

## Performance Audit Report

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### **Department of Human Resources Department of Housing and Community Development Electric Universal Service Program**

Procedures for the Processing and Disbursement of Benefits Should Be Improved

Weatherization Assistance Services Were Not Properly Monitored

Administrative Expenditures Were Proper and Complied with State Law

November 2007

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**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

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Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

November 5, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We conducted a performance audit of the Electric Universal Service Program (EUSP), which provides energy assistance benefits, including weatherization assistance, to low-income households. Our audit included the related activities performed by the Department of Human Resources – Office of Home Energy Programs (OHEP), selected local administering agencies (LAAs), and the Department of Housing and Community Development (DHCD) which, since October 2005, administers the weatherization portion of EUSP. We conducted this audit in accordance with the requirements of the Public Utility Companies Article, Section 7-512.1 of the Annotated Code of Maryland.

Our audit disclosed that procedures for processing energy assistance applications and related payments need improvement. Our tests at two large LAAs found that required applicant documentation used by LAAs to award energy assistance benefits was not always obtained, even though, in response to our prior audit report, a monitoring process had been put in place by OHEP. We also noted that OHEP had not established procedures to help prevent overpayments and that it relied upon utility companies to detect and refund overpayments. In addition, we found that OHEP prepaid utility companies for an entire program year for each EUSP recipient's benefits, rather than pay those benefits on a monthly basis, as allowed by law. This practice resulted in significant lost investment income. For fiscal year 2006, for example, we estimated that approximately \$450,000 in investment income was lost.

Adequate procedures were also not in place to ensure that contractor billings were only for weatherization services needed and that the related services were properly performed. This deficiency existed while the program was administered by OHEP as well as by DHCD.

Finally, the recorded EUSP administrative expenditures that we tested were valid and were properly authorized, and total administrative expenditures were within the limit established by the Public Service Commission.

We wish to acknowledge the cooperation extended to us by OHEP, DHCD, and the LAAs during the audit.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor

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\* Denotes item repeated in full or part from preceding audit report



## **Executive Summary**

### **Background**

As authorized by State law, on January 28, 2000, the Public Service Commission (PSC) issued an order to establish the Electric Universal Service Program (EUSP) to assist low-income electric customers with bill payment, retirement of electric bill arrearages, and weatherization assistance. State law assigned responsibility for administering the program to the Department of Human Resources – Office of Home Energy Programs (OHEP). The EUSP began providing assistance on July 1, 2000. Annual budgeted program funding for each fiscal year since inception, and including fiscal year 2006, has been \$34 million, of which \$1 million is allocated for weatherization assistance services. Effective fiscal year 2007, the annual funding increased to \$37 million. The weatherization assistance portion of the program was transferred to the Department of Housing and Community Development (DHCD) on October 1, 2005, and the aforementioned annual funding is provided to DHCD from the EUSP.

Our current performance audit was conducted in accordance with the Public Utility Companies Article, Section 7-512.1 of the Annotated Code of Maryland, which requires us to conduct a performance audit of EUSP once every three years, or at another interval if so directed by the Joint Audit Committee.

### **Conclusions**

Although OHEP has taken some action in response to our last audit, our current audit results indicate that enhancements are still needed to the procedures and policies for processing energy assistance applications and for awarding benefits. Our audit also disclosed that OHEP and DHCD had not established adequate procedures to ensure the propriety of weatherization billings. Finally, we noted that the recorded EUSP administrative expenditures tested were valid and were properly authorized, and total administrative expenditures did not exceed 10 percent of the EUSP funding—the maximum allowed by the Public Service Commission.

Two of the findings in this report are repeated from our preceding EUSP performance audit report dated January 5, 2004. An overview of our major findings, for which corrective actions are required, is reflected on the next page.

