Report

LIHEAP Program Integrity:
States Make Progress on Documentation and Verification of Client Information

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Report #3

Since the publication of a Government Accountability Office report in 2010, the issues surrounding program integrity have remained front-and-center for LIHEAP grantees. Two of the most important issues are the extent to which grantees document and verify applicant identity and income levels to ensure only eligible households receive LIHEAP benefits.

This report reviews state practices regarding identity and income documentation and verification from FY 2010 through FY 2014. It includes:

1. Background on LIHEAP program integrity
2. Overview of state Program Integrity Assessments (PIAs)
3. States' progress on documentation of client identity information
4. States' progress on verification of client identity information
5. States' progress on documentation and verification of client income information
6. Conclusion

1. Background on LIHEAP program integrity

In June 2010, the Government Accountability Office (GAO) released a report entitled *Low-Income Home Energy Assistance Program: Greater Fraud Prevention Controls Are Needed*. In the report, the GAO analyzed LIHEAP data from seven states (Illinois, Maryland, Michigan, New Jersey, New York, Ohio, and Virginia) for fraud indicators; interviewed fed-

eral and state officials; performed investigations; and conducted proactive testing in two states (Maryland and West Virginia) using a fictitious company, individuals, addresses, and documents.

The GAO selected the seven states primarily based on the size of their LIHEAP grants and availability of a centralized LIHEAP database. The report's findings in the seven states included:

- Nine percent of households receiving benefits, which totaled $116 million, contained invalid identity information, such as Social Security Numbers, names, or dates of birth.

Program Integrity Resources

- LIHEAP Information Memorandum 2010-6, U.S. Department of Health and Human Services, May 5, 2010.

- LIHEAP Action Transmittal 2010-6, U.S. Department of Health and Human Services, June 8, 2010

- *Low-Income Home Energy Assistance Program: Greater Fraud Prevention Controls are Needed*, Government Accountability Office, June 18, 2010

- Final Report, LIHEAP Program Integrity Working Group, April 13, 2012

- 2014 State Program Integrity Assessments, LIHEAP Clearinghouse

- 2014 Tribal Program Integrity Assessments, LIHEAP Clearinghouse

- The identities of about 11,000 deceased people were used to receive LIHEAP benefits.
- Hundreds of incarcerated prisoners were listed on applications to receive LIHEAP benefits.
- Over 1,000 federal employees whose salaries exceeded the maximum income threshold received LIHEAP benefits.

The GAO report set in motion a process that made program integrity a central focus for LIHEAP grantees by concluding that the program was at risk for fraud and improper payment of benefits. The report also declared that grantees and the federal government lacked a proper fraud-prevention framework for LIHEAP.

The GAO stated there were "key preventive control measures that states should integrate in their application processes as long as the costs of these controls do not outweigh the benefits."

The GAO made six recommendations to the U.S. Department of Health and Human Services (HHS) to better help LIHEAP grantees prevent fraud:

- Require applicants to provide Social Security Numbers for all members of a household in order to receive energy-assistance benefits.
- Evaluate the feasibility (including consideration of any costs and operational and system modifications) of validating household members' identity information with the Social Security Administration.
- Develop pre-payment checks to prevent individuals from receiving duplicate benefits.
- Evaluate the feasibility of using the Social Security Administration's or state's vital record death data to prevent individuals from using deceased identities to receive benefits.
- Evaluate the feasibility of preventing incarcerated individuals from improperly receiving benefits, for example, by verifying Social Security Numbers with a state's prisoner information.

- Evaluate the feasibility of using third-party sources (such as the State Directory of New Hires) to assure that individuals do not exceed maximum income thresholds.

HHS responded to the GAO report in numerous ways. In May 2010, it issued LIHEAP Information Memorandum 2010-6 to grantees that affirmed they *may* use Social Security Numbers (SSNs) to verify eligibility for individuals and households. HHS did this after concluding that, while it lacked the authority to mandate that grantees use SSNs, grantees did have the authority under the Privacy Act of 1974 to require SSNs from applicants if the grantees so choose. In the same memorandum, HHS encouraged grantees to exercise diligence when qualifying LIHEAP applicants by using governmental systems, such as prisoner databases and those available through the Social Security Administration, to verify applicant information and to decrease errors.

