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SEP 15 2008

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Ms. Linda Blanchette
Deputy Secretary for Income Maintenance
Health and Welfare Building, Room 432
Harrisburg, Pennsylvania 17120

Dear Ms. Blanchette:

I am enclosing the final performance report of the Low-Income Home Energy Assistance Program (LIHEAP), as completed by this office.

In accordance with Generally Accepted Government Auditing Standards we are required to request and include the comments of responsible officials in each of our reports. In the case of this report management within the Office of Income Maintenance requested we issue the report with the understanding that comments would be provided during the resolution process. These comments should be provided to the Audit Resolution Section within 60 days and should detail the actions taken or to be taken to implement the report recommendations.

If you have any questions concerning this matter, please contact Mr. Alex Matolyak of the Audit Resolution Section at (717) 783-7786.

Sincerely,

A handwritten signature in cursive script that reads "Kevin M. Friel".

Kevin M. Friel

Enclosure

cc: Ms. Glover
Mr. Zogby
Mr. Kepner
Mr. Hoffman



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Ms. Linda Blanchette
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Health and Welfare Building, Room 432
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Dear Ms. Blanchette:

In response to a request from the Office of Income Maintenance (OIM), the Bureau of Financial Operations (BFO) has completed a performance audit of the Low-Income Home Energy Assistance Program (LIHEAP). The audit was conducted at the request of OIM as a follow-up to the June 2007 LIHEAP audit conducted by the Commonwealth's Auditor General (AG). This audit addresses LIHEAP benefits processed from October 1, 2007 through January 31, 2008.

LIHEAP
Executive Summary

The Department of Public Welfare's (DPW) OIM administers LIHEAP through its County Assistance Offices (CAO) and crisis contractors. LIHEAP is a federally-funded program that enables the Commonwealth to help low-income households meet their home heating needs.

LIHEAP consists of three components: 1) cash benefit payments made directly to utility companies or fuel dealers on behalf of the applicant, and payments to the applicant when heat is included in rent or when the fuel dealer is not a participant in the program; 2) crisis payment made directly to utility companies or fuel dealers to resolve supply shortages or other household energy-related emergencies; and 3) energy conservation and weatherization measures to address long-range solutions to home heating problems.

The BFO audited LIHEAP applications that were processed at six CAOs and three crisis contractors and DPW's monitoring activities associated with the LIHEAP. The report issues and recommendations for corrective action are summarized below:

FINDINGS	SUMMARY
<p><i>Finding No. 1 – Results of LIHEAP cash and crisis applications processed by the CAOs and crisis contractors.</i></p>	<p>A statistically valid sample of 24 cash and 24 crisis applications were tested at each CAO. In counties where crisis contractors are involved, we tested 24 crisis applications. In addition, data mining procedures were performed on the total population of applications, and a random sample of “high risk” cases were tested. An error is defined as an application where the eligibility was determined incorrectly, the benefit amount was inaccurately calculated or duplicate benefit payments were paid on behalf of clients.</p> <p>Of the 216 cash and crisis cases tested at the CAOs, four (4) errors, or 2% of the sample were identified. Of the 72 crisis cases tested at the crisis contractors, one (1) error was identified. Of the 101 data mining cases that were tested, fifteen (15) errors, or 15% of the sample were identified. One data mining case identified a potentially fraudulent application.</p>
HIGHLIGHTS OF RECOMMENDATIONS	
<p>DPW should:</p> <ul style="list-style-type: none"> • reinforce LIHEAP policy through continued training with CAO and crisis contractor staff. • ensure adequate supervisory reviews of applications processed by Energy Assistance Workers. • ensure the edits in LIS are working properly prior to the start of the LIHEAP season. 	

