

N00I0006
Office of Home Energy Programs
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

| | <u>FY 10</u> <u>Actual</u> | <u>FY 11</u> <u>Working</u> | <u>FY 12</u> <u>Allowance</u> | <u>FY 11-12</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| Special Fund | \$79,160 | \$80,169 | \$56,001 | -\$24,168 | -30.1% |
| Contingent & Back of Bill Reductions | 0 | 0 | 0 | 0 | |
| Adjusted Special Fund | \$79,160 | \$80,169 | \$56,001 | -\$24,168 | -30.1% |
| Federal Fund | 81,528 | 48,746 | 87,210 | 38,464 | 78.9% |
| Contingent & Back of Bill Reductions | 0 | 0 | -5 | -5 | |
| Adjusted Federal Fund | \$81,528 | \$48,746 | \$87,206 | \$38,460 | 78.9% |
| Adjusted Grand Total | \$160,688 | \$128,915 | \$143,207 | \$14,292 | 11.1% |

- A proposed deficiency appropriation for the Office of Home Energy Programs (OHEP) would reduce funding available for energy assistance by approximately \$6.7 million. The deficiency appropriation withdraws approximately \$19.8 million of special funds from the Strategic Energy Investment Fund due to lower than anticipated revenue and recognizes \$13.0 million of federal funds due to a higher than anticipated availability of funds from the Low Income Home Energy Assistance Program (LIHEAP).
- The fiscal 2012 allowance for OHEP increases by approximately \$14.3 million, or 11.1%, compared to the fiscal 2011 working appropriation after accounting for across-the-board and contingent reductions. However, after accounting for the proposed deficiency appropriation and additional LIHEAP funds allocated by the U.S. Department of Health and Human Services, but not yet recognized in the OHEP budget, the increase in the fiscal 2012 allowance is only approximately \$3.3 million.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

| | <u>FY 10 Actual</u> | <u>FY 11 Working</u> | <u>FY 12 Allowance</u> | <u>FY 11-12 Change</u> |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Regular Positions | 15.87 | 13.87 | 13.87 | 0.00 |
| Contractual FTEs | <u>0.50</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Total Personnel | 16.37 | 13.87 | 13.87 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|---|------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 0.86 | 6.18% |
| Positions and Percentage Vacant as of 12/31/10 | 0.00 | 0.00% |

- During fiscal 2011, 1.0 position was transferred to another area of the Department of Human Resources (DHR). DHR reports that there was no impact from this position transfer.
- Turnover expectancy decreases from 7.35 to 6.18% in fiscal 2012.
- As of December 31, 2010, OHEP had no vacant positions. To meet its turnover expectancy of 6.18%, OHEP needs to maintain 0.86 vacant positions. At its current level of vacancy, OHEP may have difficulty meeting its turnover expectancy.

Analysis in Brief

Major Trends

OHEP Serves More Households with Less Funding: Despite continued growth in the number of cash benefits provided in fiscal 2010 and expected growth in fiscal 2011 and 2012, OHEP's budget in fiscal 2011 and 2012 is lower than fiscal 2010 actual expenditures.

More Eligible Households Receiving Benefits: In fiscal 2010, more than 40% of households eligible for Maryland Energy Assistance Program (MEAP) benefits and 38.6% of households eligible for Electric Universal Service Program (EUSP) bill payment assistance were certified for these benefits. Despite anticipated growth in the percent of eligible households certified for MEAP and EUSP bill assistance benefits, the percent of households eligible for arrearage assistance certified for benefits is expected to decrease in fiscal 2011.

Overall Growth in the Program Does Not Always Translate to Growth Among Targeted Populations: While the overall number of households receiving benefits and the percent of eligible households certified for benefits has increased, only one of the three populations targeted for benefits (eligible households with an individual with disabilities) had the percentages increase in fiscal 2009 and 2010. OHEP indicates that the growth for households with an individual with disabilities is, in part, related to change in the designation of eligible households.

Issues

Fiscal 2011 and 2012 Funding Concerns: Although the number of households applying for and receiving energy assistance has continued to increase, the level of funding available for benefits is below the level of fiscal 2010 expenditures in each fiscal 2011 and 2012. OHEP has adjusted the benefit levels in fiscal 2010 and 2011 and decided to limit the amount of arrearage assistance available in fiscal 2011 to allow the agency to serve more households with fewer funds. Through December 2010, OHEP has spent approximately \$2 million less in benefits than at the same point in fiscal 2010.

Government Accountability Office Report on the Low Income Home Energy Assistance Program: In June 2010, the U.S. Government Accountability Office (GAO) released a report on the potential for fraud and improper payments in LIHEAP. The GAO report included six recommendations for improvement such as obtaining Social Security numbers for applicants and household members and evaluating the feasibility of using independent sources to ensure that income does not exceed eligibility. OHEP has made several changes to its processes in response to this report including those to conform to changes in federal policy.

