

**State of New Jersey
Office of the State Comptroller**



***INVESTIGATIVE REPORT:
ADMINISTRATION OF NEW JERSEY'S
LOW INCOME HOME ENERGY
ASSISTANCE PROGRAM***

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I. INTRODUCTION AND EXECUTIVE SUMMARY

The Low Income Home Energy Assistance Program (LIHEAP) is a federally funded and state administered social welfare grant that provides assistance to low-income New Jersey residents to help meet their home heating needs. New Jersey's LIHEAP grant is administered through the Department of Community Affairs (DCA) which, in turn, relies upon local community and nonprofit agencies throughout the state to obtain, review and process LIHEAP applications (hereinafter "application agencies"). In the past two years, New Jersey received approximately \$250 million in federal LIHEAP funding.

The Office of the State Comptroller (OSC) received a complaint identifying concerns with the oversight and provision of LIHEAP benefits by the Puerto Rican Action Board (PRAB), a nonprofit agency located in Middlesex County that serves as a local LIHEAP application agency. Specifically, the complainant stated that PRAB employees were being instructed to cut corners in processing LIHEAP applications so that PRAB could meet a statewide performance-based quota set by DCA.

As a result of this complaint, OSC initiated an investigation and found areas of the LIHEAP program that are susceptible to fraud. In addition, specifically with regard to applications processed by PRAB, OSC found evidence of improper payment of benefits. Yet another area of concern related to the general administration of the LIHEAP program centered upon the fact that DCA required application agencies to meet performance quotas in 2014 and 2015. While DCA no longer includes a performance-based quota in its yearly contracts with application agencies, this change in terms was not adequately conveyed to PRAB.

OSC's investigation also exposed mismanagement and a lack of oversight by DCA, inefficiencies by PRAB, and instances of likely fraud by PRAB applicants. For example, OSC

found applicants who received benefits despite submitting what appear to be invalid Social Security numbers, a prerequisite to eligibility. Other applicants were found to have received benefits despite underreporting their income by more than \$10,000. And a large group of applicants received benefits despite failing to provide PRAB with adequate documentation verifying their residency, income or heating bill.

OSC's investigation uncovered instances of likely fraud, whereby PRAB applicants were receiving LIHEAP benefits as a direct result of falsifying applications. OSC identified five individuals, including three public employees, who provided materially false income information on their PRAB applications in order to receive benefits. OSC also found one applicant who is alive, but utilizing a Social Security number associated with a deceased individual.

DCA, the governing agency responsible for administering the program, does not appear to be providing sufficient training, guidance or support to the application agencies, including PRAB. For instance, our investigation revealed that DCA had not updated its Home Energy Assistance Handbook since 2005, despite known changes to the LIHEAP program. Further, DCA failed to implement recommendations suggested by the U.S. Government Accountability Office (GAO) in its 2010 LIHEAP fraud prevention audit, despite representations it would do so.

As a result of our findings, OSC is referring six individuals to the New Jersey Division of Criminal Justice for further review. OSC is also referring a number of individuals to DCA for review and consideration as to whether LIHEAP benefits were properly awarded. Through this report, OSC is also providing recommendations to help DCA, and other application agencies such as PRAB, reduce the future risk of fraud and improper payment of benefits.

II. BACKGROUND

Established in 1981, LIHEAP is a U.S. Department of Health and Human Services (HHS) program designed to assist low-income households meet their home energy needs. In fiscal year (FY) 2015, the program received over \$3 billion in federal funding. New Jersey is one of the top recipients of LIHEAP grants, receiving \$124 million in FY 2014 and \$126 million in FY 2015.

Eligible applicants can receive, generally on a first-come, first-served basis, up to \$2,000 to assist with heating and cooling bills and certain emergency energy needs on an annual basis.¹ To be LIHEAP eligible in New Jersey, the applicant must satisfy certain established criteria. First, the applicant's household cannot earn more than the following amounts:

Figure 1: Maximum Annual Gross Income Eligibility Level (FY 2015)

Household Size	Maximum Income Level
1	\$23,340
2	\$31,460
3	\$39,580
4	\$47,700
5	\$55,820
6	\$63,940
7	\$72,060
8	\$80,180

Second, the applicant's household must be financially responsible for home heating, with payments made either directly to the utility company or included in the rent. Third, the applicant must be a U.S. citizen or qualified alien and a resident of New Jersey, or applying on behalf of other eligible household members.

The income of all household members is considered in determining the benefit, and the benefit

¹ In light of the nature of the complaint, this report focuses generally on the award of heating benefits and, as such, cooling and emergency benefits are not specifically addressed.