FINDINGS	SUMMARY
<p><i>Finding No. 2 – Inefficient Operations at the Energy Coordinating Agency of Philadelphia, Inc. Resulted in Untimely Crisis Resolution.</i></p>	<p>Crisis situations are federally-mandated to be resolved within 48 hours of the completed application. The Philadelphia County crisis contractor, Energy Coordinating Agency of Philadelphia, Inc. (ECA) did not meet the federally-mandated timeframe for crisis resolution and did not operate efficiently throughout the LIHEAP season.</p>
<p>HIGHLIGHTS OF RECOMMENDATIONS</p>	
<p>DPW should:</p> <ul style="list-style-type: none"> • ensure that crisis contractors comply with Federal and State requirements. • assist ECA in streamlining business practices to ensure timely resolution of crisis situations and more efficient operations. • require ECA to conduct frequent monitoring of its sub-contractors to ensure satisfactory program performance. 	
FINDINGS	SUMMARY
<p><i>Finding No. 3 - LIHEAP Monitoring Processes can be Enhanced.</i></p>	<p>One individual is responsible for monitoring LIHEAP operations at the CAOs and nine crisis contractors. Recent improvements to the process have occurred however enhancements should be made in the following areas:</p> <ul style="list-style-type: none"> • development of formalized policies and procedures; • development of monitoring plan for routine, scheduled on-site visits; • preparation and distribution of monitoring reports with adequate and timely follow-up by OIM.
<p>HIGHLIGHTS OF RECOMMENDATIONS</p>	
<p>OIM should:</p> <ul style="list-style-type: none"> • establish an overall coordinated LIHEAP monitoring plan, to include: CAOs, crisis contractors, regulated vendors and LIHEAP recipients. • develop formalized LIHEAP monitoring policies and procedures to ensure timely and consistent monitoring of the CAOs and crisis contractors. • coordinate all monitoring activities to include reviews completed by the Comptroller’s Office and oversight activities involving the CAOs. In addition, self-reporting on performance measures should be considered. 	

FINDINGS	SUMMARY
<p><i>Finding No. 4 – The Grant Agreement with the Crisis Contractors needs Improved.</i></p>	<p>The current grant agreement executed between OIM and the nine crisis contractors does not provide for proper accountability of program operations and should be improved.</p>
HIGHLIGHTS OF RECOMMENDATIONS	
<p>OIM should:</p> <ul style="list-style-type: none"> improve the current grant agreement with the crisis contractors, to include: a clearly defined work statement, performance standards and measurable deliverables, payment provisions and penalty clauses, monitoring requirements and specific activities to be completed by the CAO. 	

Background

The DPW operates the cash benefit and crisis components of the LIHEAP and designated the Department of Community and Economic Development as responsible for the operation of the weatherization component. The CAO administers the cash benefit component throughout the state. The LIHEAP crisis benefit is administered by local CAOs, except in the following nine counties: Allegheny, Carbon, Centre, Lackawanna, Lancaster, Luzerne, Philadelphia, Wyoming and York.

During FY 2007-2008, LIHEAP operated from November 1, 2007 through March 21, 2008. The minimum cash benefit established was \$100; the maximum crisis benefit was set at \$300 but was subsequently increased to \$500 and then further increased to a maximum of \$800 based on circumstance. For FY 2007-2008, clients received in excess of \$87M in cash benefits and \$64M in crisis benefits. The CAOs and crisis contractors processed over 470,000 cash applications and 180,000 crisis applications.

Objective, Scope and Methodology

The audit objectives, developed in concurrence with OIM were:

- To determine if the County Assistance Offices and Crisis Contractors are processing applications accurately and timely and also determining

- eligibility in accordance with federal regulations and the LIHEAP State Plan.
- To determine if the Department is adequately monitoring the LIHEAP program.

In pursuing these objectives, the BFO conducted fieldwork at the following CAOs: Butler, Clarion, Snyder, York, Lackawanna and Philadelphia. We also conducted fieldwork at the crisis contractors located in Lackawanna, Philadelphia and York counties. A two-day survey was conducted at the Adams County CAO prior to the start of fieldwork. In addition, the BFO interviewed staff from OIM and the PHHS Comptroller's Office.

