



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of Community Affairs  
American Recovery and Reinvestment Act  
Weatherization Assistance Program  
Eligibility**

April 1, 2009 to December 4, 2009

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**Stephen M. Eells  
State Auditor**

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## New Jersey State Legislature

### OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR  
125 SOUTH WARREN STREET  
PO BOX 067  
TRENTON NJ 08625-0067

---

ALBERT PORRONI  
*Executive Director*  
(609) 292-4625

OFFICE OF THE STATE AUDITOR  
(609) 292-3700  
FAX (609) 633-0834

STEPHEN M. EELLS  
*State Auditor*

THOMAS R. MESEROLL  
*Assistant State Auditor*

The Honorable Chris Christie  
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Enclosed is our report on the audit of the Department of Community Affairs, American Recovery and Reinvestment Act, Weatherization Assistance Program Eligibility for the period of April 1, 2009 to December 4, 2009. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
March 26, 2010

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**Department of Community Affairs  
American Recovery and Reinvestment Act  
Weatherization Assistance Program  
Eligibility**

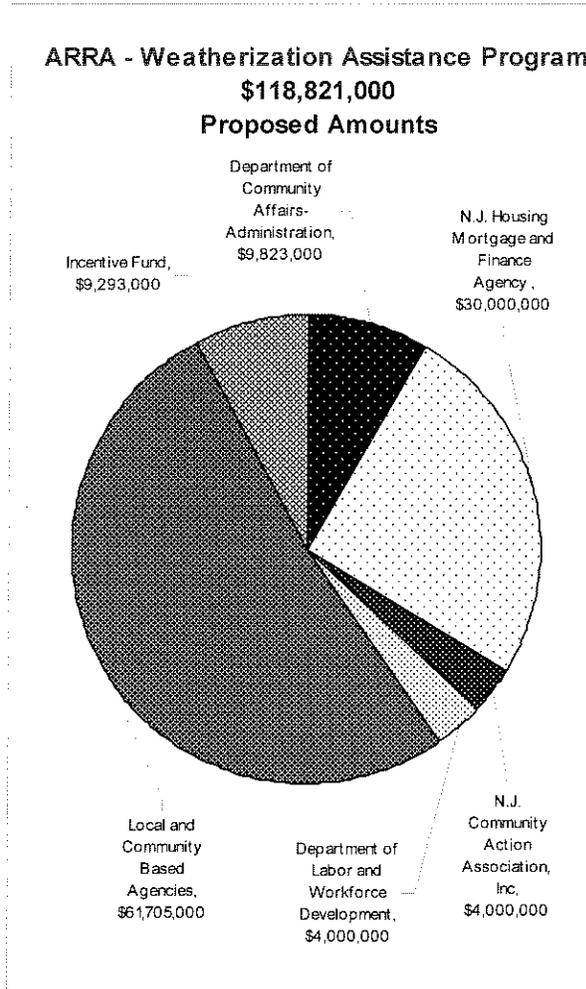
***Scope***

We have completed an audit of the American Recovery and Reinvestment Act (ARRA) – Weatherization Assistance Program administered by the Department of Community Affairs. Our audit focused on the eligibility process at the local and community-based agencies for the period April 1, 2009 to December 4, 2009. Currently, \$62 million of the total grant funds of \$119 million is allocated to this component. Several audit reports will be issued on selected topics relating to the ARRA - Weatherization Assistance Program.

***Background***

The ARRA Weatherization Assistance Program is proposed to run from April 1, 2009 to March 31, 2012. The Department of Community Affairs (department), Division of Housing and Community Resources oversees the program. This program has existed for many years, but the grants have been relatively modest, ranging from \$5 million in 2004 to \$8 million in 2009.

The program was substantially expanded this year by increasing both the eligible income level and the amount of maximum assistance. Based on a federal formula, New Jersey received an ARRA allocation of \$118.82 million for program distribution and administration from the United States Department of Energy. See the chart below for the proposed distribution of these funds as of December 4, 2009.



Residents can qualify for assistance whether they own or rent their home and live in a single-family home, multi-family housing complex, or a mobile home. If any member of a household receives Supplemental Security Income or Temporary Assistance for Needy Families, the household is automatically eligible. Residents are also eligible if their total household income is at or below 200 percent of the federal poverty level. Eligibility levels are determined via formula using the gross household income and the number of household members as indicated in the following schedule.

<u>Family Size</u>	<u>2009 Eligibility level</u>
1	\$21,660
2	\$29,140
3	\$36,620
4	\$44,100
5	\$51,580
6	\$59,060
7	\$66,540
8	\$74,020

Each additional household member would increase the eligibility level by \$7,480.