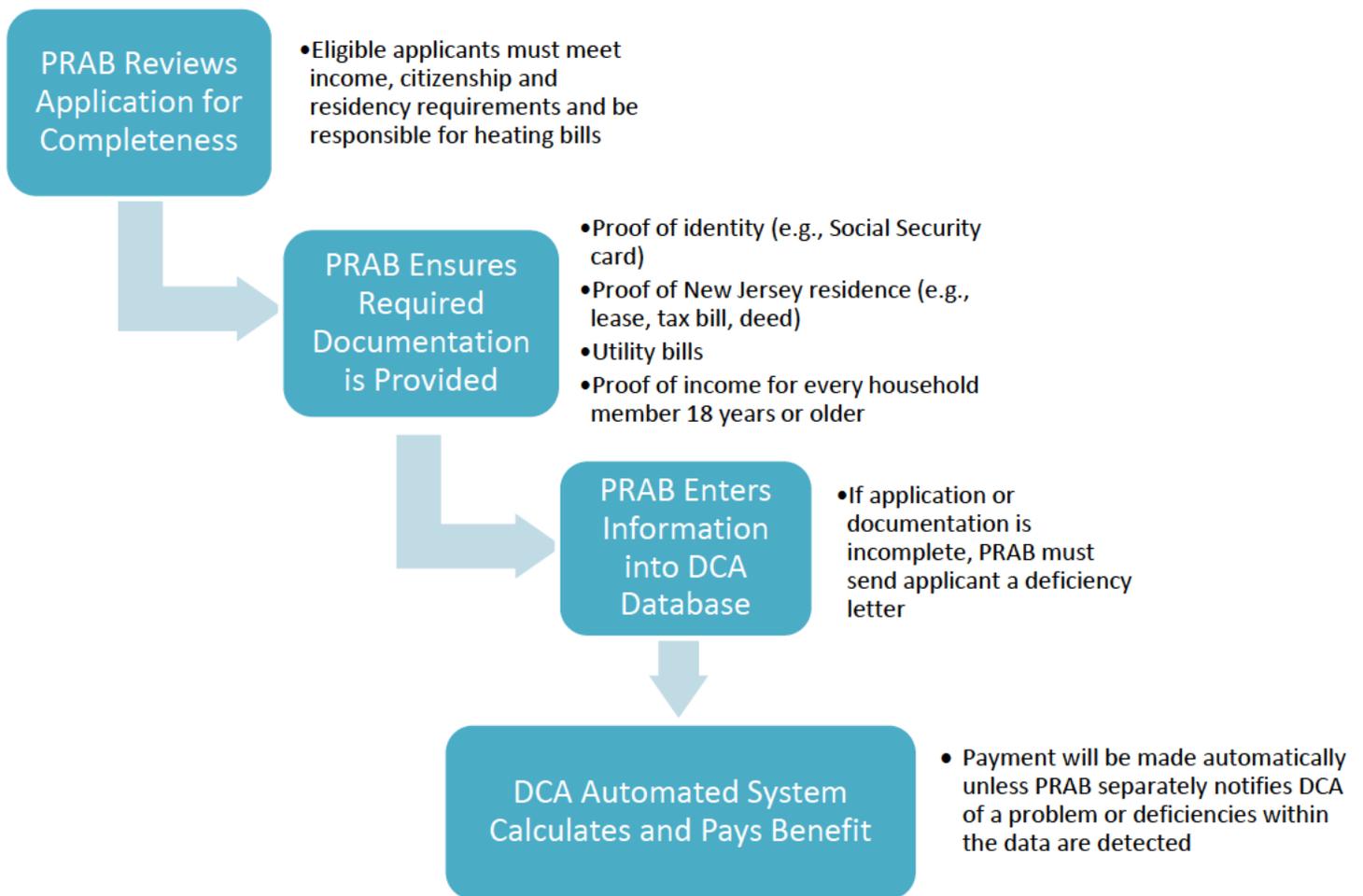
amount is adjusted on a sliding scale based on total household income and the number of eligible household members. Household size is based solely upon household members with legal citizenship or residency in New Jersey. For example, parents who are not U.S. citizens or qualified aliens may apply for a LIHEAP award for the benefit of their minor children who are U.S. citizens. The parents' income will be counted to determine income eligibility, however only the children will be counted to determine household size, and thus, determine the amount of the LIHEAP benefit.

New Jersey's LIHEAP program is administered through DCA's Office of Home Energy Assistance. This office employs a supervisor who oversees LIHEAP and other weatherization programs, a coordinator who assists with the administrative responsibilities of LIHEAP, and four clerical staff. DCA also employs a full-time LIHEAP Program Monitor who is responsible for conducting onsite inspections of the application agencies to ensure program compliance with DCA's rules and regulations. The Office of Home Energy Assistance also shares a two-person Income Integrity Unit with other DCA offices that administer income-based programs. DCA may use up to 10 percent of the LIHEAP funds it receives each year as compensation for its oversight and administration of the LIHEAP program.

