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RESIDENTIAL ENERGY

Oversight of Low-Income Home Energy Assistance Program Payments

Statement of Jim Wells, Director
Natural Resources and Environment



GAO-05-1039T

September 27, 2005

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Highlights

Highlights of GAO-05-1039T, testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The Department of Health and Human Services' (HHS) Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program with recent annual funding of about $2 billion that provides fuel payment assistance and payments for home energy efficiency improvements for low-income households. As energy prices continue to rise, this assistance is growing more important to mitigate the impact of higher prices on low-income households. HHS awards LIHEAP funds by formula to all 50 states and the District of Columbia, federally or state-recognized Indian tribes and tribal organizations, and territories. These grantees then provide energy assistance payments to low-income households. Within LIHEAP, the Residential Energy Assistance Challenge Option (REACH) program funds demonstration projects to help low-income families reduce their energy usage. GAO was asked to provide information on (1) HHS's oversight of LIHEAP payments made by grantees and (2) GAO's 2001 review of LIHEAP's REACH program.

What GAO Recommends

This testimony does not make any recommendations.

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What GAO Found

HHS relies on individual grantees—the states, tribal organizations, and territories—to oversee the LIHEAP program. Because the Single Audit Act made state and local governments primarily responsible for obtaining independent audits of funds they receive from federal programs, HHS's principal oversight function is to monitor, not audit, LIHEAP payments made by grantees. Monitoring includes assessing the quality of single audits conducted under the act, reviewing audit results, and ensuring that corrective actions are taken to resolve audit findings. GAO's brief review of relevant 2004 Single Audit Act reports showed that the only LIHEAP costs that were specifically questioned involved relatively small sums—for example, one report cited incorrect or duplicate payments totaling $8,864. Another audit report questioned $1,285 in LIHEAP payments because of inadequate procedures to prevent overpayments.

GAO's 2001 review of the REACH program found several projects that included social services that were not directly related to meeting home energy needs. For example, six projects included job skill or employment development services, and one project provided funds to help clients pay past-due rent or mortgage payments. In addition, the report stated that REACH did not have performance goals that were objective and quantifiable. As a result, GAO did not believe HHS could effectively evaluate the program's overall performance. The report also noted that such goals would provide a clearer basis for selecting individual projects to fund. GAO recommended that HHS develop performance goals for REACH that were objective, measurable, and quantifiable. While HHS agreed with this recommendation, GAO has been unable to identify any actions taken to implement this recommendation. According to HHS, the agency continues to work on the development of long-term performance measures for LIHEAP.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the Department of Health and Human Services' (HHS) Low-Income Home Energy Assistance Program (LIHEAP) and our observations on oversight methods for determining the sources and magnitude of possible improper payments. As you know, LIHEAP is a block grant program established in 1981 that funds fuel payment assistance and home energy efficiency improvements for low-income households. With recent annual funding of about $2 billion, LIHEAP seeks to increase the health and prosperity of communities and tribes by helping low-income households—particularly those with the lowest income, which pay a high proportion of household income for home energy—meet their immediate home energy needs. As energy prices continue to rise, this assistance is growing more important to mitigate the impact of higher prices on low-income households. HHS awards LIHEAP grant funds by formula to all 50 states and the District of Columbia, federally or state-recognized Indian tribes and tribal organizations, and insular areas (American Samoa, the Commonwealth of Puerto Rico, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands). These grantees provide payments to households to help them meet their energy needs. According to HHS, in fiscal year 2004, approximately 4.6 million households received heating assistance; 308,000 households received cooling aid; 1.1 million received winter/year-round crisis aid; 92,000 received summer crisis aid; and 112,000 received weatherization assistance. Households may receive more than one kind of LIHEAP assistance.

Within LIHEAP, the Congress established the Residential Energy Assistance Challenge Option (REACH) program, which provides grants that fund demonstration projects to test various approaches to help low-income families reduce their energy usage and become more self-sufficient in meeting their home energy needs. In a sense, the REACH program serves as a "laboratory" for identifying better ways to ensure that low-income families can afford home heating and cooling. With annual average funding of about $6 million—less than 1 percent, on average, of the total annual funding for LIHEAP—REACH had provided 112 grants totaling $55 million by the end of fiscal year 2004. Individual grants ranged in amount from $50,000 to $1.6 million.

