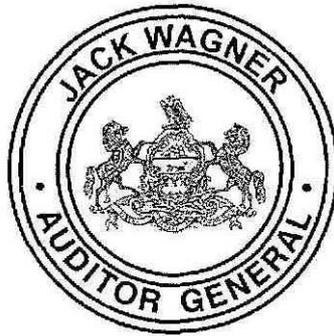


TESTIMONY ON HOUSE BILL 1991

HOUSE HEALTH COMMITTEE



**Auditor General Jack Wagner
March 15, 2012**

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Department of the Auditor General
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Good afternoon, Chairman Baker, Chairman Myers, and members of the Health Committee.

Thank you for the opportunity to discuss House Bill 1991, which would require the Department of the Auditor General to conduct audits of the Low-Income Home Energy Assistance Program and the state's Weatherization Assistance Program within one year of the enactment of the law and once every five years thereafter. Both programs are funded by the Federal tax dollars with operation and oversight of state government.

As Pennsylvania's independent fiscal watchdog, the Department of the Auditor General is responsible for making sure that the tax dollars of hard-working Pennsylvanians are spent efficiently, effectively and for rheir intended purpose. The department audits government agencies and programs at the state and local level that receive state funds, and federal funds that are passed through state government.

The Department of the Auditor General issues thousands of audits each year, many of them mandated by state law. We audit the state's 500 school district5 and 165 charter and cyber-charter schools, as well as the commonwealth's 650 liquor stores, 24 state correctional facilities, 14 universities under the State System of Higher Education, and thousands of municipal liquid fuel and pension funds, volunteer firefighter relief associations, local government offices such as magisterial district judges that collect funds on behalf of the state, as well as all department5 of slate government

That includes the Department of Public Welfare, which administers the Low-Income Home Energy Assistance Program, or LIHEAP, and the Department of Community and Economic

Development, which administers the Weatherization Assistance Program, which receives a portion of its financial support from LIHEAP funds.

LIHEAP is a federally funded program that provides grants to low-income households that meet the eligibility limits of 150 percent of federal poverty income guidelines. LIHEAP consists of cash benefits to help pay for home heating fuel crisis payments to resolve emergencies; energy conservation; and weatherization measures to address long-range solutions. In the 2011 fiscal year, \$294.5 million was spent on LIHEAP, which benefited 457,962 families in Pennsylvania.

I would like to commend HB 1991's sponsor, Rep. Bryan Cutler, for his interest in ensuring that taxpayer money is properly used to benefit the people who most need these valuable programs. I have made accountability in LIHEAP and the Weatherization Assistance Program an important issue during my seven years as auditor general, which is why we have conducted follow-up reports on both programs since the release of our initial audits five years ago

Our first audit of the LIHEAP program, released in June 2007, found serious deficiencies in the Department of Public Welfare's administration of the program. Inadequate policies and procedures, insufficient supervision, and inadequate oversight resulted in potential applicant and employee fraud and abuse in the six counties we investigated: Philadelphia, Allegheny, Lancaster, Lehigh, Perry and York. We forwarded our findings to the Office of Inspector General for Investigation because of our belief that we had discovered instances of potential fraud.

In Philadelphia County, auditors found 23 situations that LIHEAP representatives validated as potential fraud. Auditors also found other instances that warranted further investigation, including 429 applicants who collectively received more than \$162,000 in benefits using Social Security numbers belonging to dead people, and 549 applicants who collectively received more than \$782,000 for questionable water/sewer bills.

Our suspicions of potential fraud were confirmed when the Philadelphia district attorney, relying in part on information contained in our audit, charged 16 state and city employees with stealing

more than \$500,000 of LIHEAP fund? and related crimes. Seven state employees, and six other individuals, either pleaded guilty or were convicted, and received sentences that included prison time or probation and restitution.

The systemic problems uncovered in our initial audit, coupled with the Department of Public Welfare's refusal to address our concerns and implement our recommendations, caused us to issue a follow-up report in August 2011. The follow-up report concluded that, not only were the deficiencies highlighted in our first audit still prevalent, but DPW had paid more than \$800,000 to a Philadelphia law firm to help fix the problems that could have been resolved by in-house staff.

Our 2011 follow-up report questioned DPW management's hiring of the Philadelphia law firm through a no-bid contract for administrative assistance. Our auditors noted that the Philadelphia law firm was not required, as evidenced by the fact that the law firm later subcontracted with an accounting agency to perform the actual work. We also observed that DPW relied on a sole-source vendor instead of seeking competitive bids, potentially inflating contract costs.

Pennsylvania is a state with many senior citizens and a high percentage of older housing stock. LIHEAP is a vital and necessary program that helps thousands of elderly and low-income residents stay warm during the long winter months. As I have been saying for the past five years, DPW must do a better job of administering this program and eliminate any waste, fraud and abuse so that more financial assistance is available to those who are on the LIHEAP waiting list.