We examined the applicable Federal regulations, Fiscal Year 2008 LIHEAP Final State Plan, LIHEAP Handbook and cash and crisis applications and supporting documentation. We also examined OIM monitoring documents, DPW's grant agreement with the crisis contractors, budgets and invoices on a limited basis and other LIHEAP-related documentation.

We also obtained access to the LIHEAP Information System (LIS) and requested an extract of application and payment data from the system for testing purposes. The audit covered the period October 1, 2007 – January 31, 2008.

A separate memorandum was provided to OIM management which details minor operational issues. The results of the memorandum are not included in this report but addressed the following areas:

- Improvements to administrative processes employed by the CAOs and crisis contractors;
- Improvements for the LIHEAP Handbook, as recommended by CAO and crisis contractor staff;
- Suggestions for enhancements to LIS.

The contents of this memo were discussed with OIM Headquarters staff during the closing conference. We also conducted individual briefings with each CAO and crisis contractor after completion of fieldwork at their location.

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of these controls. Based on our understanding of the controls, no material deficiencies came to our attention.

Areas where we noted an opportunity for improvement in management controls are addressed in a separate memo provided to OIM.

Fieldwork for this audit took place between February 25, 2008 and June 12, 2008 and was performed in accordance with generally accepted government auditing standards. The report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Issue No. 1: Results of Case Reviews.

CAOs and crisis contractors determine client eligibility for LIHEAP based upon income limits, household composition, residency, alien status and an individual's responsibility for home heating costs. An additional requirement for crisis eligibility is the existence of a valid heating emergency.

Cash benefits are received one time during a program year and the benefit amount varies based on household size, household income, heating region and fuel type. The amount of a crisis benefit is the amount needed to resolve the home-heating emergency, subject to the maximum LIHEAP crisis benefit, which was initially set at \$300.

A. Results of Cash and Crisis Application Testing

The BFO used application and payment data extracted from the LIS for the audit period. The data was sorted by county (Butler, Clarion, Lackawanna, Philadelphia, Snyder and York) and type of application (cash or crisis) and input into a statistical software package to randomly select applications for testing. A total of 24 cash and 24 crisis applications with supporting documentation were tested at each CAO and/or crisis contractor.

The following table represents the results of the application testing. For reporting purposes, errors in the cash and crisis applications are defined as applications where the eligibility was determined incorrectly or the benefit amount was inaccurately calculated.

Cases In Error/Cases Tested

	<u>Butler</u>	<u>Clarion</u>	<u>Lackawanna</u>	<u>Philadelphia</u>	<u>Snyder</u>	<u>York</u>	<u>Total</u>	<u>Error Rate</u>
Cash	0/24	3/24	0/24	0/24	0/24	0/24	3/144	2%
Crisis	0/24	1/24	0/24	1/24	0/24	0/24	2/144	1%
Data Mining	1/23	0/12	1/24	9/14	0/14	4/14	15/101	15%

The three cash application errors consisted of two income calculation errors and one misidentification of fuel source. The result of these errors included an overpayment of \$18 and underpayments of \$46 and \$10.

Eligibility errors were noted with two crisis applications. One application did not include all of the household income which resulted in an inappropriate payment of the \$300 crisis benefit. If the income was calculated correctly, the household would have been determined ineligible for LIHEAP benefits. The second application erroneously calculated bi-weekly wage income as weekly income which resulted in an incorrect rejection for the crisis benefit. After discussing this application with the Philadelphia crisis contractor and the CAO at the closing conference, the client's account was credited for the appropriate crisis amount.

B. Data Mining

To identify and test "high risk" cases, the BFO performed "data mining" queries on the LIS data obtained for the six counties. Based on the number of results of the data mining, the BFO judgmentally selected applications for testing. The criteria for the case selection was based on the following situations:

- payments made to applicants identified by the same social security number;
- payments made to applicants living at the same residence;
- payments made to applicants reporting zero income;
- payments made to self-employed individuals;
- crisis payments that exceeded \$500;
- payments made directly to the applicant;
- payments made to applicants reporting greater than seven (7) household members.