In June 2010, HHS issued Action Transmittal 2010-6 which required states to report on their procedures for ensuring program integrity as a supplement to their FY 2011 annual plans. The annual plans and the program-integrity reports were due to HHS by Sept. 1, 2010. These Program Integrity Assessments became an annual reporting requirement filed at the same time as grantees' annual plans (see "Overview of Program Integrity Assessments (PIAs)" for more information).

HHS also funded the LIHEAP Program Integrity Working Group, composed of state and local agency LIHEAP directors, national stakeholders, and staff from other federal agencies. The group met during 2011 and reviewed existing LIHEAP internal controls in the areas of eligibility, fiscal management, oversight, monitoring, investigation, and prosecution. It also investigated internal controls in other means-tested federal programs. It provided HHS with a report on its findings in June 2012. The group provided five recommendations to HHS:

- HHS should mandate the collection of SSNs.
- HHS should collaborate and coordinate with other federal agencies to help stream-line third-party verification processes.
- HHS should perform an in-depth cost-benefit analysis of various third-party verification measures.
- HHS should develop LIHEAP-specific guidance for the A-133 Audit, the standardized audit required of grantees.
- HHS should create and provide more training and technical assistance for grantees.

HHS responded to the Working Group's recommendations in part by [awarding](#) four new contracts in 2012 to help support improved program integrity in LIHEAP. Under one of these contracts, a cost-benefit analysis of third-party verification measures is nearing completion. One of the other contracts has focused on HHS providing expanded training and technical assistance for grantees. Another result of these contracts is a new Performance Measurement [website](#), which is only for grantees and requires login information to access.

2. Overview of state Program Integrity Assessments (PIAs)

In its June 2010 [Action Transmittal](#) to LIHEAP grantees, HHS told grantees they needed to establish appropriate systems and procedures to prevent, detect, and correct waste, fraud, and abuse within their LIHEAPs. In addition to the LIHEAP statute's [income eligibility standards](#), HHS reminded grantees that LIHEAP regulations ([45 CFR 96.84(c)](#)) required them to:

> "...establish appropriate systems and procedures to prevent, detect, and correct waste, fraud, and abuse in activities funded under the low-income home energy assistance program. The systems and procedures are to address

possible waste, fraud, and abuse by clients, vendors, and administering agencies."

HHS provided a model format for grantees to use for submitting information about their plans and strategies to ensure program integrity. HHS started requiring these Program Integrity Assessments (PIAs) in FY 2011 as supplements to grantees' annual plans. The framework provided by HHS included categories under which grantees described what program integrity measures they have, or would be putting, in place. The PIAs covered 13 areas of program integrity.

HHS told grantees it would look at their PIAs for descriptions that clearly addressed the key elements of a sound integrity plan; in particular, grantees' efforts to verify applicant and household identity (including use of SSNs) and income eligibility. HHS made it clear that documentation and verification are not the same. Requiring applicants to provide documents that demonstrate their eligibility is one piece of the process; however, HHS stressed that it's also important that grantees verify the documentation through a third party to make sure the information provided by the applicant is accurate. This report will focus on these two areas of concern.

Effective with FY 2015 plans, grantees will submit their annual plans, as well as their PIAs, through the federal Online Data Collection system. Instead of being a supplemental attachment to the annual plans, the information previously contained within PIAs will now be integrated into the online form for the annual plans. For more information about these FY 2015 changes, please see the presentation posted [here](#).

3. States' progress on documentation of client identity information

In May 2010, HHS published [LIHEAP IM-2010-6](#) which "strongly encouraged" grantees to use SSNs when determining LIHEAP eligibility. The memorandum stated HHS had analyzed LIHEAP policies in response to [Executive Order 13520](#) which encour-

aged federal agencies to reduce improper payments through stronger program integrity.

During its analysis, HHS discovered that changes in federal law meant grantees were authorized under the Social Security Act to require SSNs as a condition of LIHEAP eligibility. However, HHS was still bound by provisions of the Privacy Act and couldn't compel states to require SSNs as a condition of LIHEAP eligibility. HHS reaffirmed that grantees had the discretion to require SSNs and encouraged them to do so.