Although DCA issues LIHEAP benefits, it relies upon a network of application agencies (largely nonprofits) in each county to process the hundreds of thousands of applications received each year. There are approximately 17 DCA selected agencies which operate as LIHEAP application agencies throughout the state's 21 counties. These agencies must adhere to LIHEAP application and income eligibility policies set forth by DCA in a manual titled "Home Energy Assistance Handbook." PRAB is a nonprofit corporation with headquarters located in New Brunswick and satellite offices located in Carteret and Perth Amboy. PRAB has served as an application agency for the LIHEAP program since 1996.

During the 2014 and 2015 heating seasons, PRAB processed 23,337 LIHEAP applications resulting in 15,252 approvals and approximately \$4.5 million in heating benefits paid. LIHEAP application agencies are compensated for costs associated with staffing and office supplies based upon the number of LIHEAP applications processed each year. For heating seasons 2014 and 2015, PRAB was compensated \$771,215 and \$585,600, respectively, for its administration of LIHEAP. Figure 2 outlines the general process application agencies like PRAB follow when handling LIHEAP applications:

Figure 2: The LIHEAP Application Process



In June 2010, the GAO issued an audit report concerning fraudulent and improper LIHEAP payment activity in selected states, including New Jersey. *See* GAO Report, June 2010, *Low Income Home Energy Assistance Program: Greater Fraud Prevention Controls Are Needed*. The GAO found, among other things, that New Jersey had improperly provided benefits to a federal employee whose salary exceeded the maximum income threshold and improperly provided benefits to a person using the identity of a deceased individual. Based upon these and other findings, the GAO issued a series of recommendations to which DCA responded and agreed to implement. DCA has not yet implemented these recommendations, which may have led to many of the deficiencies found during our investigation. Specifically, although representing it would do so, DCA has not yet

- Fully implemented a means to validate applicant and household member identification with the Social Security Administration (SSA);²
- To the extent feasible, conducted income verification reviews of applicants using appropriate available databases, at a minimum on a random or risk basis, to assure that households do not exceed income eligibility levels; or
- Developed a system to check Social Security numbers against death records maintained by SSA or New Jersey's Office of Vital Statistics and Registry (Office of Vital Statistics).

III. METHODOLOGY

OSC's investigation was initiated as a result of a complaint concerning the management of PRAB. The complainant alleged, among other things, that PRAB's management pressured employees to process households for LIHEAP benefits in order to meet DCA's then newly established performance-based quota.

² DCA recently told OSC that it expects to have access to the SSA database in October 2016.

OSC conducted several interviews of individuals including the Director of HHS's Division of Energy Assistance, DCA employees, and current and former PRAB employees and supervisors. OSC requested and reviewed records relating to DCA's contracts, grant agreements and audit reports.

OSC also engaged in a detailed file review of selected LIHEAP applications. In so doing, OSC first performed a Social Security number and death record verification check using our access to an SSA database for nearly 7,500 successful applicants whose files were processed by PRAB during the period October 2013 through November 2014 (heating seasons 2014 and part of 2015) by inputting the applicant's name, date of birth and provided Social Security number (if any).³ As a result of this verification check, OSC identified many files with potential Social Security number issues, including applicants reported as having died prior to the issuance of a benefit. OSC also conducted a review to determine whether any of the applicants were state or PRAB employees.

Out of this larger group of successful applicant files, OSC then selected certain files for closer review.⁴ For instance, OSC selected all of the PRAB employees who applied for and received LIHEAP benefits. OSC also judgmentally selected a sample of applicants who were state employees, had potential Social Security number issues or were reported as deceased. Finally, we selected 169 other applicant files from all remaining successful applicants for further review.

³ OSC only performed a Social Security number verification check for the applicants, and not members of the applicants' households.

⁴ OSC conducted this investigation by employing a judgmental sampling technique. In the context of this case, a judgmental sampling is an accepted method in which individual files were selected for testing or review from the larger group because those files met specific factors or criteria. Thus, unlike a random sample, the conclusions drawn from the analysis of a judgmental sample cannot be used to make broad, program-wide conclusions, but rather are intended, as here, to assess risk with respect to a specific group of program participants.

Ultimately, OSC conducted detailed reviews of 219 LIHEAP applicant files using various state and federal databases and other government records.

We provided a draft copy of this report to DCA, PRAB, HHS and some of the individuals referenced in this report for their review and comment. All of the responses we received were considered in preparing this final report and have been incorporated where appropriate. PRAB, in its response, stated that it is “committed to assisting in the proper distribution of the LIHEAP benefit to qualified candidates” and will explore whether it can develop protocols to ensure proper documentation and to reduce the potential for fraud. DCA, in its response, generally questioned OSC’s methodology for selecting the application files it reviewed, and whether OSC’s review accurately reflected the financial controls over the entire LIHEAP program. OSC notes that, although our judgmental sample was never intended to be representative of the entire LIHEAP program, our findings highlight potential program-wide weaknesses. In this regard, DCA stated that it “accept[ed] the spirit in which OSC’s conclusions and recommendations are presented” and “relishes the opportunity to improve, whenever possible.”