As the above chart shows, 101 applications were tested and fifteen (15) errors were identified. For data mining cases, an error is defined as an application where the eligibility was determined incorrectly, the benefit amount was inaccurately calculated or duplicate benefits were paid on behalf of a client. The following describes the errors:

1. Potential Fraud

One individual used two different last names and social security numbers to obtain two cash benefits, each in the amount of \$301. The CAO was unable to locate one of the applications submitted by this individual. The CAO planned to further analyze this case and if appropriate, contact the Office of the Inspector General for a fraud referral.

2. Multiple Cash Payments were Received on Behalf of Eleven Clients

Case testing disclosed eleven (11) instances of multiple cash payments made on behalf of clients. It appears that most of these payments occurred due to the submission of multiple applications by the client and an error in the edit checks in LIS that did not catch the duplication of social security numbers.

3. Multiple Crisis Payments were Received on Behalf of Two Clients

Due to data entry errors made at the Philadelphia CAO, two clients had duplicate crisis payments made on their behalf.

4. Zero Income

One application (identified through the "zero income" query) incorrectly classified citizenship of two adults in the household. This resulted in an overpayment of \$21 in cash benefits.

5. Inconsistencies were Noted with Self-Employment Applications

Through testing of self-employed individual's applications, it was noted that CAOs and crisis contractors are not uniformly calculating profit. For eligibility purposes, LIHEAP counts profit rather than gross income from self-employment.

The LIHEAP Handbook provides a general list of expenses that are not deductible from gross receipts. It was noted that CAO were not consistently applying these exclusions to calculate profit. In addition, a few Schedule Cs were reviewed that did not appear complete or accurate (lacking key information). Further, upon comparison of applicant's Schedule Cs from previous years, unexplained variances in expense data were not detected and questioned.

Recommendations:

The number of errors that were disclosed in the cash and crisis application testing was minimal however several program improvements, as identified below, can be made.

Based on the results of the data mining testing, the BFO recommends that OIM, through the CAOs and crisis contractors, monitor "high-risk" applications and analyze the data to ensure appropriate benefit processing. The BFO also recommends the following:

- OIM reinforce LIHEAP policy through continued training and use of the LIHEAP Handbook for CAO and crisis contractor staff.
- CAOs ensure adequate supervisory reviews of applications processed by Energy Assistance Workers.
- OIM follow-up with the Philadelphia CAO to determine if client fraud occurred. If so determined, OIM should also ensure that the appropriate referral was made to the OIG.
- Prior to the start of the LIHEAP season, LIS IT staff ensure that the edits in the system are working properly. These edits should identify applications with duplicate social security numbers, names and addresses to ensure multiple cash payments cannot be made to the same individual or household.
- LIHEAP staff scrutinize “zero income” applications and ensure that adequate supervisory review is completed on those cases.
- OIM incorporate a “Schedule C” (self-employment) worksheet on LIS for staff to use to calculate profit for self-employed individuals. A computerized worksheet may ensure consistent applications among LIHEAP staff and that profit is calculated appropriately.

Issue No. 2: The Philadelphia Crisis Contractor did not Comply with LIHEAP Timeframes or Operate Efficiently.

For the program year 2007-2008, the Energy Coordinating Agency of Philadelphia, Inc. (ECA) was selected to operate the crisis program for Philadelphia County. ECA is a private, non-profit corporation that serves low and moderate income families across Philadelphia through its network of Neighborhood Energy Centers (NEC). ECA used thirteen (13) NECs and three (3) subcontractors as intake centers for LIHEAP. A “Letter of Agreement” was executed between ECA and these agencies.

At the NEC, clients are pre-screened to ensure that documentation needed to calculate income and determine eligibility is available. The client completes the LIHEAP paper application and NEC staff determine eligibility. NEC staff complete an on-line LIHEAP application for the client through COMPASS. Once the information is entered into COMPASS, ECA downloads the application and verifies the client’s information to their internal agency database (if the client is known). ECA then compiles the names of approved clients experiencing a crisis and forwards the information to the appropriate energy vendor, either by fax or

email. The energy vendor returns the fax or email to ECA, confirming that the client is a current customer and that the vendor will accept the payment to resolve the crisis. ECA then prepares a spreadsheet with client and vendor data to send to the CAO for input into LIS for payment.