<b>Overview of Major Findings</b>	
<b>Problem Area</b>	<b>Comments/Examples</b>
<b>Objective 1 – Energy Assistance Application and Benefit Payments</b>	
<b>Documentation of Required Application Data Was Not Always Obtained</b>	Although OHEP had instituted a process to monitor the completeness of applicant data used to determine benefit amounts, based on our tests in two LAAs, we continued to note instances in which the required documentation was not obtained. In one LAA tested, procedures were not sufficient to determine the existence of all sources of income. <b>(Finding 1)</b>
<b>Adequate Procedures Were Not Established to Help Prevent Overpayments</b>	OHEP lacked procedures to help prevent overpayments. Rather, it relied on utility companies to identify and return any overpayments. Our review of the fiscal year 2006 payments to the utility companies for recipients under one large LAA disclosed that numerous overpayments were made. <b>(Finding 2)</b>
<b>OHEP’s Practice of Paying Utility Companies Resulted in the Loss of Investment Income</b>	Payments to utility companies, on behalf of recipients, were made for the entire program year, rather than on a monthly basis. Based on current benefit levels, we estimate that investment income of approximately \$450,000 could have been earned during fiscal year 2006 by modifying this practice, as allowed by State law. <b>(Finding 3)</b>
<b>Objective 2 – Weatherization Services</b>	
<b>Monitoring the Propriety of Weatherization Billings Was Inadequate</b>	OHEP and DHCD had not established adequate procedures to ensure that weatherization billings were valid and that the related services were needed. Our test of contractor-billed weatherization services disclosed instances in which there were no verifications that the services had been satisfactorily performed. <b>(Finding 4)</b>
<b>Objective 3 – Administrative Expenditures</b>	
<b>EUSP Administrative Expenditures Were Proper</b>	Tested administrative expenditures incurred by OHEP for fiscal years 2005 and 2006 were valid and were properly authorized, and the totals for the aforementioned fiscal years did not exceed the limit established by the PSC. <b>(Finding 5)</b>

## **Recommendations**

We recommend that OHEP establish adequate procedures over energy assistance application processing to ensure that the proper benefit amounts are paid only on behalf of eligible applicants. We also recommend that each applicant’s benefits be disbursed to utility companies on a monthly, rather than yearly, basis. Finally, we recommend that DHCD conduct site visits to ensure that proposed weatherization service work is necessary and that DHCD ensure that weatherization services billed by contractors were completed in a satisfactory manner.



## **Background Information**

### **State Laws and Regulations**

In accordance with the Public Utility Companies Article, Section 7-512.1 of the Annotated Code of Maryland, in January 2000, the Public Service Commission (PSC) established the Electric Universal Services Program (EUSP) to assist low-income electric customers with bill payment, retirement of electric bill arrearages, and weatherization assistance. Although the law charged PSC with oversight responsibility for EUSP, it assigned responsibility for administering EUSP to the Department of Human Resources (DHR). EUSP began providing assistance on July 1, 2000. Chapter 468, Laws of Maryland, 2005, effective October 1, 2005 transferred the responsibility for weatherization services from DHR to the Department of Housing and Community Development (DHCD), which provided weatherization services under a similar, but much larger, program.

### **Agency Responsibilities**

The DHR Office of Home Energy Programs (OHEP) is responsible for administering the bill payment and arrearage retirement provisions of EUSP and, prior to October 2005, for administering the weatherization assistance provisions of EUSP. OHEP contracts with local administering agencies (LAAs), which determine the eligibility of EUSP applicants and which process applications relating to bill payment and arrearage retirement benefits. OHEP disburses these EUSP benefits to utility companies for approved applicants. Applicants approved by OHEP for bill payment and arrearage retirement benefits are also eligible for weatherization services which, since October 1, 2005, have been administered by DHCD. Similar to OHEP, DHCD contracts with its LAAs to administer these services.