IV. INVESTIGATIVE FINDINGS

A. Application Agencies Were Not Adequately Notified of Removal of Performance Quota

In 2014 and 2015, DCA entered into agreements with selected application agencies that specifically stated the “overall performance goal is that at least 75 percent of applications processed must result in a benefit.” According to DCA, this newly instituted performance quota was included as a benchmark “to provide subrecipient agencies with specific targets for processing applications” to ensure benefits reached the largest population. To determine the effect that such a performance goal or quota would have on the LIHEAP program, OSC conducted interviews of a federal HHS Director, DCA and PRAB employees.

OSC interviewed the HHS Director of the Division of Energy Assistance, which administers the LIHEAP program nationally. This HHS Director, who was unaware of DCA's performance quota until informed by us during the course of our investigation, stated she would not have recommended inclusion of such language in DCA's agreements with the application agencies. Shortly after our interview, HHS directed DCA to stop requiring adherence to the performance goal.

Former and current PRAB employees interviewed by OSC stated that they were "overwhelmed" with the volume of applications they were expected to complete each day. At one point, and presumably to meet the quota, PRAB employees were told to process 50 applications per day. That number was later reduced to 30 applications per day.

In its response to the draft report, DCA pointed out that PRAB processed nearly the same number of applications in 2013, before the performance quota was instituted, as it processed in 2014 and 2015. OSC notes, however, that PRAB employees told us they turned away ineligible applicants in an effort to meet the performance quota so that rejected applications would not count against them. PRAB's attorneys, in response to the draft report, stated that while PRAB did not "instruct" staff to turn away those who were ineligible, "applicants who were clearly not eligible for the LIHEAP benefits were encouraged to apply for other utility assistance programs for which they might have been qualified."⁵

⁵ In its response to the draft report, DCA compares its use of a performance-based quota for the LIHEAP program to OSC's recommendation to use a "Milestone Payment System" in connection with its 2009 audit titled, *Department of Human Services Division of Developmental Disabilities – A Performance Audit of Oversight of Third-Party Contracts*. OSC's 2009 recommendation related to payments associated with service contracts for residential and non-residential programs for the developmentally disabled and has limited, if any, relevancy to the quota to approve 75 percent of all processed LIHEAP applications. In any event, OSC found that DCA's performance quota in this instance had a negative impact on the processing of LIHEAP applications and DCA has since ended the quota requirement at the direction of HHS.

Our investigation further revealed that several approved applicant files lacked the required documentation to verify Social Security numbers and household size. The “pressure” described by PRAB employees due to the performance quota may have contributed to PRAB’s approval of incomplete applications.

Although DCA no longer requires adherence to the 75 percent performance goal, DCA did not issue a formal notice or bulletin to the application agencies notifying them of the elimination of this requirement. Instead of affirmatively notifying PRAB of this change, DCA simply removed a sentence concerning the performance quota requirement when it renewed its contract with PRAB.⁶ OSC notes that the deletion of one sentence in a nearly 20-page contract may not be adequate notice, particularly since the contract was signed by a new Executive Director. Moreover, the new contract was not executed until August 2015, months after HHS told DCA to remove the provision.

B. GAO’s Recommendations Not Yet Implemented

1. DCA’s Failure to Obtain Access to an SSA Database Impacted Ability to Verify Program Requirements

The Social Security number is a recognized means of verifying an applicant’s legal standing in the United States, and can be used to confirm the identity of applicants and household members. As noted earlier, the GAO recommended in 2010 that DCA evaluate whether it could obtain access to a Social Security database to verify applicant and household member identities. In response, DCA agreed that access to an SSA database would “reduce the risk of fraud within this program,” and represented it would implement this recommendation once it could obtain access from SSA.

⁶ According to DCA, the requirement was also removed from its contracts with the other application agencies.