The American Recovery and Reinvestment Act increases the maximum assistance level per housing unit from \$2,500 to \$6,500.

The department provides grants to community action agencies or other public or non-profit entities (hereinafter referred to as weatherization agencies) to administer the program at the local level. These agencies are charged with determining the eligibility of applicants by obtaining completed applications for weatherization services from households, via mail or at the applicant's home or at the agency's offices. The weatherization agencies input the information from the applications into the Hancock Energy Software Weatherization Assistance Program system which determines program eligibility. The department monitors the agencies' compliance with applicable program regulations and guidelines. Weatherization agencies are initially provided with an advance of funds and are required to submit financial status reports on the expenditure of those funds. The department can withhold payments if it has determined that ineligible households have received weatherization services.

***Objectives***

The objective of our audit was to determine whether adequate controls were in place to determine the eligibility of recipients scheduled to receive weatherization assistance.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied the American Recovery and Reinvestment Act - Weatherization Assistance Program guidelines, policies of the department, and weatherization bulletins; and we reviewed hard copy and electronic applications, and memoranda of understanding and contracts with other agencies for the weatherization program. We also interviewed department personnel to obtain an understanding of the program eligibility process. In addition, we obtained training on the Hancock Energy Software Weatherization Assistance Program (HESWAP) system from department and Hancock Energy Software staff. We also interviewed personnel from two community action agencies and one county to obtain an understanding of the application process for weatherization recipients.

A nonstatistical sampling approach was used. Our sample of weatherization applications from one community action agency was designed to provide a conclusion about recipient eligibility. This was done through a comparison with various state records. A second sample compared data available in the HESWAP system, which included all weatherization agencies, to various state records.

*Conclusions*

We found that the controls to determine ARRA - Weatherization Assistance Program eligibility are not adequate. We could not determine the eligibility of the sample households receiving weatherization assistance because of the lack of supporting documentation for income and number of household members and the lack of social security numbers maintained by the weatherization agencies. Fourteen percent of the individuals entered on the HESWAP system did not have social security numbers. In addition, there are HESWAP system control issues that need to be improved. Action should be taken immediately by the Department of Community Affairs to address these concerns to ensure that only eligible applicants receive benefits.

## Eligibility

**Eligibility requirements need to be clarified and supporting documentation requirements need to be strengthened.**

The U.S. Department of Energy establishes national guidelines for eligibility regarding the Weatherization Assistance Program. It is the responsibility of the Department of Community Affairs (department) to make rules and set standards for eligibility at the state level and to provide direction to the weatherization agencies regarding the operation of the program. This is done through the issuance of department weatherization bulletins which define income and describe the required documentation to be obtained and maintained by the weatherization agencies in the applicants' files.

The lack of clear and consistent guidance from the federal government has made it difficult for the Department of Community Affairs to provide proper guidance to its subgrantees for determining applicant eligibility. Eligibility for the program is based on total household income which must not exceed 200 percent of the poverty level as adjusted for the number of household members. The components of income are clearly defined by the federal regulations, but they do not make clear how annual income should be determined. The U.S. Department of Energy website states that an applicant for weatherization assistance must have proof of income for the year prior to application. However, the U.S. Department of Energy issued Weatherization Program Notice 09-5 on February 18, 2009 which states that income for a part of a year may be annualized. Their example suggests multiplying by four the amount of income received during the most recent three months.

This inconsistency is reflected in the state's guidelines. The DCA weatherization bulletin which defines income (issued in February 2003) states that income for part of a year may be annualized in order to determine eligibility. The bulletin which lists acceptable income

documentation (issued in December 1998) includes income tax returns and W-2 forms, which would show prior year's income.

### *Income Verification*

### **Income documentation requirements should be clarified.**

Because of inconsistent guidance from the department, the process used to determine income eligibility can result in ineligible applicants receiving program services. Various weatherization agencies examined did not collect information for household income for a period longer than 30 days in determining an applicant's income eligibility. The period selected should provide reasonable assurance that the weatherization agency is not providing services to applicants whose household income levels exceed the income eligibility threshold. We identified 12 instances where applicants with household income over \$100,000 in 2008 were approved because they did not provide information about their annual income. Several examples are provided below.

- One individual who works for a school district applied during the summer when her income was reduced. As a result, she was considered eligible when in fact her annual income is over \$100,000.
- One individual retired in March 2009 and failed to report her earnings of \$35,000 for the first two quarters of the year and her annual \$58,000 pension. Her eligibility was calculated on her monthly social security payments of \$792 and her son's biweekly unemployment compensation income of \$810.
- One individual works for a municipality full time with a second job at the board of education. He reported earnings from rental income but did not report the \$108,000 in wages from his two jobs.