USP is funded by surcharge fees collected monthly by each utility company from industrial, commercial, and residential electric customers and remitted to the Comptroller of the Treasury for deposit with EUSP. State law stipulates that the \$34 million (increased to \$37 million effective fiscal year 2007) in annual program funding be collected from electric customers: \$24.4 million (subsequently increased to \$27.4 million) from industrial and commercial customers, and \$9.6 million from residential customers. Table 1 on the following page summarizes EUSP funding and expenditures during fiscal years 2004 through 2006. Table 2 on the following page details the number of households and the average benefit per household for EUSP bill payment, arrearage retirement, and weatherization assistance during fiscal year 2006.

<b>TABLE 1</b> <b>EUSP Funding and Expenditures for Fiscal Years 2004 - 2006</b>			
	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2006</b>
Program Funding	\$34,000,000	\$34,000,000	\$34,000,000
Administrative Expenditures	\$2,904,720	\$3,202,581	\$3,235,309
Administrative Expenditures as a Percentage of Program Funding ❶	8.54%	9.42%	9.52%
Program Expenditures ❷	\$27,546,485	\$27,313,658	\$32,359,171
Total Program and Administrative Expenditures	\$30,451,205	\$30,516,239	\$35,594,480
Unexpended Funds ❸	\$3,548,795	\$3,483,761	\$(1,594,480)

**Source: OHEP Fiscal Year 2004, 2005, and 2006 Annual Reports**

- ❶ The Public Service Commission (PSC) established a limit of 10 percent of program funding for administrative expenditures.
- ❷ These expenditures do not include those related to prior year unspent funds.
- ❸ Fiscal year 2004 and 2005 unexpended funds were retained, based on approval from the PSC, for future EUSP activities. Excess program expenditures in fiscal year 2006 were funded by a deficiency appropriation.

<b>TABLE 2</b> <b>Fiscal Year 2006 EUSP Assistance Statistics</b>			
	<b>Bill Payment</b>	<b>Arrearage Retirement</b>	<b>Weatherization</b>
Amount of Assistance Paid ❶	\$29,591,519	\$1,667,604	\$1,000,000
Number of Households Served	83,853	3,937	628
Average Benefit Per Household	\$353	\$424	\$1,592

**Source: OHEP and DHCD Annual Reports for Fiscal Year 2006**

- ❶ Excludes \$100,048 in allowable outreach costs included in Table 1.

## **Awarding of EUSP Bill Payment and Arrearage Retirement Benefits**

Low-income households apply for EUSP bill payment and arrearage retirement assistance by submitting an application to one of twenty OHEP LAAs. Generally, the LAAs are local departments of social services or private community assistance agencies, which are paid by OHEP for related administrative services. Applicants must meet eligibility criteria, such as limitations on total household income. LAA personnel are required by State regulations to obtain documentation to verify certain information recorded on each application, such as total household income, residency status, and household size. LAA personnel enter each applicant's information into OHEP's automated benefit system, which determines the applicant's eligibility and, if the applicant is deemed to be eligible, LAA personnel calculate the amount of awarded assistance.

The amount of assistance awarded depends upon the applicant's total household income, household size, and the amount of electricity used by the applicant. OHEP's procedures provide that LAA supervisory personnel review each application, supporting documentation, and the information on the automated system, and approve the application online. The LAAs submit each approved application electronically to OHEP for payment. OHEP prepays the energy assistance benefits for the remaining portion of the applicable fiscal year directly to the applicant's utility company.

## **Awarding of EUSP Weatherization Assistance Services**

Approved applicants for EUSP bill payment and arrearage retirement assistance can also elect to have their households weatherized (such as the repair and insulation of doors and windows) to increase energy efficiency and to reduce future electricity usage. EUSP's prioritization for applicants receiving weatherization services is based on several criteria: (1) the applicant's household electricity usage, (2) the results of an on-site inspection of the applicant's residence, and (3) whether the applicant's residential heating source is electric.