My statement today discusses (1) HHS's oversight of LIHEAP payments made by grantees and (2) our 2001 review of LIHEAP's REACH program. To address LIHEAP payment oversight, we gathered information on the payment oversight process and conducted a brief review of 2004 Single

Audit Act reports that addressed LIHEAP. Specifically, we queried the Single Audit Database from the Federal Audit Clearinghouse to identify 2004 Single Audit Act reports that addressed LIHEAP. We then examined those reports that had findings to determine the nature of the findings as they related to LIHEAP. Our discussion of the REACH program is based on our 2001 report, which we conducted in accordance with generally accepted government auditing standards.[1] We did not update our 2001 report on the REACH program.

LIHEAP Payment Oversight

As a block grant program, LIHEAP offers much flexibility to states and other grantees to manage and oversee their energy assistance programs in the way that they feel best serves their low-income populations. While the federal government establishes overall guidelines, each grantee operates its own program, taking applications, establishing eligibility, and making decisions on the kinds of assistance payments it will offer. HHS accepts the grantee's interpretation of the LIHEAP statute unless HHS finds it to be "clearly erroneous."

LIHEAP payments are subject to review under the Single Audit Act. The Single Audit Act made state and local governments primarily responsible for obtaining independent audits of federal programs, including payments made under LIHEAP. As a result, HHS's principal oversight function is to monitor, not audit, LIHEAP payments made by grantees. Monitoring includes assessing the quality of single audits conducted under the act, reviewing audit results, and ensuring that corrective actions are taken to resolve audit findings. Through the audit or other federal review processes, grantees must return funds when spent in ways contrary to the LIHEAP statute. Our brief review of 2004 Single Audit Act reports addressing LIHEAP showed relatively few specific LIHEAP-related audit findings. In some cases, grantees were found to have not met accounting criteria for managing federal funds they were awarded—both from LIHEAP and other programs—so it was difficult to distinguish any specific improper LIHEAP payments. For example, one grantee lacked adequate documentation to support costs it charged to manage its federal funds. We were able to identify only certain relatively small LIHEAP payments questioned in the audit reports, such as $8,864 in what appear to have been incorrect or duplicate payments made by one grantee. Another audit

[1]GAO, *Residential Energy Assistance: Effectiveness of Demonstration Program as Yet Undetermined*, GAO-01-723 (Washington, D.C.: August 17, 2001).

report questioned $1,285 in LIHEAP payments because of inadequate procedures to prevent overpayments.

In addition to the Single Audit Act, the Improper Payments Information Act of 2002 requires federal agencies to review their programs and identify those that may be susceptible to significant improper payments. Agencies are required to estimate the annual amount of improper payments and submit those estimates to the Congress; when improper payments are estimated to exceed $10 million, those estimates must be accompanied by a report of actions being taken to reduce such payments. As part of this process, HHS has conducted risk assessments identifying specific program risks and assessing related controls. Although HHS identified seven of its programs as high-risk, LIHEAP was not among them. We are not aware of any more comprehensive information on the appropriateness of payments made by LIHEAP grantees other than the few examples discussed above.

REACH Program

While we have not reviewed overall LIHEAP compliance, at the request of the Senate Committee on Health, Education, Labor and Pensions and the House Committee on Education and Workforce, in 2001 we did review and report on REACH—a small part of the overall program. We found that many REACH projects involved energy-related repairs to homes and budget counseling, and three state REACH projects were developing consumer cooperatives to purchase electricity or bulk fuels, such as heating oil. However, some REACH projects made payments for social services not directly related to meeting home energy needs. For example, six projects made payments for job skill or employment development services, and one project provided funds to help clients pay past-due rent or mortgage payments.

The legislation authorizing REACH identified three performance goals for individual REACH projects: reduce energy costs of participating households, increase the regularity of home energy bill payments, and increase energy suppliers' contributions to reduce eligible households' energy burden. Despite these broad purposes for the program, in 2001 HHS had not developed performance goals that were objective and quantifiable. Consequently, we did not believe HHS could effectively evaluate the program's overall performance and report to the Congress on what was accomplished for the resources expended. We also noted that developing such goals would provide a clearer basis for selecting individual projects to fund. Our report recommended that HHS develop program performance goals for REACH that were objective, measurable, and quantifiable. HHS agreed with the recommendation and planned to

develop performance goals for REACH as part of the agency's Government Performance and Results Act (GPRA) plan. However, the most recent FY 2005 Performance Plan did not include goals for the REACH program under LIHEAP. We have been unable to identify any actions taken to implement this recommendation. According to HHS officials, they have continued to examine this issue and work on the continuing improvement and development of long-term performance measures for the overall LIHEAP program.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or other Members of the Subcommittee may have at this time.

Contacts

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. For further information about this testimony, please contact Jim Wells at (202) 512-3841 or Wellsj@gao.gov.

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