- An individual earned over \$36,000 for the first two quarters in 2009. He was laid off from his job on April 23, 2009 and received \$7,364 in unemployment benefits. He applied on April 28, 2009 and his eligibility was calculated on his reported monthly unemployment income of \$1,265 and his spouse's social security income of \$854. His residence was weatherized on July 1, 2009 for \$1,400. Subsequently, he returned to work on August 5, 2009 and earned over \$35,000 during the remainder of the year.

Our comparison of the HESWAP database to state income tax records revealed that 34 individuals who were deemed eligible made over \$100,000 in 2008. The department has a cooperative agreement with the New Jersey Department of Labor and Workforce Development to obtain income information about applicants and participants of various DCA programs; it does not currently apply to the weatherization program. Through this agreement, the department can electronically access information about an individual's wage and unemployment benefits directly by the use of social security numbers.

### *Social Security Numbers*

**Social security numbers should be required.**

The department does not require that applicants provide social security numbers for themselves and other household members. Without social security numbers, income eligibility can not be verified by comparing applicant information to the Department of Labor and Workforce Development and state income tax records. Our review of the HESWAP database revealed that 2,033 eligible applicants and household members did not provide social security numbers. In addition, there were several instances where social security numbers were inaccurate; including the use of a social security number of deceased individuals, the use of unissued social

security numbers, and instances where the social security numbers for household members were consecutive numbers or one number different, which is highly unlikely.

### *Household Definition*

**H**ousehold member needs to be properly defined.

What constitutes a household member is not clearly defined in the program regulations. In addition, the number of household members reported on the application is not sufficiently documented or verified. This is important because an increase in the number of household members increases the eligibility income level. We noted several applications where the inclusion of some household members appeared questionable.

- One applicant included her daughter as a household member. Her daughter also applied for weatherization assistance but at a different address.
- An applicant listed a child with a social security number that was used for another applicant's child.
- A 39 year old applicant reported a 32 year old student living out of state (Massachusetts) as a household member.

### *Recommendation*

We recommend that the department expeditiously update the weatherization bulletins to address the determination of annual income on a consistent basis and to require the inclusion of social security numbers for applicants and all household members. This would provide the information the department would need to include the weatherization assistance program in the cooperative agreement with the Department of Labor and Workforce Development to verify annual income and minimize the potential for fraud and program abuse. In addition, the department should seek guidance from the U.S.

Department of Energy in defining what constitutes a household member and what, if any, documentation should be required.



## HESWAP System

**Proper system controls should be established to comply with program requirements.**

Through a grant from the Department of Community Affairs (department), New Jersey Community Action Association, Inc. (NJCAA) has contracted with Hancock Energy Software for an internet-based program. NJCAA is the liaison between the state and all of the community action agencies. The program is known as Hancock Energy Software Weatherization Assistance Program (HESWAP) and is used by the weatherization agencies in determining eligibility, monitoring the progress of the applications, and tracking expenditures.

Our review of the system revealed that there is a lack of necessary edits which has allowed ineligible applicants to be placed on the weatherization list. The system is designed to disapprove applicants who have a household income of more than 200 percent of the federal poverty level; however, the system is not accomplishing this. Other critical controls that have not been implemented are social security number edits which would require that a social security number be provided and would disallow the use of a duplicate social security number, an address edit which would stop the processing of an application if a duplicate address is detected, and a duplicate name edit which would also stop an application. Because these edits did not exist, we found the following problems in the October 22, 2009 HESWAP database relating to eligible applicants and household members.

- There are 2,033 blank social security numbers out of 14,634 individuals.

- There are 12 duplicate social security numbers for individuals identified on different applications.
- Eighty-one addresses have more than one application associated with them.

We noted the following additional control weaknesses in the HESWAP system.

- Automatic approvals for Supplemental Security Income and Temporary Assistance for Needy Families are not linked between the various input screens, which allows conflicting information to be entered on these screens. As an example, the income screen shows a client receiving normal monthly social security income; however, the client information screen, which is used to prioritize clients, shows that the client is categorically eligible due to supplemental security income (SSI).
- The system should mirror the hard copy documents provided by the applicant. The applicant is required to show pay stubs for calculation of income. These stubs show employer information but that information is not transferred to the system records.
- The system should test the validity of social security numbers. We identified 380 questionable social security numbers. These included numbers for 168 deceased individuals, 88 that are invalid due to the number sequencing (for example, those starting with 000 or 9), and 124 numbers that have never been assigned.