A. Untimely Crisis Resolution

Federal law requires that clients experiencing a crisis must be provided some form of assistance that will resolve the energy crisis no later than 48 hours after the household applies for energy crisis benefits. In the case of a life-threatening situation, assistance must be provided no later than 18 hours after applying for benefits.

ECA openly stated that they “did not maintain the forty-eight hour processing time for the majority of clients”. The reasons provided by ECA were as follows:

- ECA was required to use COMPASS which was not adequate to run the program;
- ECA’s budget was not large enough to provide the required number of file processing personnel;
- This is the first year ECA operated the program.

In addition to the above, the BFO believes the time lag between communication with the energy vendors and the untimely input of applications into COMPASS by the NECs also contributed to the non-compliance with the LIHEAP’s time requirements.

Although ECA had documentation to verify communication with the energy vendors, it was not organized in a manner that provided an easy audit trail. As such, the BFO did not test cases for compliance with the federal (and state) mandate. In lieu of testing, we obtained written confirmation from the ECA Program Director related to the untimely processing.

B. Other Operational Concerns

Duplicate Application - As explained above, both a paper and electronic (COMPASS) application is completed for each client requesting crisis benefits. This appears to be an unnecessary duplication of efforts. ECA stated that the paper application was completed so that the client’s signature was on file. However, ECA could have developed an affidavit for the client to sign attesting to the information submitted through COMPASS. ECA staff indicated that COMPASS experienced system downtime which limited the use and availability to complete applications. In addition, NEC and ECA staff stated they did not have sufficient training on the use of COMPASS and their unfamiliarity with the system resulted in inefficient application processing.

Client Access to Services - OIM's grant agreement with the crisis contractors requires that clients have access to request crisis benefits on a 24-hour basis. During fieldwork, it was noted that some NECs limit the hours that they accept crisis applications during their operating day. This resulted in clients being directed to another NEC to complete a crisis application or returning the next business day. Crisis applications should be accepted at all NECs during regular hours of operation so as not to put a client already in an emergency situation at greater risk.

Ineffective telephone System - After-hour or crisis hotlines are primarily operated when the contractor is not open for business. When the NECs are closed, ECA's crisis hotline was available to accept crisis requests. However the system in place did not work effectively and could not handle the volume of calls that ECA received. ECA stated that many of the calls were not related to the need for emergency assistance but were directed to questions regarding cash benefits or payments. Due to the number of calls, the voice mailbox was at capacity and clients could not get through on the telephone line. ECA stated because of the volume of applications to process in the main office, staff were taken off of the telephone system. Both the Philadelphia CAO and the OIM received client complaints related to the telephone system.

Income Calculation – Income limits are one factor in determining client eligibility. In Philadelphia, the subcontractors calculate a client's income and maintain all of the supporting documentation at their site. From the information that was maintained in the client files, we were unable to verify the income limit that was calculated and reported by ECA for 13 of the 24 crisis applications that were tested. As such, we were unable to determine if those applications were processed accurately.

Crisis Worksheets – The crisis worksheet (PWEA-32) is used by LIHEAP staff to document the resolution of a client's heating emergency with fuel and utility vendors. ECA did not utilize this worksheet and as stated above, did not maintain documentation in such a way to easily audit the timeliness of crisis resolution.

C. Letters of Agreement Among Sub-Contractors

To ensure that a satisfactory and timely product is received and payment is reasonable, contracts should include a clearly defined work statement, payment terms, measurable deliverables and have provisions for effective monitoring.