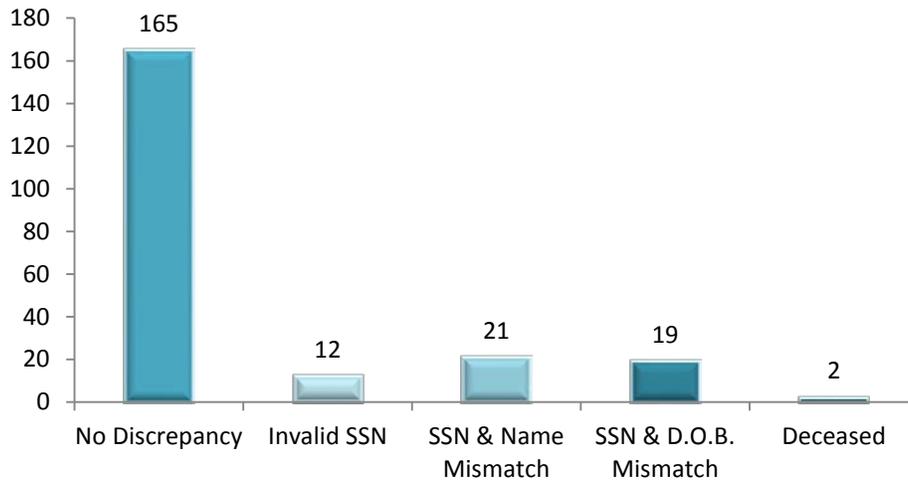
DCA and SSA did not execute an agreement to allow for the exchange of this information until 2013 and DCA has not fully implemented the agreement as of the writing of this report. When we asked DCA's Office of Home Energy Assistance officials about this, they explained that technical and security difficulties were responsible for the delay. In response to OSC's draft report, DCA detailed its efforts to obtain access to an SSA database and similarly stated that access could not be obtained until "SSA conduct[ed] an on-site inspection of DCA's physical and IT-related security protocols." That review was completed in September 2016 as this report was being finalized. While SSA has approved the relevant security protocols, DCA is still in the process of effectuating its access to SSA's database, which is expected in October 2016.

The failure to timely implement the information exchange system with SSA restricted DCA's ability to fully vet even the most basic eligibility requirement -- that applicants have a valid Social Security number. DCA's expected access to SSA's database will allow it to provide the requisite level of support to PRAB, and other application agencies, any time the authenticity of a Social Security number is in question.

As previously discussed, OSC performed a Social Security number verification check against an SSA database for nearly 7,500 LIHEAP benefit recipients processed by PRAB. The verification was completed in less than 24 hours and yielded various discrepancies including invalid Social Security numbers, mismatches between the applicant's name or date of birth and Social Security number, and Social Security numbers that the SSA database listed as belonging to deceased individuals.

The below chart reflects the results of the verification check for the 219 files that OSC ultimately selected for its detailed review:

Figure 3. Social Security Number Verification



OSC identified 12 applicants as having invalid Social Security numbers.⁷ Our follow-up investigation revealed that 5 of these 12 applicants used Social Security numbers that were never issued by SSA. Those files are being referred back to DCA for additional review to determine whether the provided Social Security numbers were recorded in error. In the event DCA determines that these or other applicants submitted fraudulent Social Security numbers, DCA should refer those individuals to the Division of Criminal Justice.

OSC identified six other applicant files as invalid because the provided Social Security numbers were not Social Security numbers but rather Individual Taxpayer Identification Numbers (ITINs). ITINs are not proof of citizenship or legal residency, are issued solely for tax purposes and, according to DCA, are not an acceptable form of identification for eligibility. Yet, our investigation of these files revealed that five of the six applicant households improperly received

⁷ One applicant file within this category appears to be the result of a typographical or data-input error.

LIHEAP benefits. For example, one applicant household consisted of two individuals, both of whom provided ITINs and were awarded benefits despite not providing Social Security numbers. Based upon DCA's stated policy of requiring Social Security numbers before issuing benefits, this household should not have received LIHEAP benefits. Instead, benefits were paid for a two-person household. OSC is referring these six files back to DCA for further review.

OSC found 19 files in which the applicant's date of birth and Social Security number did not match. While it appears that the majority of these discrepancies are the result of typographical or data-input errors, four application files contained discrepancies that were not as easy to explain and which require additional follow-up. For example, the dates of birth provided by two separate applicants do not closely resemble the applicants' actual month, day or year of birth, both with a discrepancy of approximately 25 years. Two other files contained similar discrepancies in that the applicants' actual date of birth did not resemble the month, day or year of birth provided by the applicants. These four files are being referred back to DCA for further review.

Of the 21 files found by OSC in which the applicant's Social Security number and name did not match, our review suggests that one may be improperly receiving benefits, perhaps as the result of fraud. Available records appear to link the Social Security number provided by this applicant with a person reported as deceased, as well as with 25 different individuals with various names, dates of birth and addresses throughout the U.S. We are referring this file to the Division of Criminal Justice for review. Our office was able to resolve 11 of the discrepancies with minimal investigation, and the remaining 9 files are being referred back to DCA for further review.

Two additional open files involve applicants that the SSA database listed as deceased. As will be discussed in more detail later in this report, our investigation revealed that benefits were paid directly to the utility company on behalf of one applicant eight months after her death. The

second applicant appears to be affiliated with two separate Social Security numbers, one of which is linked to a deceased person and one of which is invalid. The Office of Vital Statistics could not find a death certificate or date of death associated with this applicant, which could mean he died out of state. As will also be discussed later in the report, these benefit application files appear to lack any indication the applicants are deceased and are being referred back to DCA for further review.

DCA's access to the SSA database will allow for a fast and relatively easy initial verification of the information provided by each applicant. DCA's performance of that initial cross-check would determine which files require further scrutiny or additional information from the applicant.