- Data from training sessions has remained in the system and is included in the number of applicants.
- The system vendor has access to live data and the ability to manipulate this data.

The lack of these controls weakens the reliability of the database and may allow ineligible clients to be prioritized on the waiting list and receive unwarranted weatherization services.

***Recommendations***

The department should work with NJCAA to address the needed edits to the HESWAP system to ensure that the proper controls are established and to ensure that the system contains all application information. In addition, training data should be removed from the system and the vendor should not have access to live data nor the ability to manipulate this data.

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**State of New Jersey**  
DEPARTMENT OF COMMUNITY AFFAIRS  
101 SOUTH BROAD STREET  
PO BOX 800  
TRENTON, NJ 08625-0800

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

LORI GRIFA  
*Acting Commissioner*

Stephen M. Eells, State Auditor  
Office of the State Auditor  
Office of Legislative Services  
125 S. Warren Street  
Trenton, New Jersey 08625-0067

March 25, 2010

Dear Mr. Eells,

Thank you for the opportunity to respond to your audit report that examined program eligibility under the Department of Community Affairs' administration of the American Recovery and Reinvestment Act (ARRA) Weatherization Assistance Program (WAP). We concur with the recommendations presented in this report and would like to note that several have already been implemented and more are in progress.

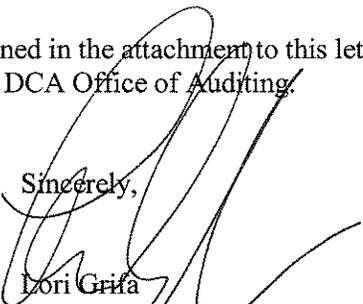
More than 13,000 units will be weatherized throughout New Jersey over a three-year period as a result of the ARRA funds. In order to reach that number, the Department needed to increase the capacity of the program's 21 Weatherization Agencies. That focus has recently shifted to unit production. The Department will introduce the controls outlined in this response as production begins to increase substantially.

The Department's Division of Housing and Community Resources (DHCR) oversees the weatherization agencies that administer the program locally. Technical assistance and training are provided so that the agencies are equipped to operate the program. The Department also monitors the agencies' progress.

As a result of the OLS review, the Department will modify how it oversees the administration of the program at the local level. Historically, reimbursement of any costs incurred that did not conform to the applicable rules and regulations were denied. Any costs associated with the weatherization of an ineligible unit, would then be borne by the local agency. Based on the OLS recommendations, we will now require social security numbers, update and clarify Department policies, and verify applicant wages with the NJ Department of Labor and Workforce Development.

A detailed response to the audit report is contained in the attachment to this letter. If you have any questions, please contact Brian Phillips, Director of the DCA Office of Auditing.

Sincerely,

  
Lori Grifa  
Acting Commissioner



## Eligibility

### (Income Verification, Social Security Numbers, & Household Definition)

#### **OLS Recommendation**

*We recommend that the department expeditiously update the weatherization bulletins to address the determination of annual income on a consistent basis and to require the inclusion of social security numbers for applicants and all household members. This would provide the information the department would need to include the Weatherization Assistance Program in the cooperative agreement with the Department of Labor and Workforce Development to verify annual income and minimize the potential for fraud and program abuse. In addition, the department should seek guidance from the U.S. Department of Energy in defining what constitutes a household member and what, if any, documentation should be required.*

#### **Response**

##### Income Verification

The Department is reviewing and updating ALL WAP policy bulletins. Once completed, the bulletins will be disseminated to all agencies and will be posted on the Department's website. Those policies which address issues related to determination of eligibility of a household will be prioritized, and will be posted online by June 1, 2010.

Program staff meets periodically with the managers of Weatherization Agencies to review the status of the program and to provide updated information and direction. On March 18, 2010, the Division's Director, and the Administrator of Community Service Programs Element (the unit in which WAP operates), addressed the agencies. In addition to other issues, it was clarified that a minimum of three months worth of income documentation must be collected in order to determine the household eligibility.

The Department has also undertaken significant staffing changes, including naming an experienced manager in the Division as the Administrator of Community Service Programs Element who will assist and oversee the administration of WAP. Additionally, an Income Integrity Unit (IIU) has been created to implement many of the steps outlined in this response, as well as additional review of records in order to verify compliance, and to pro-actively prevent fraud and abuse. Specifically, the IIU will be responsible for performing wage verifications through the resources at the NJ Department of Labor and Workforce Development (DLWD), performing verification of eligibility of files that have been determined to be at risk, and performing periodic reviews of Hancock Energy Systems Weatherization Assistance Program (HESWAP) records. These measures will provide assurances that Weatherization Agencies are providing services to eligible households only.