House Bill 1991 also calls on the Department of the Auditor General to conduct an audit of the Weatherization Assistance Program every five years. The Weatherization Assistance Program helps low-income families increase the energy efficiency of their homes. DCED provides funds to local public and private non-profit agencies, which, in turn, hire subcontractors to repair homes. DCED spent \$104 million, including \$17.1 million from LIHEAP, on weatherization projects during the fiscal year ended June 30, 2011. To qualify, a family of four must earn no more than \$44,700. According to a DCED report, approximately 41,000 people received benefits in 2010.

Common repairs include caulking and weather stripping windows and doors to reduce drafts, insulating walls, repairing foundations and roofs, and installing new water heaters. Some projects include installing low-flow shower heads, and replacing lights and refrigerators. Benefits include lowering heat and electric bills as well as saving energy.

Again, like LIHEAP, this is a program that we have looked at twice in the last five years. Our special performance audit, released in August 2007, found that deficient administration of the federally funded Weatherization Assistance Program failed to prioritize the needs of low-income Pennsylvanians, placing some of Pennsylvania's most vulnerable citizens at greater risk. The audit found that DCED was not adequately monitoring the Weatherization Assistance Program. Among the control weaknesses we found was DCED's failure to develop a priority list of the neediest applicants; Failure to make sure local agencies responded to crises within the federally mandated period of 48 hours; and failure to conduct follow-up inspections to make sure that repairs were delivering their promised energy savings.

During visits to four local agencies, in Philadelphia, York, Dauphin and Lancaster counties, auditors found 178 errors in 100 client files inspected. We also found that, in Philadelphia, \$94,081 in weatherization repairs had been made to the same 30 buildings because two local agencies had failed to coordinate their efforts. In another case, auditors found that an applicant had received more than \$8,700 worth of weatherization services even though the applicant was ineligible based on income. These violations could jeopardize future federal Funding for needy Pennsylvanians if the problems are not corrected.

Our 2007 audit determined that, because of poor administration, inadequate funding and insufficient manpower, it could take up to nine years to clear the statewide backlog of 9,249 applicants that were seeking weatherization assistance as of June 30, 2006, according to records supplied by DCED. In its response, DCED agreed with virtually all of the audit findings and said it would take corrective action.

In an attempt to ensure that DCED had actually made improvements to the program, we took a second look at the program and released our special report just last month. This recent report found, that even with more funds from the federal stimulus program, the waiting list nearly doubled in the last five years.

In fact, while the state received an extra \$252 million in federal stimulus money, the waiting list for home repairs actually grew to 14,000 families, which we attributed to more people seeking help. However, we did find flaws in the weatherization program such as a lack of trained labor, too few vendors, and a lack of uniform policy and procedures.

Before 2009, approximately 8,400 homes were rehabbed each year. Once the stimulus package was implemented, local agencies were able to hire more workers and subcontractors, increasing the number of homes rehabbed in a year. Based on the faster repair rate, DCED estimated it would take six years to clean up the backlog.

Our special report also determined that problems identified in 2007 still exist today, including ineligible clients and unsupported costs. Auditors also found new problems, including misuse of deceased individuals' Social Security numbers, questionable transactions between landlords and tenants, inflated subcontractor prices, and purchases of high-end refrigerators instead of economy models.

Lastly, we found that DCED does not have a "conflict-of-interest policy" regarding landlords and local agencies. Local agencies should not approve tenant applications for weatherization services while being the landlord of the rental property. It is imperative that DCED develop appropriate conflict-of-interest policies to prevent this from happening.

The special report contained 13 recommendations, but the most important one was that DCED should take immediate action to reduce and eliminate the waiting list because it is unacceptable to keep our most vulnerable Pennsylvanians on a waiting list, sometimes for years, and not help them cope with severe winter conditions.

Under current law the Department of the Auditor General already has the authority to audit LIHEAP and the Weatherization Assistance Program and as you can see, we have been proactive in auditing these two important programs. In addition, I feel that the requirement in House Bill 1991 that my department conduct audits of the programs within a year – and then every five years after that - is unnecessary because we recently completed these audits. It takes a lot of manpower to conduct each of these audits and with the repeated budget cuts to my department it is extremely difficult to complete our mandated audits and select audits we feel are important. If this committee decides to adopt this bill and require the Department of the Auditor General to complete these audits, I would argue that it is imperative that we receive additional resources for our work in performing the audits.

Thank you for the opportunity to speak today and I will be happy to answer your questions.

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AUDITOR GENERAL JACK WAGNER FOUND SAME TYPES OF WASTE, ABUSE & POTENTIAL FRAUD TODAY THAT WERE FIRST IDENTIFIED IN JUNE 2007

Examples of weaknesses found in more than 26 counties	2007	2011
Awarding benefits to applicants/household members who were deceased and/or had conflicting SSNs		
Awarding benefits to applicants/household members who were incarcerated	NOT TESTED	
Awarding benefits to applicants/household members who underreported household income		
Awarding multiple/inappropriate cash benefits to applicants		
Awarding excessive crisis benefits to applicants		
Awarding benefits to ineligible applicants		