The BFO obtained the boilerplate "Letter of Agreement" and "Scope of Services" executed between ECA and its subcontractors. There are several components of the agreement that do not clearly define the responsibilities of both entities and the processes that should be employed. The agreements should be enhanced to provide full accountability in operating the LIHEAP. Specific grant language should be developed around the following areas:

- acceptance of applications during regular hours of operation;
- timely input of client applications into COMPASS;
- case file requirements, including forms, supporting documentation, maintenance, etc.;
- performance measures to evaluate the quality of services provided by the subcontractors and ensure accountability;
- invoicing/payment requirements, including frequency, reimbursement rate, etc.;
- required reporting to ECA;
- monitoring requirements of ECA.

D. Sub-Contractor Payment

ECA's Letter of Agreement with the sub-contractors calls for reimbursement to the agencies on a per application basis, up to the maximum contract amount. The methodology used includes the following: payment for application intake process (without the use of LIS) is reimbursed at \$25/application. Application intake, using LIS is reimbursed at \$15/application. Per the agreement, invoicing was to be documented by COMPASS however COMPASS does not provide this type of functionality.

The basis for the lower payment rate is the NEC can use LIS to find out if a client has already been determined eligible for the LIHEAP cash benefit during the program year. A re-determination of program eligibility would not need to be completed. However, only one NEC and ECA were able to use LIS. Although specific contract language existed, ECA reimbursed the NEC that had LIS access at the higher payment rate.

Further, ECA does not maintain a tracking system to record the number of applications processed by each NEC. This would act as an independent source to verify NEC invoices when submitted for payment.

E. Costs Invoiced to DPW

Payments to the crisis contractor are made upon submission and approval of invoices to the Department. Through discussions with ECA, it was noted that they erroneously over-reported staff hours and salary costs during the 2007-2008

program year. In addition, ECA invoiced for subcontractor costs that were incurred but not invoiced or paid to the NECs.

Payment to the crisis contractors should be based on actual costs and supported by appropriate documentation, such as detailed timesheets and subcontractor invoices. DPW must ensure costs are documented to support Federal requirements and provide assurances that funds are being spent appropriately.

The examination of budgets and invoices were outside of the scope of our audit. As such, the BFO performed a cursory review of the documentation related to this area.

Recommendations:

The BFO recommends that OIM ensure its crisis contractors comply with LIHEAP requirements. To accomplish this, the BFO recommends:

- OIM strengthen the legal agreement between the Department and ECA (see Issue No. 4). This is critical to ensuring satisfactory performance by the crisis contractor and providing full accountability for program operations. Recommendations for improvements with the current grant agreement are noted in Issue No. 4.
- OIM assist ECA in streamlining business practices to ensure timely resolution of crisis situations and more efficient operations, including:
 - accepting applications at the NECs during regular business hours;
 - timely input of applications into COMPASS by the NECs;
 - eliminating the duplicate processing of paper and on-line applications;
 - timely communications with the energy vendors to resolve the emergency. This function may be more efficient if it were completed by the sub-contractors.
 - maintaining documentation to support compliance with crisis resolution within the required time frame;
 - maintaining an operational telephone system that is sufficiently staffed and equipped to handle a significant volume of calls. Based on the volume of calls, OIM may consider tying the system into the CAOs hotline as a possible backup.
 - developing a tracking system to record and verify the number of applications processed by each NEC prior to payment;
 - revising the current "Letter of Agreement" with each NEC to provide additional clarification and understanding in the areas discussed in this report. OIM should require ECA to submit the revised subcontractor agreements to the Department prior to

implementation for review and comment. This will ensure that all of the necessary policies and procedures are clearly outlined in the document.

To accomplish this, OIM should provide the necessary technical assistance to ECA and its subcontractors, if required.

- OIM conduct planned, periodic monitoring of ECA to measure and ensure compliance with the terms and conditions of the contract.
- OIM ensure that ECA is appropriately identifying, recording and billing the Department for costs incurred for the LIHEAP program. To assist in this area, OIM should consider a request to the BFO to conduct a performance audit of ECA to determine that resources are being billed and utilized appropriately.

Issue No. 3: OIM's Monitoring of the LIHEAP can be Enhanced.