In preparing this report, OLS had access to databases maintained by the various State agencies and Departments. Many of these resources are not legally accessible to our contracted agencies, nor are many of them available to the Department. In light of these limitations, the Department will require Weatherization Agencies to collect social security numbers; those records without social security numbers will be referred to the IIU. The IIU is in the process of obtaining access to various databases (per the recommendation of OLS) and will verify the income of these specific cases. The Department has requested an expansion of the existing agreement with the DLWD to permit the use of their wage reporting database to verify income.

## **Social Security Numbers**

Agency managers were informed of the requirement that all applicants provide social security numbers on March 18, 2010. Though the collection of social security numbers is not required under US Department of Energy regulations, over 75% of the existing records include social security numbers. In order to adequately address potential fraud and abuse, the Department will go beyond the requirements of the federal regulations by requiring the collection of social security numbers in order to strengthen the controls on income qualification. (NB: Specific issues with invalid social security numbers identified in the audit are addressed below under HESWAP System).

## **Household Definition**

The federal regulations have a broad definition of a household: "Family Unit means all persons living together in a dwelling unit" (10 C.F.R. 440.3) With this definition it is difficult to place tight parameters on what constitutes a household while remaining consistent with the intent of the federal regulations. With that said, the Department is clarifying the definition of a household, and what proof is necessary to include a person as a member of the household. Guidance recently received by OLS from the federal government, and shared with the Department, will be used in clarifying these requirements at the state level. By requiring applicants to provide social security numbers and placing duplicate record checks in HESWAP, the Department will reduce the risk of an individual being improperly included in more than one household.

## **HESWAP System**

### **OLS Recommendation**

*The department should work with NJCAA to address the needed edits to the HESWAP system to ensure that the proper controls are established and to ensure that the system contains all application information. In addition, training data should be removed from the system and the vendor should not have access to live data nor the ability to manipulate this data.*

### **Response**

Use of the HESWAP system was fully implemented in 2009 in an effort to improve the ability of the agencies to accurately and efficiently report information to the Department. The Department has worked closely with the New Jersey Community Action Association (the umbrella organization that assists the Weatherization Agencies) and Hancock Energy Systems (HES) to identify and address issues that arose during implementation. A working group which consists of representatives of each of the three above entities continues to meet on a weekly basis to review issues and the status of modifications. Various issues raised by OLS have been implemented or are in the process of being fulfilled.

HESWAP is being modified to make "Social security number" a required field, and placing edit checks in HESWAP for duplicate social security numbers and facially invalid social security numbers.

By April 30, 2010 an updated policy bulletin will be issued directing the agencies to include employer information in HESWAP. The system will also be modified so "employer information" is a required field. In order to expedite implementation of this and other controls, the Department is prioritizing programming changes. In the meantime, the Department will rely on the oversight by state monitors and the IIU.

The Weatherization Agencies will be provided guidance on how to identify facially invalid social security numbers. On March 18, 2010, the agency managers were provided with a list of client names and numbers which have invalid social security numbers, and directed to take remedial action. Furthermore, the managers were informed that pending proof that appropriate remedial action was taken, no costs associated with that client would be reimbursed. Invalid social security numbers include those associated with a deceased person, those that were facially invalid as they started with numbers that had never been issued, or had too few digits.

The Department is also addressing IRS issued Individual Tax Identification Numbers (ITIN) to individuals who are not eligible to obtain a Social Security Number, which may have been used in lieu of social security numbers. An ITIN is a nine digit number which begins with the number "9." The Department's review of the records provided by OLS indicates that a majority of the 88 invalid social security numbers identified by OLS due to sequencing begin with "9." We have sent follow-up direction to all agencies instructing that where an ITIN was used in lieu of a SSN, the Agency must provide the Department a copy of the documentation which verifies the ITIN.

The Department has deleted all data in the live system which OLS identified as training or test data. Agencies have been directed not to create fictitious names in the live system or use it as a training or test environment. Additionally, a separate training system is being developed.

HESWAP has been updated to provide different levels of user access, including "System Administrator" and "HESWAP System Reviewer." Access by HES is now limited to that of "HESWAP System Reviewer." This access is "read only" and they no longer have access to manipulate live data. The "System Administrator" user type is limited to two individuals within the Department; this is the only user type that has complete write access.