During the period from December 2002 through September 2005, OHEP contracted with a private firm to administer and provide the weatherization services (including the preliminary on-site inspections noted above). Legislation subsequently transferred the responsibility for weatherization assistance services to DHCD, effective October 1, 2005. Additionally, DHCD receives an annual transfer from EUSP to provide funds for these services. As a result, DHCD

(using a number of contractors to perform the actual work) now administers these services, as well as a similar, but much larger, weatherization program (that had been in existence for many years) for DHCD qualified applicants.

### **Prior Performance Audit**

On January 5, 2004, we issued our preceding performance audit report on the EUSP. In that report, we identified a number of issues related to the propriety of administrative expenditures, the monitoring of contracts and contractor payments, and the procedures for processing energy assistance applications and awarding benefits. Six report items were presented along with detailed recommendations for improving EUSP performance and operations. Two of the findings in this report are repeated from this prior EUSP performance audit report; the remaining four were satisfactorily addressed.

## **Scope, Objectives, and Methodology**

### **Scope**

We conducted a performance audit of the Electric Universal Service Program (EUSP), which provides energy assistance benefits (including weatherization assistance) to low-income households. Our audit included the related activities performed by the Department of Human Resources' Office of Home Energy Programs (OHEP), the Department of Housing and Community Development (DHCD), and selected local administering agencies (LAAs). The audit was conducted to comply with the requirements of the Public Utility Companies Article, Section 7-512.1 of the Annotated Code of Maryland. The audit was conducted under the authority of the State Government Article, Section 2-1221 of the Annotated Code of Maryland, and was performed in accordance with generally accepted government auditing standards.

### **Objectives**

The objectives of our audit were as follows:

- (1) To assess the adequacy of procedures for processing energy assistance applications during fiscal years 2005 and 2006, and to determine whether assistance payments were made only on behalf of eligible applicants in the proper amounts
- (2) To assess the adequacy of OHEP's and DHCD's monitoring of contractor performance relating to the EUSP weatherization services
- (3) To determine whether EUSP administrative expenditures made during fiscal years 2005 and 2006 were valid administrative charges to the programs, were properly authorized and supported, and were monitored by OHEP to ensure that such costs did not exceed 10 percent of energy assistance program funding in accordance with limitations imposed by the Public Service Commission

Our audit did not include a review of the collection of EUSP surcharges by utility companies and the transfer of those funds to the Comptroller of the Treasury.

## **Methodology**

To accomplish our objectives, we reviewed applicable State laws and regulations, as well as policies and procedures established by DHR, DHCD, and the LAAs. We also reviewed OHEP's calculation of the percentage of EUSP costs spent on the administration of the program and conducted related tests of administrative and program costs. Additionally, we reviewed OHEP's process for procuring service contracts, for monitoring contractor performance and compliance with these contracts, and for processing the related contractor payments. Finally, we interviewed LAA personnel involved in determining applicant eligibility for energy assistance benefits and conducted tests of benefits awarded on behalf of low-income households. In this regard, we judgmentally selected energy assistance applications for households in two of the largest LAAs based on total annual assistance payments, accounting for more than 40 percent of the total EUSP applications.

## **Fieldwork and Agency Responses**

Our fieldwork was conducted primarily from September 2006 through January 2007. The DHR and DHCD responses to our findings and recommendations appear as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise each Department regarding the results of our review of its response.

## Findings and Recommendations

### Energy Assistance Application and Benefit Payments

#### Conclusions

The Department of Human Resources' Office of Home Energy Programs (OHEP) did not always obtain documentation in support of applicant data used to determine the amount of energy assistance benefits awarded. Specifically, our tests at two local administering agencies (LAAs) —Baltimore City and Baltimore County— disclosed that they did not always document that applicants met the requirements for benefits (such as income requirements). In addition, OHEP had not established adequate procedures to help prevent overpayments of energy assistance benefits. Furthermore, OHEP prepaid utility companies for an entire program year for each recipient's Electric Universal Service Program (EUSP) benefits, rather than pay those benefits on a monthly basis. As a result, the State lost investment income of approximately \$450,000 during fiscal year 2006.