The PIAs include specific questions dealing with the identity verification issues raised in IM-2010-6 and display HHS' emphasis on using SSNs as the gold standard of identity verification. The PIAs ask grantees to describe:

- How identities of applicants and household members are verified

- Whether SSNs are required for applicants

- The measures taken to prevent fraud if SSNs are not required

- How SSNs are verified through existing governmental systems and databases

- The measures taken to verify identity if not using governmental databases

Going into the first year of PIA reporting, HHS found that 28 states required SSNs in FY 2010, with the number increasing to 40 states in FY 2011. According to a review of FY 2014 PIAs by the LIHEAP Clearinghouse, the number grew to 42 by FY 2014. The table at the bottom of this page shows the growth since FY 2010.

Oregon is one grantee that moved from requesting SSNs in FY 2010 to requiring SSNs for all household members by FY 2014. It does have in place a policy for applicants that refuse to provide SSNs:

"If a new applicant refuses due to the fact that they are in a witness protection program, currently in a domestic violence situation, under one years old and the applicant has not yet received a Social Security Number on the child, other circumstances approved by the subgrantee program manager, an alternate client identification number will be generated by our statewide database. This number is

Status of SSN Requirement
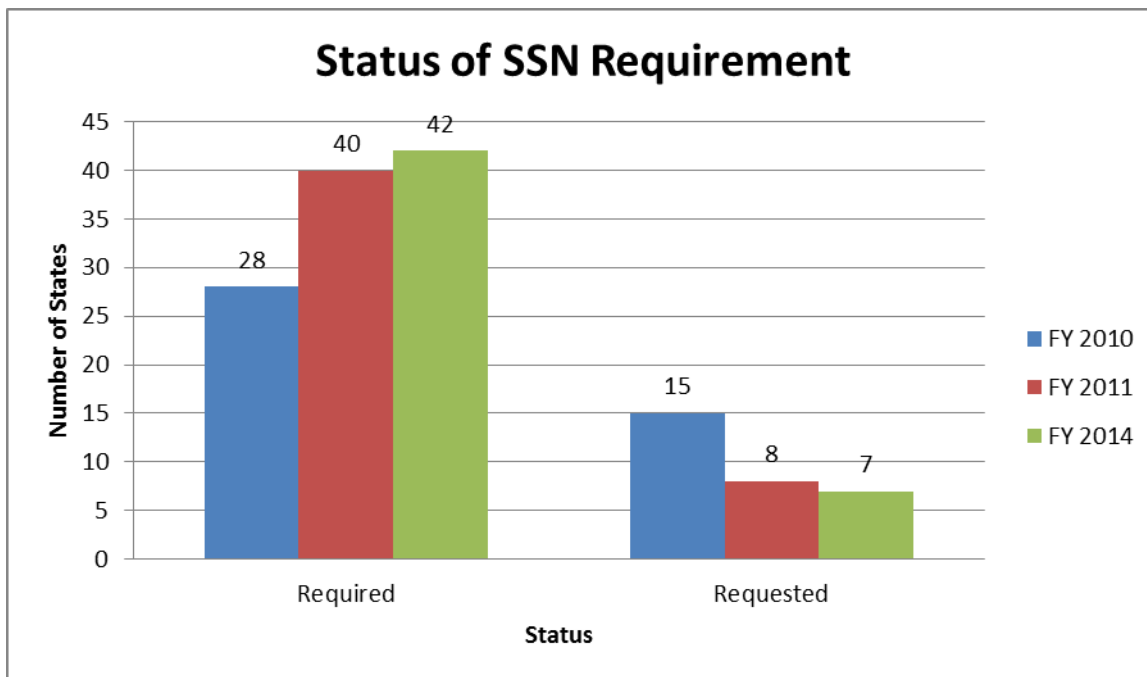
Sources: HHS, LIHEAP Clearinghouse

then tied to a combination of other unique personal identifiers (name, birthdate, address) provided by the applicant."

Like Oregon, numerous states that require SSNs have policies to deal with applicants that don't have SSNs. For example, Connecticut does not require SSNs for situations including battered spouses, lawful permanent residents, and victims of human trafficking.

