

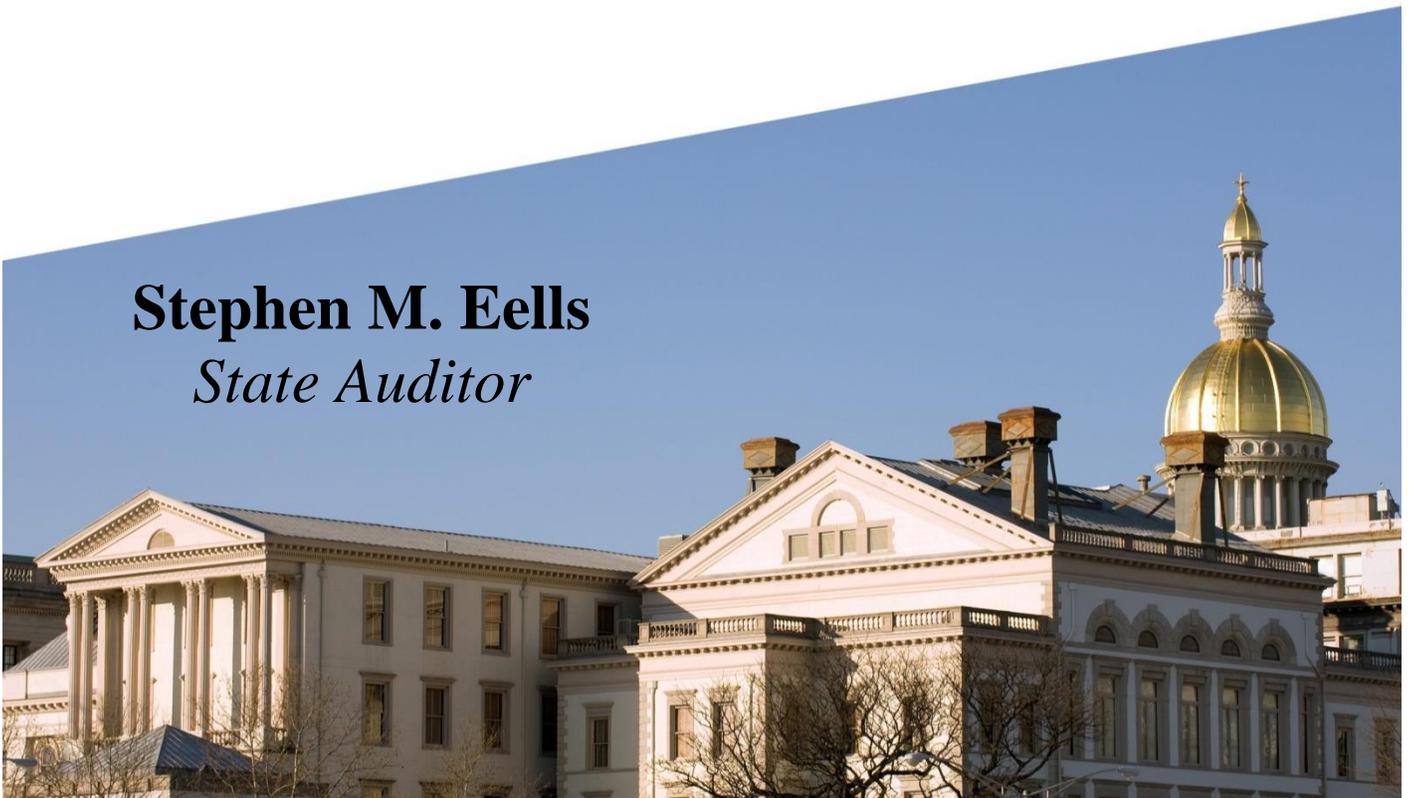


*New Jersey Legislature*  
★ *Office of* LEGISLATIVE SERVICES ★  
**OFFICE OF THE STATE AUDITOR**

Department of Community Affairs  
Division of Housing and Community Resources  
Low Income Home Energy Assistance Program Eligibility

July 1, 2015 to October 31, 2018

**Stephen M. Eells**  
*State Auditor*



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# New Jersey State Legislature

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The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Craig J. Coughlin  
Speaker of the General Assembly

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Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Community Affairs, Division of Housing and Community Resources, Low Income Home Energy Assistance Program Eligibility for the period of July 1, 2015 to October 31, 2018. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in blue ink that reads 'Stephen M. Eells'. The signature is fluid and cursive, with a large loop at the beginning.