2. DCA Should Consistently Use Available Databases to Conduct Income Verification Reviews

The GAO recommended that DCA evaluate the feasibility of using third-party sources in order to verify an applicant's income, at a minimum on a random or risk basis. Although DCA stated that it already utilizes data from the Department of Labor and Workforce Development (DOL) to verify income, our investigation of PRAB's files revealed that over a dozen applicants we selected for review were underreporting their household income by \$10,000 or more. In addition to more fully utilizing DOL to conduct income verification reviews, DCA should seek similar assistance from the New Jersey Division of Taxation (Taxation).

OSC was able to obtain income information for the 219 files that we reviewed through our access to DOL and Taxation's databases and quickly found applicants that underreported their income. For example, although one applicant reported some of her yearly income, she failed to report her salary from the state. As will be discussed in more detail later in this report, a simple income verification check revealed that this applicant earned approximately \$90,000 per year,

which is well over income eligibility levels and the \$31,000 salary she reported on her LIHEAP application. In all, there were 14 PRAB application files within our sample in which income was underreported by \$10,000 or more.

LIHEAP applicants claiming they have no income are required to complete and sign a “zero-income affidavit.” DCA’s stated policy is for it to verify all zero-income applications by running the applicant’s name and Social Security number through DOL. Our investigation revealed, however, that less than half of the zero-income applicants we reviewed were subject to such an income verification review.

OSC acknowledges that DCA’s ability to conduct income verification may be limited since it relies upon the application agencies to identify when zero-income applications are received. This issue is compounded because, as currently structured, DCA’s database does not have the ability to automatically flag zero-income applicants. A DCA official acknowledged that this was a shortcoming of the system during our investigation. DCA should implement additional measures to ensure that all zero-income affidavits are transmitted by the application agencies to DCA for its review.

OSC also notes that DCA’s access to an SSA database will enable DCA to conduct income verification reviews for those applicants who provide invalid Social Security numbers. For instance, in one of the zero-income application files reviewed by OSC, the applicant provided an invalid Social Security number and submitted a zero-income affidavit. No income verification review by DCA appeared to have occurred. We obtained this applicant’s correct Social Security number, conducted an income verification cross-check, and discovered the applicant had underreported their income by at least \$11,000. Although this applicant may have still been eligible for LIHEAP benefits, the benefit award would have been reduced. Because DCA does

not have access to an SSA database, DCA's ability to conduct income verification is inhibited as it is more difficult to conduct income verification without a valid Social Security number.

OSC's review revealed that DCA could more fully utilize DOL's database and should consider obtaining access to Taxation's records to conduct income verification reviews, particularly with regard to zero-income applicants. While such income verification reviews may not be possible for all applicants, DCA should evaluate whether its income verification review process is as effective as it can be and consistent with the GAO's recommendation to, at a minimum, conduct random or risk-based income verification reviews.

3. DCA Does Not Cross-Check its Applicants with Available Death Records

DCA's failure to cross-check applicants with the death records available through SSA or the Office of Vital Statistics, as recommended by the GAO, can lead to the inappropriate award of benefits. For instance, as mentioned, LIHEAP benefits were paid to one applicant *after* she had died. That applicant passed away in September of 2014. Heating and cooling benefits were paid directly to the applicant's utility company three and eight months, respectively, after her death. OSC's review found that, 15 months following her death, her file still had not been updated to reflect the fact she was deceased. Her file is being referred back to DCA for review. Based upon OSC's review of the files, it would appear that PRAB must rely upon an applicant's family (or other source) to inform the agency when a benefit recipient has died. A system-wide internal control, such as random or periodic cross-checks by DCA of available death records, could reduce the risk that benefits are improperly paid.

OSC notes that its initial SSA database cross-check reported 118 applicants died after the date of their application and, in 11 instances, heating benefits were paid after the date of death. In response, DCA advised OSC that issuance of a benefit after the applicant has died is not always

improper, particularly since there is often a delay between the application and the issuance of the benefit. While OSC does not render an opinion as to DCA's practice in this regard, OSC does note that our preliminary investigation of these files revealed that over 70 percent do not appear to reflect that the applicant is deceased, thereby creating a possible opportunity for fraud or waste to occur in subsequent heating seasons. In the files that note the applicant as deceased, it would appear PRAB was notified of the death by the applicant's family or utility company, and not by DCA. These files are being referred back to DCA for review. As stated, periodic cross-checks by DCA with the Office of Vital Statistics would minimize the opportunity for the improper payment of benefits.

4. Five Applicants Provided False Income Information

Included among the application files reviewed by OSC were five individuals, including three state employees, who received benefits as a result of providing inaccurate and false income information as part of their LIHEAP applications. SSA and income verification cross-checks may have prevented this improper issuance of benefits.

