions from the same audit period. Our review included determining whether deceased or incarcerated individuals were receiving LIHEAP benefits and whether applicants received excessive cash or crisis benefits. Additionally, we performed data mining and data analysis on information provided by DPW for the period July 1, 2010 through December 31, 2010. We limited our work to certain trends that had been validated by our analysis during the previous 12-month period and selected and reviewed 12 transactions;

- Reviewing the monitoring reports conducted by DPW's LIHEAP monitoring team and the law firm and its subcontractor completed during the period July 1, 2009 through June 30, 2010 to review compliance with the BPE/DCA LIHEAP Field Visits Procedure and the OIM 2009-2010 LIHEAP Cash and Crisis Applications Monitoring Process, to determine the adequacy of documenting their procedures, and to compile and assess the reported error rates; and
- Conducting on-site visits at two CAOs and one crisis contractor.

**Appendix B: Agency Response****COMMONWEALTH OF PENNSYLVANIA  
Department of Public Welfare****DATE:**

**TO:** Janet Ciccocioppo, CPA  
Assistant Director - Bureau of Departmental Audits  
Department of the Auditor General

**FROM:** Gary D. Alexander   
Secretary

**SUBJECT:** Special Report "Waste, Abuse and Potential Fraud is Widespread within LIHEAP"

This memorandum is in response to the Department of the Auditor General's (AG's) special report "Waste, Abuse and Potential Fraud is Widespread within LIHEAP". The AG alleges deficiencies relating to application processing and client eligibility determination, inadequate program monitoring, and potential waste associated with utilization of a contractor to assist with program monitoring. The weaknesses identified in this report are also identified in several 2009/10 Single Audit findings. Though we are responding to those individual findings, we feel it necessary to provide this additional response to reflect our disagreement with these assertions.

**BACKGROUND**

In 2007, the AG released the results of a Special Audit of LIHEAP which covered the period July 1, 2000 through June 30, 2006. The AG reviewed 253,358 cases and identified potential fraud and abuse, control weaknesses in administering benefits, and inadequate program monitoring. Of the 2,607 situations identified by data mining, the AG referred 1,005 cases to the Office of Inspector General (OIG) for review. **The OIG referred only 19 (.007% of total cases reviewed) for prosecution and 58 (.022% of total cases reviewed) for further investigation** and determined that fraud charges or collection actions were not warranted on the remaining cases. This does not support the assertion that "Waste, Abuse and Potential Fraud is Widespread within LIHEAP". Based upon the OIG's review of the Department of Public Welfare's (DPW) subsequent administration of the LIHEAP program, **the OIG found that "since the issuance of the Audit Report, the Department has made, and is continuing to formulate, modifications to its LIHEAP program procedures and training to address weaknesses identified in the Audit Report"**.

DPW also reviewed all the 2,607 file matches and found that **99.97% of the cases were processed accurately, and 99.96% of the \$57.8 million in total benefits was paid out correctly.**

DPW implemented changes that were already under development at the time of the audit, in addition to changes recommended in the audit. DPW decommissioned the LIHEAP Information System (LIS) in 2009, largely based on the recommendations received in the 2007 Special Audit Report. LIS was replaced with Electronic Client Information System (eCIS) in the beginning of the 2009/ 2010 heating season which

Janet Ciccocioppo, CPA

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automated many of the application processes and allowed for relative matches to occur with the Client Information System (CIS) as recommended by the AG. DPW developed a multi-tiered approach to monitoring which included reviews by County Assistance Office (CAO) supervisors and the development of multi-disciplinary teams and an independent auditing group to monitor the CAOs and Crisis Contractors, which resulted in corrective actions at the local and state level. DPW also developed a comprehensive LIHEAP Handbook and LIHEAP User Manual to provide guidance in processing applications accurately.

While DPW shares the AG's commitment to ensuring that all public benefits programs are administered with the highest possible degree of accuracy and integrity, it is also important that the public be given accurate information. The AG's assertion that "these identified deficiencies significantly heighten the potential for waste, fraud, and abuse within a worthwhile program intended to assist some of the most vulnerable segments of our society" is a misrepresentation and does not reflect the professional and responsible manner in which DPW administers this program.

#### **EXECUTIVE RESPONSE**

The LIHEAP program, in part due to your 2007 Special Audit Report, is measurably and significantly more accurate in the administration of benefits, and DPW continues to make significant program improvements to further increase the accuracy of the program.

With continued DPW monitoring, the LIHEAP payment error rate has decreased significantly from season to season. Based on the 2010/11 LIHEAP statistically valid monitoring sample, the payment error rate this heating season is only 0.76%.

The outside monitor utilized by DPW was hired to improve monitoring and program performance. The overall administration of the LIHEAP program has improved since the 2007 Special Audit Report, and we are disappointed by the AG's criticism of our decision to engage outside expertise to assist in this improvement. With the approval of DPW and the Office of General Counsel, the monitor (LECG, LLC – a forensic accounting firm), was engaged to assist in developing and implementing systems and controls to prevent internal or external fraud and to help improve program performance. They provided independent ideas, perspective and experiences during the course of their work that continues to contribute to the overall improvement of the LIHEAP program.

Many of your current findings relate to a small analysis of specifically targeted applications (65 applications) that were selected because they are likely to have an error. We also employ these methods and target high error-prone applications during our in-season monitoring (typically more than 2,000 such applications per season). We know these targeted applications represent a small percentage of the total applications processed (over 800,000 in SFYE 2011) and have learned that it is not accurate to correlate the findings of a small targeted review of error-prone files to the results of the program on a statewide basis. Analysis of these applications is important in that the results of such analysis do yield information and knowledge that we consider when designing statewide protocols to prevent overpayments, but **the results of these**

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**targeted reviews do not indicate massive or statewide control deficiencies, or that widespread waste, abuse and fraud is present.**

Your 2009/10 Single Audit reflects similar issues that have been identified in prior years' findings. As in prior years, our 2009/10 responses (which I have included with this memorandum) disagree with many of your findings. I will not repeat the content of those responses in this memorandum, but trust you will consider them and the information contained in this memorandum as you consider your final overall conclusion on the LIHEAP program.

While DPW understands that it is certainly possible to find applications that are not processed in accordance with DPW policy and that there is always room for improvement, we have successfully demonstrated the responsible manner in which we administer and monitor the LIHEAP program. We respect the opinions expressed by the AG, but strongly disagree with the assertion of "widespread weaknesses in the Low Income Home Energy Assistance Program". I hope this response may initiate discussion between our organizations to review these issues.

#### Attachments

c: Mr. Abromats  
Ms. Long  
Mr. Matolyak  
Mr. Zogby  
Ms. Connolly  
Ms. Padilla  
Ms. Watson  
Ms. Glosek/Mr. Tiazkun/Mr. Pence



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