Also like Oregon, states that do not receive SSNs for applicants frequently create and assign a different number to clients. In Kansas, where SSNs are requested but not required, the state "utilizes a pseudo number for identification." Likewise, subgrantees in Massachusetts create an "Application Identification Number." These numbers are used to help grantees track the records of these clients.

In FY 2010, Arkansas did not require SSNs for LIHEAP applicants, and it stated it would not require them unless it was mandated by the federal government. However, by FY 2014, it required SSNs from applicants. In FY 2010, Florida also didn't require applicants to provide SSNs. However, the Florida Department of Economic Opportunity, the LIHEAP grantee, reviewed the state's privacy law, along with the guidance from HHS, and now it requires SSNs from every member of an applying household. This policy change was implemented in FY 2012.

Texas is one of the states not requiring SSNs from applicants, citing language in the Texas Administrative Code. However, in its FY 2014 PIA, it said it is moving toward implementing the recommendations in LIHEAP IM-2010-2006.

During FY 2014, Maryland continued working to implement a document imaging system as part of an effort to create a database of imaged documents. It said this database would improve client identification as well as improve the application process. It said the system will allow cross checking between

various programs such as TANF, SNAP, and LIHEAP. This was a multi-year project with the expectation that the LIHEAP piece would be implemented by the end of 2014.

Similarly, in FY 2013, New Mexico contracted with a company to develop a new computer system that would move LIHEAP from a stand-alone system into one integrated with other New Mexico Human Services Department programs. The state reported the new system would include "the latest technology regarding verification..."

While HHS encourages using SSNs for identity documentation and the majority of states do use them, or are moving that way, most states also require other types of identification to be used during eligibility determination. These include, but are not limited to, drivers' licenses/other photo identification, utility bills, pay stubs, tax returns, bank statements, government award letters, birth certificates, etc.

4. States' progress on verification of client identity information

Once the identity documentation for an applicant is submitted, HHS suggests the best practice of verifying it through a third-party source. In order to verify LIHEAP applicants' SSNs, HHS recommended in LIHEAP IM-2010-06 that grantees explore arrangements that would allow them to use:

- Social Security Administration databases to confirm applicant identity
- State directories of new hires to confirm applicant income eligibility
- Prisoner databases to ensure applicants are eligible recipients
- Other databases that would help verify identity and income eligibility, such as state vital records registries.

Over the years, more and more states have moved toward verifying identity by matching docu-

mentation to other state or federal databases. The graph on this page helps illustrate this. The "Automated Matching" column refers to states checking identity against another state or federal database. The "Social Security Administration" column is a subset of "Automated Matching" and indicates an agreement between the state and the Social Security Administration (SSA) to access at least one of the federal agency's databases.

Most of the state databases used for identity verification allow LIHEAP to cross check identity documentation provided by clients against recipients of other public assistance programs, such as TANF and SNAP. While some states have these databases established, others are in the midst of implementing them. In its FY 2014 PIA, North Dakota reported it is in the process of building a verification system called "NDVerify." Scheduled for completion in mid-2015, it will contain information about all of the North Dakota Department of Health and Human Services' economic assistance programs and will allow verification of applicant identities across all programs.

The PIA includes a specific section asking how grantees cross check SSNs against existing government systems and databases. Furthermore, if grant-ees don't cross check SSNs and identities with existing databases, grantees are asked to describe what measures are taken to prevent fraud. With the emphasis on LIHEAP using SSNs for identity verification, it's not surprising to see an increase in the number of states entering into agreements with SSA. A few states—including Alaska, Iowa, and Minnesota—reported in their PIAs that they hoped HHS could help facilitate them getting access to SSA databases.

While SSA may be the easiest source of verification when it comes to SSNs, and other public assistance databases are the most common state databases used to verify identity, grantees use many other third-party sources as well. These include databases listing incarcerated people and death records, both of which help identify people who are ineligible to receive LIHEAP benefits.

Some states don't just use other governmental databases. Instead, they also cross check identities through utility databases. For instance, Hawaii matches SSNs to utility information, because utilities require a SSN to open an account. Kansas conducts a similar cross check.