Stephen M. Eells  
State Auditor  
March 26, 2019

## Table of Contents

Scope.....	1
Objective .....	1
Methodology .....	1
Conclusions.....	1
Findings and Recommendations	
Program Eligibility.....	2
Auditee Response.....	4
Auditor’s Follow-up Response .....	6

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### ***Scope***

We have completed an audit of the Department of Community Affairs (DCA or department), Division of Housing and Community Resources (division), Low Income Home Energy Assistance Program Eligibility (LIHEAP or program) for the period July 1, 2015 to October 31, 2018. Our audit included financial activities accounted for in the state's General Fund. Annual expenditures for the program averaged \$119.6 million for fiscal years 2016 through 2018. The primary responsibility of the division is to strengthen and revitalize communities through the delivery of affordable housing, supportive services, and the provision of financial and technical assistance to communities, local government, and community based organizations. The program provides eligible low-income households up to \$1,400 annually to pay for heating costs.

### ***Objective***

The objective of our audit was to determine whether adequate controls were in place at the DCA to ensure the propriety of program expenditures for the LIHEAP.

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. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In preparation for our testing, we studied legislation, the administrative code, and policies of the department. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of transactions. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the program and the internal controls.

A non-statistical sampling approach was used. Our samples of transactions were designed to provide a conclusion on our audit objective as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

### ***Conclusions***

We found adequate controls were in place at the department to ensure the propriety of program expenditures. In making this determination, we noted certain internal control weaknesses meriting management's attention. As part of our testing, we also noted documentation issues associated with some recipients' applications that may have precluded them from program eligibility. These cases will be referred to the Division of Criminal Justice.

## **Program Eligibility**

### **Periodic matches with the New Jersey Department of Labor and Workforce Development's wage reporting system should be performed.**

The Low Income Home Energy Assistance Program (LIHEAP or program) is a federally-funded program that provides eligible low-income households up to \$1,400 annually to pay for heating costs. Grants are also available for medically necessary cooling costs and for applicants who are in imminent danger of having utility services turned off. Payments are generally made directly to the utility companies and credited to the recipient's account. Eligibility for the program is determined by 17 non-profit agencies that are awarded grants through the department to administer the program. Individuals receiving benefits through the Supplemental Nutrition Assistance Program (food stamps) or the Pharmaceutical Assistance to the Aged and Disabled Program are automatically eligible. LIHEAP recipients must recertify their eligibility for benefits each year.

In accordance with department policy, LIHEAP applicants are only required to show proof of income for the month prior to their application date to be eligible for assistance. The Division of Housing and Community Resources (division) does not verify all sources of income of LIHEAP applicants at the time of application. We noted that the division does not use the New Jersey Department of Labor and Workforce Development's (NJDOLWD) wage reporting system to verify income of LIHEAP applicants at the time of application or subsequent to acceptance into the program unless the applicant reports zero income.

The 17 non-profit agencies approved 105,527 applications for assistance during the 2017 heating season. Our data analysis and comparison of the NJDOLWD wage reporting system and the energy assistance database maintained by the department revealed that 6,868 of 105,527 LIHEAP recipients receiving \$3.0 million in benefits may have underreported their income. Our analysis was designed to assess the risk inherent in the LIHEAP income verification process. It was performed by extracting a recipient's quarterly wage data from the NJDOLWD system for the quarter ending September 30, 2017, annualizing the result, and comparing it to the recipient's reported wages per the energy assistance database. All cases where we calculated the annualized wages were at least \$5,000 more than the reported wages were considered instances of possible underreported income. As a result, it is possible some LIHEAP recipients were provided with greater benefits than they were entitled.

We judgmentally selected 207 recipients receiving benefits totaling \$93,000 for the 2017 heating season to determine if wage information they provided to the non-profit agencies matched NJDOLWD records. We found 33 of the recipients had wages they did not report to the non-profit agency. As a result, the division provided these recipients \$11,428 in benefits for which they were not entitled. We also matched all 207 sampled recipients to their filed 2017 New Jersey Gross Income Tax (GIT) returns to verify if all income, including self-employment income (which is not included in NJDOLWD records) was being reported to the non-profit agency. We identified an additional four recipients who may have been ineligible or only entitled to a reduced

benefit had they reported self-employment income. The division provided these four recipients \$919 in benefits.

Some examples of ineligible individuals we identified during testing include the following.