For example, one state employee, who is employed with the New Jersey Judiciary in a county court and who has been an employee of the state for over 22 years, failed to disclose her state employment on her 2014 LIHEAP application. In 2014, this state employee earned more than \$90,000 in total income from her state employment and secondary job. She left blank the section of the LIHEAP application where she was to identify her income, and provided pay statements for only her secondary job where she earned over \$31,000 in 2014. This state employee did not disclose her state employment where she earns nearly \$60,000 per year. In doing so, she underreported her annual income by approximately \$60,000 and was awarded LIHEAP benefits

despite being more than \$50,000 over the maximum yearly income eligibility limit based upon her household size of three.

Another state employee, who is also employed with the Judiciary in the same county court, did not disclose her state employment. On her LIHEAP application for heating season 2014, this state employee provided pay stubs from her secondary employment only. According to DCA's database, she was earning an annual income of approximately \$6,000 when in fact she earned a combined income of more than \$57,000 in 2014. If she had reported her state income, this employee would not have received benefits because she exceeded the eligibility limit by more than \$25,000 based upon her household size of two.

A third state employee who has been working for DCA for over a decade received LIHEAP benefits for heating seasons 2006, 2007, 2010 and 2014. On her LIHEAP application for heating season 2014, this DCA employee failed to disclose her state employment, instead only reporting income that she earned from secondary employment. She reported her annual earnings as approximately \$6,000 when in fact she was actually earning approximately \$40,000 per year from her state employment. When combined with her secondary employment, she earned approximately \$49,000 in 2014. Had she reported her state employment, she would not have received LIHEAP benefits because she exceeded the maximum income by almost \$18,000 for a household size of two.

In another example of potentially fraudulent conduct, a LIHEAP applicant identified his 2014 household income as approximately \$35,000. OSC's investigation discovered that the applicant household's combined income exceeded \$80,000 (far above LIHEAP's income eligibility requirements) for two years in which LIHEAP benefits were paid.

Another applicant who received benefits for heating season 2014 had reported yearly income of \$21,060 for him and zero income for his wife. Our review of the applicant's 2013 New Jersey tax filings, however, revealed that he and his wife filed jointly with reported income of \$64,530, which would have exceeded LIHEAP's income eligibility limit by more than \$9,000 based upon his household size of five.

C. DCA's Oversight and Management is Deficient

1. DCA Provides Inadequate Training and Outdated Materials

Current and former PRAB employees expressed to us a common concern regarding the lack of clear and concise guidance from DCA with regard to governing policies and procedures for overseeing the LIHEAP program. DCA's Home Energy Assistance Handbook, which contains LIHEAP's governing policies and eligibility requirements, was outdated. For example, it did not address policies related to LIHEAP's Recertification program, an important program which enables individuals who received LIHEAP benefits in the year prior to reapply without resubmitting the entire lengthy application. PRAB, in its response to the draft report, agreed that an updated Handbook "would be a valuable asset to ensure proper administration of the LIHEAP program by PRAB."⁸

The PRAB employees that OSC spoke with complained about the guidance they received from DCA. When we asked whether DCA provided assistance or training regarding LIHEAP's application procedure, one PRAB employee described frequently receiving conflicting interpretations of the program's policies from DCA. This same employee described an instance

⁸ OSC notes that, following the conclusion of its investigation and issuance of the discussion draft, DCA updated its Home Energy Assistance Handbook. The updated Handbook is available on DCA's website.

in which three different DCA representatives quoted three different policies in response to the same question about the program.

OSC's investigation also revealed an absence of adequate fraud training by DCA to the application agencies. OSC's review of DCA's training program and Home Energy Handbook revealed that basic fraud prevention tips are not being addressed, despite a 2010 recommendation from HHS that fraud training be provided to application agencies.

Further, OSC's investigation discovered that DCA does not effectively communicate important updates or changes to the LIHEAP program. DCA provided OSC with copies of all LIHEAP bulletins and alerts it has published. Based upon OSC's review, it appears that DCA only issued 12 bulletins or memoranda spanning a period of over 10 years. During one interview, a PRAB director was asked if DCA had provided an update concerning a recent clarification in HHS's policy toward "qualified aliens" applying for LIHEAP benefits that was documented in a 2014 Information Memorandum issued by HHS. This director responded negatively, adding that updates are rarely provided by DCA. DCA could not confirm whether or not it had provided application agencies with formal guidance on this issue.

DCA's failure to provide meaningful training, program updates and HHS bulletins to PRAB renders it nearly impossible for PRAB to adequately train (particularly with regard to fraud detection) and to supervise LIHEAP application processors. OSC's file review did reveal instances where missing or questionable information was not scrutinized by the application processors. For example, we found one application file where LIHEAP benefits were paid for several years despite the fact the applicant had credits up to \$2,200 on his heating bills. The file lacked documentation to suggest that any effort was made by the application processor to ascertain why this household had substantial utility credits on its utility bills for the same years LIHEAP

benefits were issued. In total, we found 113 instances where the application file did not contain adequate documentation of the applicant's residency, income or utility payments.