Third-Party Verification of Identity
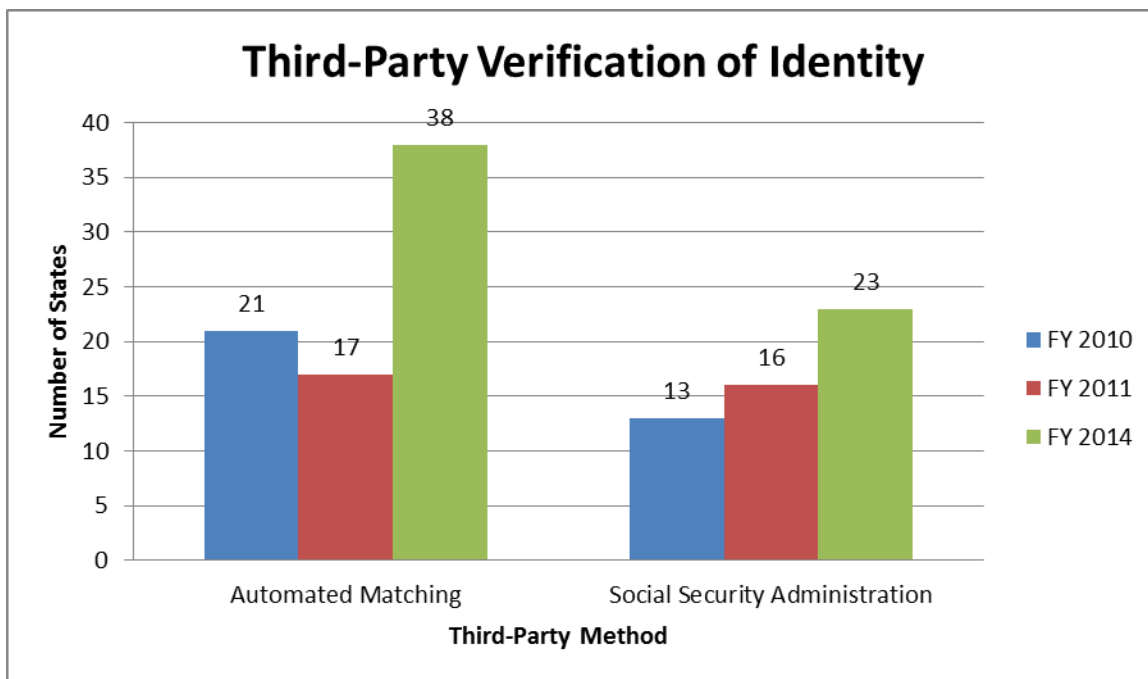
Sources: HHS, LIHEAP Clearinghouse

5. States' progress on documentation and verification of client income information

The income level of households applying for LIHEAP is central to the requirements of the program's statute, which allows grantees to set eligibility levels as high as 150 percent of federal poverty guidelines or 60 percent of state median income, whichever is higher. Grantees can set lower income guidelines; however, the LIHEAP statute says that no household with income less than 110 percent of federal poverty guidelines can be considered ineligible. Ensuring that households receiving LIHEAP benefits adhere to a grantee's income guidelines is, therefore, important for program integrity.

As mentioned earlier, the 2010 GAO report identified several instances of fraudulent benefit payments, most resulting from grantees failing to verify applicants' household income. The examples reported by the GAO included:

- Identification of about 1,100 federal employees whose salaries exceeded the maximum LIHEAP eligibility threshold at the time they applied, which resulted in payment of $671,000 in fraudulent benefits.

- Identification of several applicants that received benefits even though they lived in homes worth over a million dollars.

Most of the benefits paid to the ineligible federal employees mentioned above happened because grantees awarded the benefits based on documentation provided by the applicant and did not verify it through a third-party.

The GAO recommended that grantees evaluate the feasibility of using third-party sources, such as State Directory of New Hires databases, to provide assurance that individuals obtaining LIHEAP benefits don't exceed income guidelines.

Going into the first year of PIA reporting, HHS found that the most common types of income documentation accepted by grantees were pay stubs, tax returns, and employer letters. Those three continue to be popular choices and their use has increased over the years (see table below).