#### Finding 1

**LAAs did not always obtain documentation to support applicant data used to determine the amount of energy assistance benefits awarded.**

#### Analysis

The two LAAs tested did not always obtain required documentation to support data on the applications used to compute the amount of energy assistance benefits awarded. Specifically, our test of 25 energy assistance applications, for which the related bill payment assistance totaled \$15,264 during fiscal years 2005 and 2006, disclosed that 9 applications (some from each LAA), for which related assistance totaled \$5,760, lacked complete documentation required by State regulations to support eligibility. Missing documentation included proof of residency and proof of identity for applicants, household income, and social security numbers for all household members. At one of these two LAAs, we noted that it did not use a checklist to identify all sources of countable household income (such as unemployment insurance benefits and child support payments); this checklist is required by OHEP since the application form does not list the specific types of income to be reported.

Similar findings were noted in our two prior EUSP performance audit reports. In response to our prior audit report finding, OHEP established ongoing site visits to monitor LAA compliance with energy assistance application processing requirements. While we were advised by OHEP management that, as a result of

these site visits, improvements have been noted in this area, our audit results indicate that increased monitoring is needed. Such monitoring is critical as the failure to verify applicant data could result in improper benefit awards.

#### **Recommendation 1**

**We again recommend that OHEP take appropriate steps (for example, increase monitoring) to ensure that LAAs obtain documentation to support data on applications used to compute energy assistance benefits awarded to applicants.**

#### **Finding 2**

**OHEP had not established adequate procedures to help prevent overpayments.**

#### **Analysis**

OHEP had not established adequate procedures to help prevent overpayments, including duplicate payments, for energy assistance benefits. Rather, OHEP relied upon utility companies to unilaterally detect and refund overpayments. According to OHEP records, during fiscal year 2006, refunds from utility companies totaled approximately \$1.3 million.

For one of the LAAs audited, OHEP's database of bill payment assistance applications in fiscal year 2006 reflected 529 instances in which two or more payments were made on behalf of applicants with identical names. Our review also disclosed that the related social security numbers were identical in 72 of these instances and were only slightly different (that is, differed by one digit) in 21 of these instances. To the extent that refunds were not received from utility companies, potential overpayments in these 93 instances, totaled \$34,643.

Our detailed review of 15 of these 93 instances confirmed that the applicants had been overpaid by \$9,660; the utility companies had detected and refunded the overpayments applicable to 13 of these applicants. Subsequent to our fieldwork, OHEP advised that refunds were received for the remaining 2 overpayments.

OHEP's procedures provide that LAA supervisory personnel review each application, supporting documentation, and the information on the automated system, and approve each application online. Although OHEP management did not identify the causes of these specific overpayments, it did advise us that the overpayments could have been caused, in part, by a system deficiency, which could allow previously-paid benefits to be converted to an "awaiting certification" status, and erroneously paid twice. A condition regarding OHEP's failure to



prevent overpayments was noted in our preceding audit report; in its response, DHR advised that the overpayments were caused by human errors which the aforementioned supervisory review should have detected and prevented.

## **Recommendation 2**

**We again recommend that OHEP establish procedures to help prevent overpayments from occurring. We also again recommend that OHEP review all duplicate names to identify the cause(s) and, if necessary, take appropriate corrective action, including recovery of overpayments and modifications to the automated system.**

## **Finding 3**

**OHEP's practice of paying the utility companies for an entire program year for each recipient at one time resulted in the loss of investment income totaling approximately \$450,000 during fiscal year 2006.**

## **Analysis**

OHEP paid utility companies for an entire program year for each recipient's benefits at one time, rather than make these payments on a monthly basis. Furthermore, we were advised that the utility companies prorated the benefits received as monthly credits on the applicants' bills. OHEP's payment practice resulted in the loss of investment income to the State. Based on our calculations, had OHEP processed each recipient's monthly benefit separately, the State would have earned investment income totaling approximately \$450,000 during fiscal year 2006. Similar savings would have been earned in previous years. This income could have been used for additional EUSP benefits.