One individual within OIM is responsible for the statewide monitoring of the LIHEAP. Prior Department monitoring of LIHEAP was sporadic and not performed on a rotating basis to ensure that all CAO and crisis contractors were routinely examined. Since March 2007, 29 CAOs and 5 crisis contractors have been reviewed.

During FY 2007-2008, a "team" of approximately six individuals from OIM completed case reviews (or on-site visits) at the six counties recently audited by the AG. For the team's review and for use in future monitoring visits, OIM has developed a data mining tool. This tool identifies multiple risk areas within approved LIHEAP applications that can be examined on-site by the monitor.

In addition to Department monitoring, the PHHS Comptroller's Office completed agreed-upon procedures at nine regulated vendors. This engagement is not completed on a regularly occurring basis.

Based upon our review of OIM's monitoring processes, the following areas should be improved:

A. Policies and Procedures

Formalized monitoring policies and procedures do not exist. Policies and procedures would ensure consistency among monitoring reviews and a training tool for new staff. Areas that should be addressed include: selection of CAOs, frequency of on-site reviews, documentation requirements for case file review; questionnaires for interviewing and control testing; use of the recently developed monitoring tool and monitoring criteria with performance requirements (as per the

revised grant agreement for the crisis contractors). OIM should also consider implementation of the performance requirements at the CAO and monitor accordingly.

B. Monitoring Reports

A monitoring report should be completed and distributed upon completion of an on-site monitoring review. All activities conducted should be explained in adequate detail for a clear understanding and review results should be documented. Corrective action plans, if needed, should be promptly followed-up on.

Currently, handwritten reports are prepared after the on-site monitoring visit by the LIHEAP Monitor however several reports have not been distributed because clerical staff is not available to prepare the report. In addition, formalized corrective action plans from the agencies are not required.

C. Oversight Role of the CAO

It is integral to the efficiency and effectiveness of the LIHEAP for adequate oversight and communications between the CAO and the crisis contractor. The two agencies should view each other as partners in effectively providing heating assistance to those in need. As such, there should be open, clear and direct communications among the agencies.

Since only one OIM staff member is responsible for statewide monitoring of LIHEAP, it is essential to rely on the CAO to ensure the program is operating effectively at the crisis contractor. While "formalized" monitoring may not be an option because of staffing, there are several activities that the CAO can perform related to evaluating contractor performance.

At the York CAO, staff review each crisis application after it has been processed by the crisis contractor. If the application was processed incorrectly and benefits were approved in error, the contractor is required to find supplemental funding to pay the vendor. The verification by the CAO ensures benefits are being handled appropriately.

Staff from the Philadelphia CAO indicated that there were several complaints from clients about the crisis contractor this year. The CAO however did not formally document and maintain the concerns. A record of client complaints would provide a gage as to the level of performance by the contractor.

OIM should determine how best to utilize the CAO in the monitoring function and how the monitoring results will be communicated back to OIM.

Recommendations:

The BFO recommends that OIM enhance their current monitoring practices to include:

- establishing an overall coordinated LIHEAP monitoring plan, to include: CAOs, crisis contractors, regulated vendors and LIHEAP recipients. To evaluate a client's satisfaction with the program, a customer approval survey should be developed and distributed.
- coordinating and requesting audit coverage of regulated vendors with the Comptroller's Office;
- requiring on-site reviews at each CAO and crisis contractor on a routine basis, with "high risk" agencies monitored more frequently;
- developing and implementing a mechanism for self-reporting on performance measures by the CAOs and crisis contractors for periods when on-site monitoring does not occur;
- developing formalized policies and procedures which outline the monitoring process, the documentation requirements for case file testing, standardized staff questionnaires and monitoring criteria with performance requirements;
- ensuring timely write-up and distribution of CAO and crisis contractor on-site review results, development and implementation of a corrective action plan by the agency and timely follow-up by OIM to determine if the corrective action plan is working effectively;
- determining the level of involvement in CAO monitoring of the crisis contractor. If this is a viable option, OIM should develop a monitoring process for the CAOs to follow. This would include a method for communicating the monitoring results to OIM.