In the table on this page, it's important to remember that one grantee can be counted under more than one type of documentation. In other words, a grantee could accept pay stubs and tax returns. Other forms of income documentation accepted by grantees include, but are not limited, to:

Accepted Forms of Income Documentation
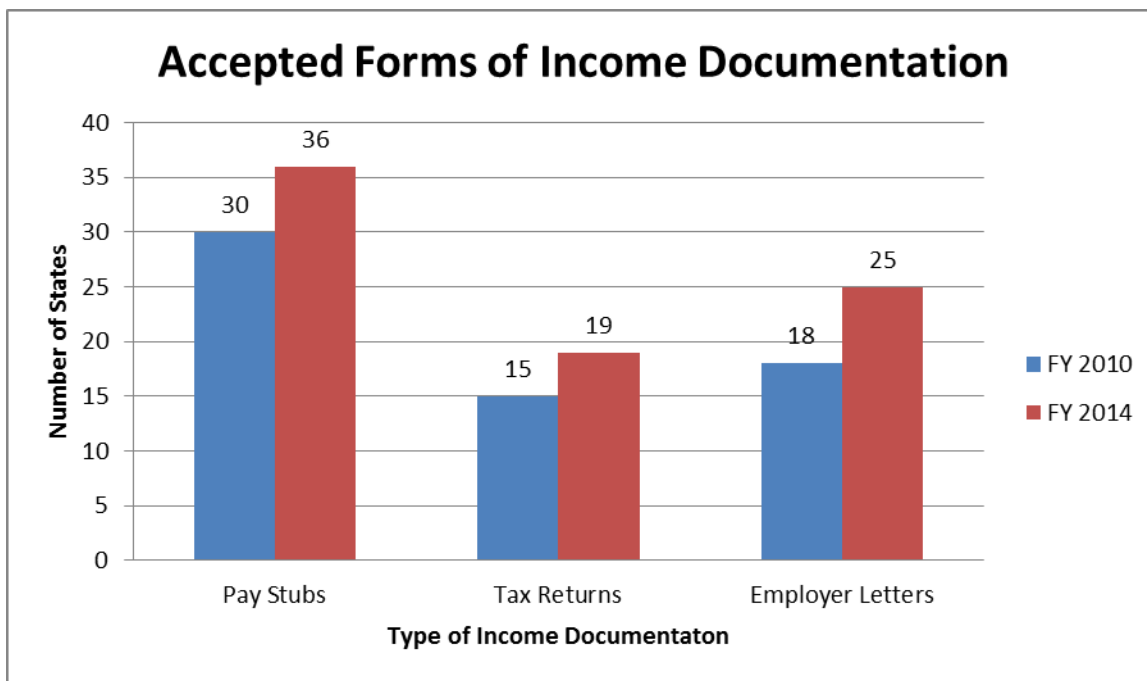
Sources: HHS, LIHEAP Clearinghouse

bank statements, statement of benefits from other public assistance programs, alimony decrees by court order, child support documentation, etc.

As LIHEAP IM-2010-06 stated, documentation is not the same as verification. As the GAO recommended, HHS strongly encourages grantees to use third-party databases for verification of applicant income. During 2012, HHS reported that, in FY 2011, nine states used a state directory of new hires (recommended by the GAO) to verify income. Additionally, 19 states checked income against a state database. The table on this page compares the numbers reported for FY 2011 and those for FY 2014.

States may be counted under more than one category in the chart, as some grantees use multiple types of databases to verify income. States using a state computer system were also counted under "Other Databases" if they used more than one state system for verification. While the chart makes it appear that use of new hire directories has decreased, that may not be the case. For the states accessing records through their Departments of Labor, they may be able to receive new-hire data along with unemployment verification.

Some states, including Alabama, Connecticut, and Mississippi, noted in their FY 2014 PIAs that they were looking into the possibility of getting ac-

cess to new hire information. North Dakota reported that the new central system it's developing, NDVerify, will allow income verification to be done through wage matches, unemployment benefits, new hires, and SSA benefits. Other states questioned the benefit of using new hire information. New York said its new hire system doesn't provide real-time data, which means information may be incorrect and outdated by the time LIHEAP accesses it. A few other states, like Delaware, noted they are working to access their Departments of Labor data regarding unemployment insurance.