Although State laws and regulations do not mandate the frequency of benefit payments to utility companies, legislation passed during the 2006 special legislative session modified the EUSP statute to provide that benefits may be paid to these companies by OHEP on a monthly basis for each recipient.

## **Recommendation 3**

**We recommend that OHEP maximize investment income by modifying its benefit payment system to provide for benefits to be paid on a monthly basis for each recipient.**

## Weatherization Services

### Conclusions

Adequate procedures were not in place to ensure that contractor billings were for services needed, and that contractor invoices were for services actually performed. This deficiency existed while the program was administered by OHEP as well as since its transfer to DHCD in October 2005.

#### **Finding 4**

**OHEP and DHCD had not established adequate procedures to ensure the propriety of weatherization services provided and related billings.**

#### **Analysis**

OHEP and DHCD had not established adequate procedures to ensure that weatherization services provided were needed and that the related billings were valid. Our review of the procedures and controls over the program disclosed the following conditions:

- Procedures were not in place to ensure that weatherization services provided were necessary. Specifically, while these services were under OHEP, the contractor was responsible for determining what weatherization services were needed and for performing that work. Effective October 2005, with the transfer of responsibility to DHCD, the LAAs determined what services needed to be performed, and various contractors were responsible for performing the work. However, employees of OHEP or DHCD did not verify the necessity of the proposed work (such as by performing site visits).
- OHEP and DHCD did not ensure that weatherization services billed by the contractor were proper and that the work had been satisfactorily completed. As evidence of satisfactory completion, quality control forms are required to be completed and signed by both the customer and the LAA. However our test of 11 households, reported as receiving approved weatherization services totaling \$33,434 during the period from September 2004 to January 2006, disclosed deficiencies related to the quality control forms for 7 households with related weatherization costs totaling \$19,918. For example, in 3 instances, those forms were not completed and, in another 2 instances, the forms were dated prior to the project completion dates.

#### **Recommendation 4**

**We recommend that employees of DHCD conduct site visits to ensure that proposed work is necessary. In addition, to ensure that all billed services**

were completed in a satisfactory manner, we recommend that DHCD ensure that required quality control forms are properly completed and submitted for each household receiving weatherization services.

## **Administrative Expenditures**

### **Finding 5**

**Recorded EUSP administrative expenditures in fiscal years 2005 and 2006 appeared to be appropriate and, in total, did not exceed the limit established by the PSC.**

### **Analysis**

Our review of OHEP procedures and controls and related testing of administrative expenditures disclosed that tested administrative expenditures from fiscal years 2005 and 2006 were valid EUSP charges and were properly authorized and supported. Additionally, we noted that expenditures, in total, were properly monitored by OHEP and, for the aforementioned years, they did not exceed 10 percent of program funding—the maximum limit established by the PSC.

### **Recommendation 5**

**None**

## APPENDIX

State of Maryland  
Department of Human Resources



Maryland's Human Services Agency

Martin O'Malley  
Governor

Anthony Brown  
Lt. Governor

Brenda Donald  
Secretary

October 31, 2007

Mr. Bruce A. Myers  
Maryland General Assembly  
Department of Legislative Services  
Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed are the Department of Human Resources (DHR)/Office of Home Energy Programs (OHEP) responses to the findings of the draft performance audit on the DHR/OHEP Electric Universal Service Program (EUSP). In addition to the paper copy enclosed, an electronic version has been sent by e-mail to [response@ola.state.md.us](mailto:response@ola.state.md.us).

DHR/OHEP responses include any corrective actions required and details regarding any questions or concerns raised by the legislative auditors. It is the intent of DHR/OHEP to begin immediately to make necessary changes to continue to improve the performance of the EUSP in the service of the citizens of the State of Maryland.

If further information is required, please contact John A. Heath, Executive Director of the Community Services Administration at 410-767-7855.