OIM should consider that additional staff may be necessary to effectively monitor the program.

Issue No. 4: The Grant Agreement with the Crisis Contractors needs Improvement.

A good foundation of purchasing services can be found in a well-written, comprehensive contract or grant. Grant components should include: defined work statements, payment provisions, detailed budgets, monitoring requirements and audit information.

The current agreement executed between the DPW and the crisis contractors needs improvement in several key areas, including:

Work Statement - The current work statement does not provide an adequate description of services expected of the contractor and does not hold the

contractor accountable for satisfactory program performance. The development of a performance-based contract with specific tasks and deliverables will allow OIM to monitor how efficiently the contractor is operating. Each monitoring requirement should be clearly defined in the work statement.

Payment Provisions - The payment provisions in the current agreement provide the contractor with flexibility for invoicing the Department and do not specify the reporting of actual costs. To ensure a consistent payment methodology among agencies and to aid with monitoring, the grant should specify the billing terms. The agreement should also include a provision requiring that reported costs tie into the contractor's line-item budget and dollars should not be shifted among categories by greater than 10% without prior written approval from the Department.

Rather than a cost reimbursement contract, OIM could consider a payment methodology that ties reimbursement to the measurement of the vendor's performance. Incentive payments could be made when vendor expectations are exceeded and penalties could be assessed when the deliverables (as defined in the work statement) are not met.

Role of the CAO - The grant agreement does not sufficiently address the role of the CAO in a county that operates a crisis contractor. The CAO is responsible for input of a client's crisis data into the LIS for vendor payment to be generated. It was noted that CAO involvement with the contractor varies by county as far as level of communications and oversight. Since the CAO is not involved with contracting and paying the crisis contractors, some take a "hands-off" approach while another CAO feels they must "take what they get" as far as program results.

Since both entities serve the identical client base, open communications, training and oversight should be functions of the CAO. This would ensure satisfactory program performance and customer service. Based upon monitoring by the CAO, OIM could incorporate performance measures, with applicable payment clauses into the grant agreement. This would provide assurances to OIM that the crisis program was operating efficiently and allow for penalties to be assessed against the contractor for inadequate performance (untimely application processing, application errors, etc).

The BFO understands that staffing and workload issues at the CAO may hamper the ability for monitoring to occur however OIM should consider how to make this a viable option.

Recommendations:

The BFO recommends that OIM improve the grant agreement with the crisis contractors to include:

- a clearly defined work statement that details operations of the LIHEAP program and timeliness of application processing;
- performance standards to monitor the efficiency and effectiveness of the contractors and payment penalty provisions if standards are not met;
- monitoring clauses for OIM and CAO oversight;
- monthly reporting of case data;
- required utilization of LIS;
- detailed payment provisions that specify frequency of invoicing, reporting of actual costs, etc.
- role and responsibilities of the CAO. The CAO should have a clear understanding as to their expected course of action with the crisis contractors, including trainings, periodic programmatic meetings and contractor performance monitoring including case file testing.

If OIM wishes to implement incentive and penalty provisions into the grant agreement, they should contact the BFO's Division of Contract Execution and Management for assistance.

Subsequent to the issuance of this report, the BFO assisted OIM by providing comments and specific language for revising their work statements with the crisis contractors.

A closing conference was held with OIM management on June 12, 2008 to discuss the contents of this report. It was mutually agreed that an exit conference was not necessary. Management within OIM deferred on the opportunity to have their written comments included with the report. OIM did not voice any specific concerns on the contents of the report and agreed to provide comments during the resolution process.

In accordance with our established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure the report recommendations are implemented.

If you have any further questions concerning this review or if we can be of any further assistance in this matter, please contact Alex Matolyak of the Audit Resolution Section at (717) 783-7786.

Sincerely,

A handwritten signature in black ink that reads "Kevin M. Friel". The signature is written in a cursive style with a large, stylized 'K' and 'F'.

Kevin M. Friel

cc: Ms. Glover
Mr. Zogby
Mr. Kepner
Mr. Hoffman