- One recipient with a household of four provided the non-profit agency an earnings statement from a company that did not exist. The address on the earnings statement was a residential address. A property tax search confirmed the address is the same as the recipient's mother who also certified that she was contributing towards the recipient's household. During the 2017 heating season, the recipient had earnings of \$95,675 per NJDOLWD records. For the 2017 heating season, a household of four would need income of \$48,600 or less to qualify for the program.
- One recipient of a single household reported an estimated annual income of \$8,737 based on the documentation submitted to the non-profit agency. The applicant, however, only submitted earnings statements for a part-time job. The NJDOLWD wage reporting system disclosed that the recipient had two jobs with combined earnings of \$58,664 for the 2017 heating season. A household of one would have needed income of \$23,760 or less to qualify for the program.

The eligibility requirements for several other energy assistance and housing assistance programs are similar to LIHEAP in that they are reliant on recipient income at a particular point in time and have the same inherent risks associated with the LIHEAP income verification process. The State Rental Assistance Program and the Homelessness Prevention Program with calendar year 2017 expenditures totaling \$18.5 million and \$4.4 million, respectively, are examples of such programs administered by the division.

### **Recommendation**

We recommend the division utilize records maintained by New Jersey Department of Labor and Workforce Development for income verification purposes of all applicants. The division should also request New Jersey Gross Income Tax returns to aid in their verification of a LIHEAP applicant's total income. The division should also apply this same level of scrutiny for their other programs in which income is a determining factor for program eligibility.





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March 15, 2019

Office of Legislative Services  
Attn: John J. Termyna  
Assistant State Auditor  
Office of the State Auditor  
New Jersey State Legislature  
125 South Warren Street  
PO Box 067  
Trenton, NJ 08625-0067

Re: Office of Legislative Services Low Income Home Energy Assistance Program Audit Report

Dear Mr. Termyna:

Please accept this letter in response to the draft report sent by the Office of Legislative Services (OLS) on February 26, 2019, addressing the audit report for the Low Income Home Energy Assistance Program (LIHEAP) covering July 1, 2015 through October 31, 2018. The New Jersey Department of Community Affairs, NJDCA, continually strives to improve its programs and to ensure that its programs adhere to all federal and state laws, regulations and policies. To this end, NJDCA welcomes scrutiny of its program administration and relishes the opportunity to improve.

**OLS Recommendation**

We recommend the division utilize records maintained by New Jersey Department of Labor and Workforce Development (NJDOLWD) for income verification purpose of all its applicants. The division should also request New Jersey Gross Income Tax returns to aid in their verification of a LIHEAP applicant's total income. The division should also apply this same level of scrutiny for any other of their programs in which income is a determining factor for program eligibility.

**DCA Response**

Because the NJDOLWD records and Gross Income Tax returns do not detail income received by an applicant specifically in the 8 weeks prior to submission of the application, utilization of these records does not provide the information required to comply with the procedure for income verification outlined in the LIHEAP State Plan approved by the US Department of Health and Human services. The LIHEAP Handbook, which is included in the LIHEAP State Plan, sets forth the procedure for income verification in Section 2.3 (a) Income Eligibility and Section 4.1 (d)(vii) Opportunity and Decision to Apply. Section 2.3 (a) Income Eligibility states, "In order to be income eligible for the program, a household's monthly gross earned and unearned income may not exceed the monthly allowable gross income limit for the household size." Section 4.1 (d)(vii) Opportunity and Decision to Apply states, "Earned and unearned income shall be

See  
Auditor's  
Follow-up  
Response  
Page #6



verified by wage stubs or any applicable documentation relating to any consecutive four-week period within eight weeks before the date the client signs the application.” This is the process NJDCA adheres to in determining income eligibility. As the NJDOLWD system does not routinely provide income from that timeframe, it does not serve as a useful verification of income and could lead to eligible applicants being denied for the benefit, along with ineligible applicants being approved for the benefit.

In regard to requesting New Jersey State Gross Income Returns, as per HEA Program guidelines, income tax information from the previous year is only used as a means to verify income for self-employed individuals or to verify family composition for students. Requiring submission of tax returns for other households would not meet the income verification requirement, as described above. Requiring households to submit tax return information would create a significant burden for applicants, without providing useful information to the program. The outcome would be that fewer eligible households of need in the State of New Jersey would be served.

See Auditor's Follow-up Response Page #6

Please let us know if you should have any additional questions regarding our response.

Sincerely,



Janel Winter  
Director  
Division of Housing and Community Resources  
New Jersey Department of Community Affairs

## **Auditor's Follow-up Response**

### ***Comments Related to Program Eligibility***

NJDOLWD records and New Jersey Gross Income Tax returns are additional resources that should be used, at the time of application or subsequent to acceptance into the program, to determine if applicants have income from a second job or other sources that they did not disclose on their application (see report examples).

We disagree that requiring submission of a tax return creates a “significant burden for applicants.” It is no more of a burden than providing any of the other documentation they are required to submit.