Sincerely,

Brenda Donald  
Secretary

Enclosure

cc: Winifred Wilson  
William E. Johnson  
John A. Heath  
Ralph Markus

**MARYLAND DEPARTMENT OF HUMAN RESOURCES  
COMMUNITY SERVICES ADMINISTRATION  
OFFICE OF HOME ENERGY PROGRAMS**

**RESPONSE TO FINDINGS OF THE DRAFT PERFORMANCE AUDIT  
ON THE ELECTRIC UNIVERSAL SERVICE PROGRAM**

**Finding 1**

**LAAs did not always obtain documentation to support applicant data used to determine the amount of energy assistance benefits awarded.**

**Response:**

OHEP will take action to assure that proper documentation is obtained for all applicants. OHEP will issue a transmittal to local administering agencies re-iterating the required documentation. OHEP, in addition to its regular monitoring of local agencies will take an additional quarterly sample of cases in the agencies identified in the finding. The first sample will take place by the end of November. OHEP will also confer with the two agencies by the end of November and identify a process to assure that all workers are familiar with the policy.

**Finding 2**

**OHEP had not established adequate procedures to detect and prevent overpayment.**

**Response:**

OHEP agrees that any payment over the eligible benefit established by the qualifications under EUSP or a duplicate payment should be prevented. OHEP has already reviewed software functions and has identified a change that will help eliminate this situation. A work request has already been submitted to the OHEP software contractor that implements a procedure for identifying second payments prior to approval of an application for a benefit. Implementation is anticipated at the end of January.

**Finding 3**

**OHEP's practice for paying the utilities companies for an entire program year for each recipient at one time resulted in the loss of investment income totaling approximately \$450,000 during fiscal year 2006.**

**Response:**

Any recommendation regarding the change to monthly payments from annual payments should be made on the basis of what is good for the customer and not potential gain in investment income. The issue of monthly payments is being examined by the Public Service Commission as a possible policy change as identified in PSC Order 81638 in Case No. 8903. Since the PSC has oversight responsibility of EUSP and OHEP's administration of the program, no action is planned at this time until the PSC issues an order relating to monthly payments.



Maryland Department of Housing  
and Community Development

Martin O'Malley  
GOVERNOR

Anthony G. Brown  
LT. GOVERNOR

Raymond A. Skinner  
SECRETARY

Clarence J. Snuggs  
DEPUTY SECRETARY

November 1, 2007

Bruce A. Myers, CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore MD 21201

Dear Mr. Myers:

This letter is in response to your draft performance audit on the Electric Universal Service Program (EUSP) which contains findings for two State agencies—the Department of Human Resources, Office of Home Energy Programs (OHEP), the primary agency for administering the EUSP program, and the Department of Housing and Community Development (DHCD), the agency to which the weatherization program component was transferred in October 2005. As requested, DHCD is responding to finding four relating to the weatherization program.

Finding 4: OHEP and DHCD had not established adequate procedures to ensure the propriety of weatherization services provided and related billings.

OHEP and DHCD had not established adequate procedures to ensure that weatherization services provided were needed and that the related billings were valid. Our review of the procedures and controls over the program disclosed the following conditions:

- Procedures were not in place to ensure that weatherization services provided were necessary. Specifically, while these services were under OHEP, the contractor was responsible for determining what weatherization services were needed and for performing that work. Effective, October 2005, with the transfer of responsibility to DHCD, the (local administering agencies) LAAs determined what services needed to be performed, and various contractors were responsible for performing the work. However, employees of OHEP and DHCD did not verify the necessity of the proposed work (such as by performing site visits).
- OHEP and DHCD did not ensure that weatherization services billed by the contractor were proper and that the work had been satisfactorily completed. As evidence of satisfactory completion, quality control forms are required to be completed and signed by both the customer and the LAA. However, our test of 11 households, reported as receiving weatherization approved services totaling \$33,434 during the period from September 2004 to January 2006, disclosed deficiencies related to the quality control forms for 7 households with related weatherization costs totaling \$19,918. For example, in 3 instances those forms were not completed and in another 2 instances the forms were dated prior to the project completion dates.