A handful of grantees noted that, while the state office sometimes has access to databases that can verify income, that access isn't always available to local administering agencies. Both Oregon and Hawaii noted they are working to get local agencies access to employment databases for verification purposes. In New Jersey, the Department of Community Affairs, the LIHEAP grantee, has access to Department of Labor data. The local agencies must go through the state office to verify income.

6. Conclusion

As shown by this analysis of state LIHEAP PIAs from their inception through 2014, states have made significant strides in enhancing program integrity by
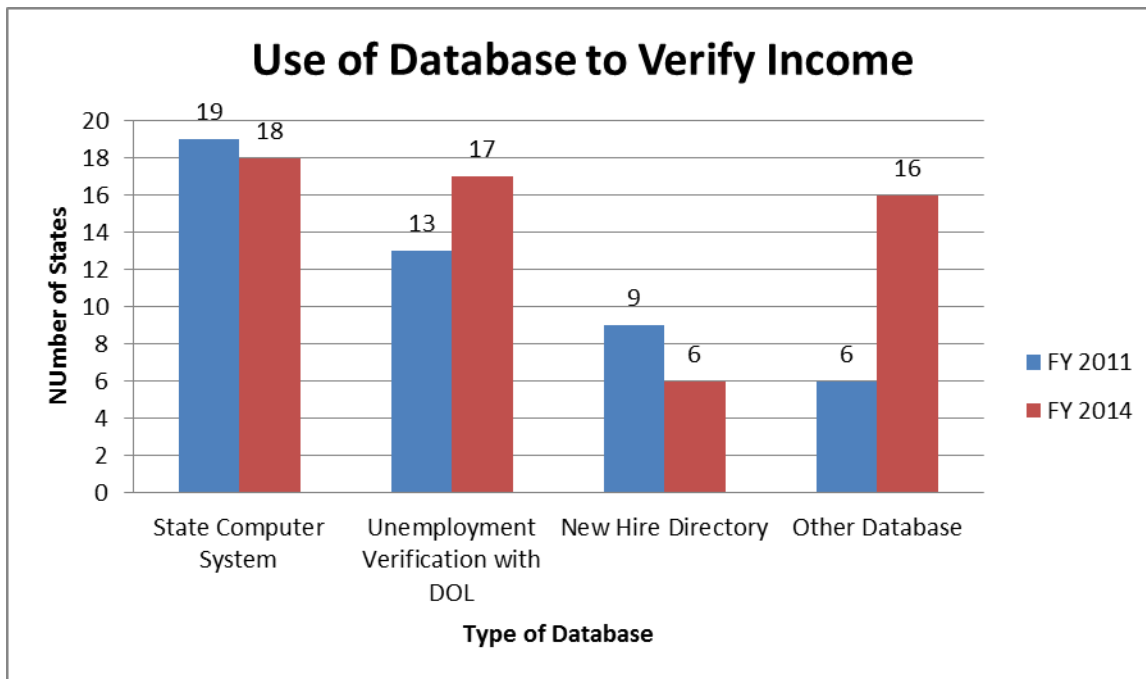
Sources: HHS, LIHEAP Clearinghouse

doing more to ensure that only eligible households receive LIHEAP benefits. For example, the analysis reveals a consistent trend since FY 2011 of more states adopting HHS' recommendation to require SSNs for applicants. In FY 2010, only 55 percent of grantees required SSNs; by FY 2014, that percentage increased to 82 percent. Many of the states not currently requiring SSNs report in their PIAs that they continue moving in that direction.

As this analysis further demonstrates, since FY 2010, more and more states have moved toward verifying identity and income by cross checking client documentation against federal databases, including the Social Security Administration, and other state databases. The number of states able to verify SSNs against SSA data also increased significantly, from 25 percent of states having access to SSA data in FY 2010 to 45 percent in FY 2014. For many states, this evolution has involved upgrading LIHEAP computer systems and allowing LIHEAP administrators to more efficiently access other state databases.

The review of the PIAs also demonstrates that grantees continue to tweak, reform, and enhance their program integrity efforts by adding new tools and seeking out ways to make even their best practices run more efficiently.