In response to OSC's draft report, DCA strongly disputed these findings, citing to its internal controls, "robust LIHEAP training" and a "zero-tolerance policy concerning the commission or concealment of acts of fraud, waste and abuse." The results of this investigation, however, support the conclusion that more can, and should, be done to make sure that application agencies are well informed enough to protect taxpayer funds. In particular, OSC recommends that DCA's system of training should be revised to specifically address fraud deterrence and prevention. DCA's internal controls should also be updated to avoid the abuse and waste uncovered by OSC's investigation.

2. DCA's LIHEAP Program Monitor Lacks Authority

DCA's Program Monitor told OSC his responsibilities included providing technical advice, training and support to the application agencies. The Program Monitor also stated that he conducted onsite inspections of the application agencies for random file reviews. The Program Monitor told OSC that it was his practice to send an email to the application agency supervisor or manager upon the conclusion of a site inspection, detailing any areas of concern along with a Corrective Action Plan. Although the application agency is required to submit a response, the Program Monitor stated that little is done to ensure corrections are actually made and implemented by an application agency. This Program Monitor confirmed that there is no formal protocol or policy for returning to the application agencies for follow-up to determine if the suggested corrections were made.

Moreover, although training was considered part of his job responsibilities, this Program Monitor did not provide the application agencies with any training on how to detect fraud. While

he claimed that “income verification” was his biggest concern regarding the program, the Program Monitor acknowledged that the application agencies were not provided any training on how to detect counterfeit or fraudulent Social Security cards or numbers. When given a specific example of whether an application intake person was trained to flag an obviously invalid Social Security number such as “123-45-6789,” the Monitor stated he was not aware of any mechanism to flag an obviously false number. The Monitor further stated that although a former DCA policy required application agencies to send applicants home to retrieve missing documentation, the agencies are now instructed to enter the data provided by the applicants and then rely upon the computer to process the applications. The Program Monitor also disclosed during his interview that, in the course of an onsite inspection, he does not conduct staff interviews as part of his review process because of restrictions imposed by DCA, restrictions that are designed to avoid any interference with the agencies’ day-to-day operations.

V. CONCLUSION AND RECOMMENDATIONS

OSC’s investigation revealed that New Jersey’s LIHEAP program is susceptible to fraud and that benefits have been improperly paid. Many of the deficiencies that OSC discovered may have been the result of DCA’s statewide performance-based quota, lack of oversight and failure to fully implement the recommendations from a 2010 GAO audit. Based on OSC’s findings we are providing recommendations to DCA to address the noted deficiencies and reduce the risk of fraud. We are also referring certain individuals to the Division of Criminal Justice and others to DCA for further review. OSC’s specific recommendations and referrals include the following:

1. OSC recommends that DCA formally notify all application agencies that the 75 percent performance-based quota has been discontinued.

2. OSC recommends that DCA finalize its implementation of an exchange program with SSA, and maintain compliance with any SSA business process or infrastructure requirements.

3. OSC recommends that DCA more fully utilize its information exchange agreement with DOL and obtain assistance from Taxation to conduct income verification reviews, particularly with respect to applicants who submit zero-income affidavits. DCA should conduct such other income verification reviews in a manner consistent with the GAO's recommendation.

4. OSC recommends that DCA implement a measure to ensure all zero-income affidavits are reviewed and approved by DCA before benefits are issued, in accordance with its policy.

5. OSC recommends that DCA implement a measure that prohibits an Individual Taxpayer Identification Number from being accepted as a valid Social Security number.

6. OSC recommends that DCA conduct cross-checks with the Office of Vital Statistics to ensure benefits are not improperly paid to deceased applicants.

7. OSC recommends that DCA provide copies of its updated Home Energy Assistance Handbook to each agency responsible for accepting and processing LIHEAP applications, with a directive to the application agencies that each LIHEAP employee, supervisor, manager and director read and comply with all governing policies and procedures.

8. OSC recommends that DCA continue holding quarterly training sessions and mandate the attendance of application agency supervisors. DCA should record and retain attendance lists. Such training should include a fraud detection training program.

9. OSC recommends that DCA permit the LIHEAP Program Monitor direct access to application agency employees during the course of the Monitor's routine inspections and to allow

interviews, when necessary. Moreover, DCA should develop a clear protocol to ensure adequate follow-up by the Monitor with application agencies.

VI. REFERRALS

1. OSC is referring the names of six individuals to the Division of Criminal Justice for its review. We will also take steps to ensure that the relevant state agencies are informed as to the referrals of the three state employees.

2. OSC is referring the names of 34 individuals to DCA for further consideration whether LIHEAP benefits were properly awarded and whether further referrals are necessary.

3. OSC is also referring the names of 116 individuals to DCA who were reported as deceased by the SSA so that DCA can take appropriate steps to ensure benefits are not paid and the files are closed.