Recommendation 4: We recommend that employees of DHCD conduct site visits to ensure that proposed work is necessary. In addition, to ensure that all billed services were completed in a satisfactory manner, we recommend that DHCD ensure that required quality control forms are properly completed and submitted for each household receiving weatherization services.

#### DHCD Response

The DHCD respectfully disagrees with the finding that DHCD had not established adequate procedures to ensure the propriety of weatherization services provided and related billings since the transfer of the EUSP weatherization program to DHCD in October 2005. DHCD was not involved in the administration of the EUSP weatherization program prior to that time and therefore cannot comment upon prior controls.

Since the October 2005 transfer, DHCD has been administering the EUSP weatherization program in accordance with established policies and procedures already used for providing Statewide program administration and oversight to the U.S. Department of Energy (DOE) Weatherization Assistance Program (WAP). DHCD's weatherization policies and procedures are documented in the Weatherization Program Operations Manual available for review on the DHCD website at [http://www.dhcd.state.md.us/Website/programs/wap/ops\\_manual.aspx](http://www.dhcd.state.md.us/Website/programs/wap/ops_manual.aspx).

The DHCD administers EUSP through local weatherization agencies (LWAs), which are not synonymous with the OHEP LAAs, although there is some overlap. Once an OHEP LAA has certified income eligibility for applicants who have requested weatherization services, the case is transferred to the appropriate LWA. An initial energy audit inspection is required, performed by independently trained and certified LWA staff in order to identify weatherization problems, determine the best method to treat the problems, and provide a work plan to be used by work crews to address the problems. Given the requirement for an initial energy audit inspection, which satisfies DOE WAP requirements, DHCD does not believe it is necessary to conduct a site visit to review or approve the proposed work for each home assisted by the program.

The DHCD requires a quality control inspection to be performed at the completion of work for 100% of cases. Audits are performed by an independent trained and certified LWA inspector and include comparison of "before" and "after" diagnostic tests and completion of a quality control form. A copy of this form was previously maintained by the LWA in their case file; going forward, DHCD will require the LWA to submit a copy of the quality control inspection form to DHCD with the request for payment, which will be reviewed prior to reimbursement.

The DHCD weatherization inspectors provide an additional inspection of not less than 20% of the units prior to reimbursement. In addition, DHCD weatherization staff perform routine monitoring visits to assist with LWA program compliance, identify weaknesses and advise on corrective actions through an early warning system that ensures that weatherization program goals are met.

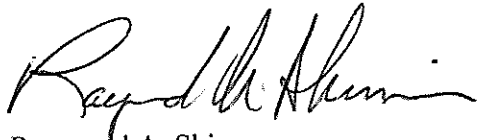
Five of the eleven files reviewed by the OLA received EUSP dollars through DHCD. We have reviewed the Quality Control inspection forms completed by the LWA for these five cases and are satisfied that the weatherization services were necessary, properly completed and appropriately reimbursed.



Bruce A. Myers, CPA  
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Thank you for affording the DHCD the opportunity to respond to the findings of the draft performance audit. If I may be of further assistance on this or any other matter, please do not hesitate to contact me or Mr. Jim McAteer at 410 514-7489 or [mcateer@mdhousing.org](mailto:mcateer@mdhousing.org).

Sincerely,

A handwritten signature in cursive script, appearing to read "Raymond A. Skinner".

Raymond A. Skinner  
Secretary

cc: Mr. Jim McAteer, Senior Manager, Single Family Housing, DHCD

AUDIT TEAM

**Brian S. Tanen, CPA, CFE**  
Audit Manager

**Joseph E. Adriani**  
Senior Auditor

**Tracy D. Mayet**  
**W. Thomas Sides**  
**Jennifer L. Thompson**  
  
Staff Auditors