Recommended Actions

1. Adopt committee narrative requesting a plan for long-term sustainability of funding.

N00I0006
Office of Home Energy Programs
Department of Human Resources

Operating Budget Analysis

Program Description

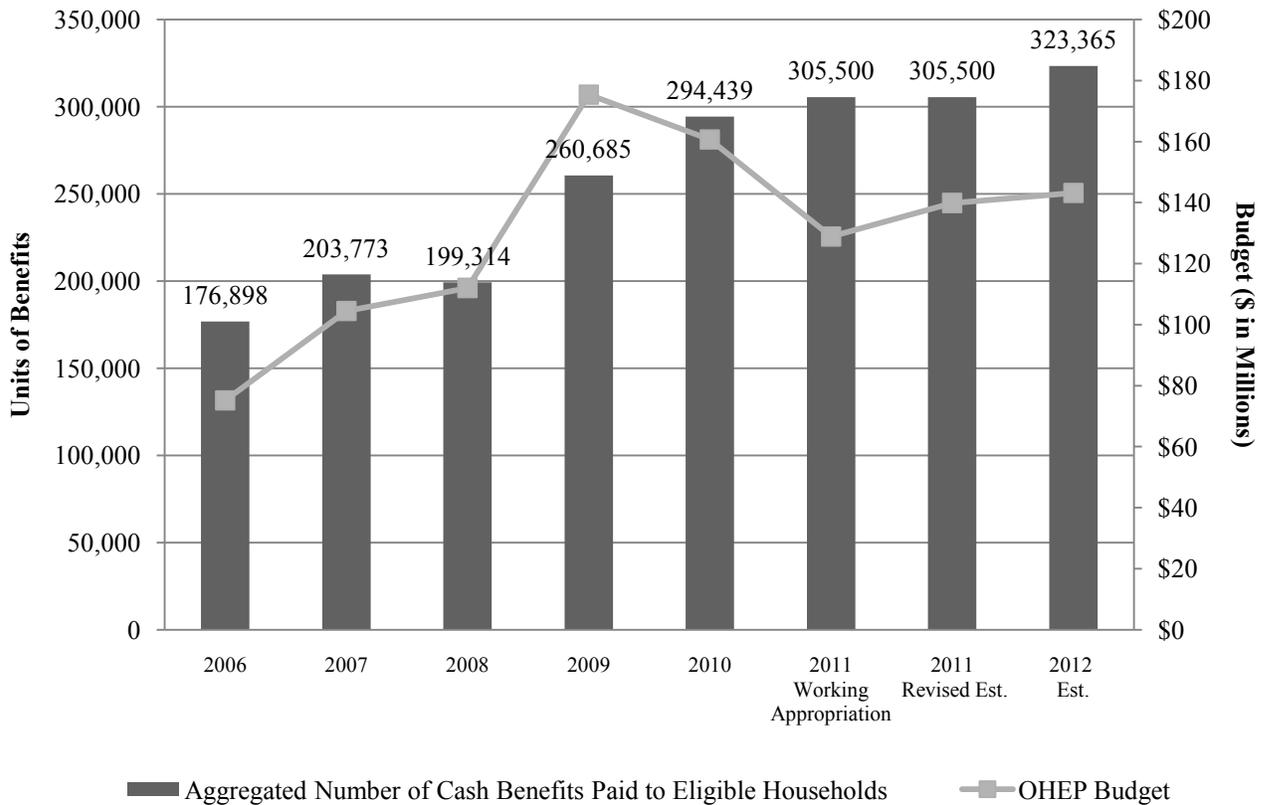
The Office of Home Energy Programs (OHEP) is a program of the Family Investment Administration in the Department of Human Resources (DHR). The services of OHEP include cash benefits, budget counseling, vendor arrangements, referrals, and assistance with energy heating/cooling equipment repair and replacement. OHEP administers two energy assistance programs for residential customers using local agencies in each county and Baltimore City. These two programs are (1) the Maryland Energy Assistance Program (MEAP) funded from the federal Low Income Home Energy Assistance Program (LIHEAP) providing bill payment assistance, crisis assistance, and furnace repair/replacements for a variety of energy sources; and (2) the Electric Universal Service Program (EUSP) that provides both bill and arrearage assistance to electric customers.

The key goals of OHEP are to provide access to the benefits and services of OHEP to as many low income eligible households as possible to help to reduce the home energy cost burden and to meet the immediate home energy needs of households experiencing energy crises by preventing or remedying off-service or out-of-fuel emergencies.

Performance Analysis: Managing for Results

As shown in **Exhibit 1**, the aggregated number of cash benefits paid to eligible households, as well as expenditures of OHEP, has generally increased in recent years. Units of cash benefits are MEAP and EUSP bill payment assistance and EUSP arrearage assistance. Despite a decrease in program spending between fiscal 2009 and 2010, the number of cash benefits paid increased by nearly 13%. The diverging trend of funding and the aggregated units of cash benefits provided is expected to continue in fiscal 2011. DHR has reduced benefit levels in fiscal 2010 and 2011 to accommodate the program's growth within the appropriation.

**Exhibit 1
OHEP Outcomes vs. Funding
Fiscal 2006-2012**



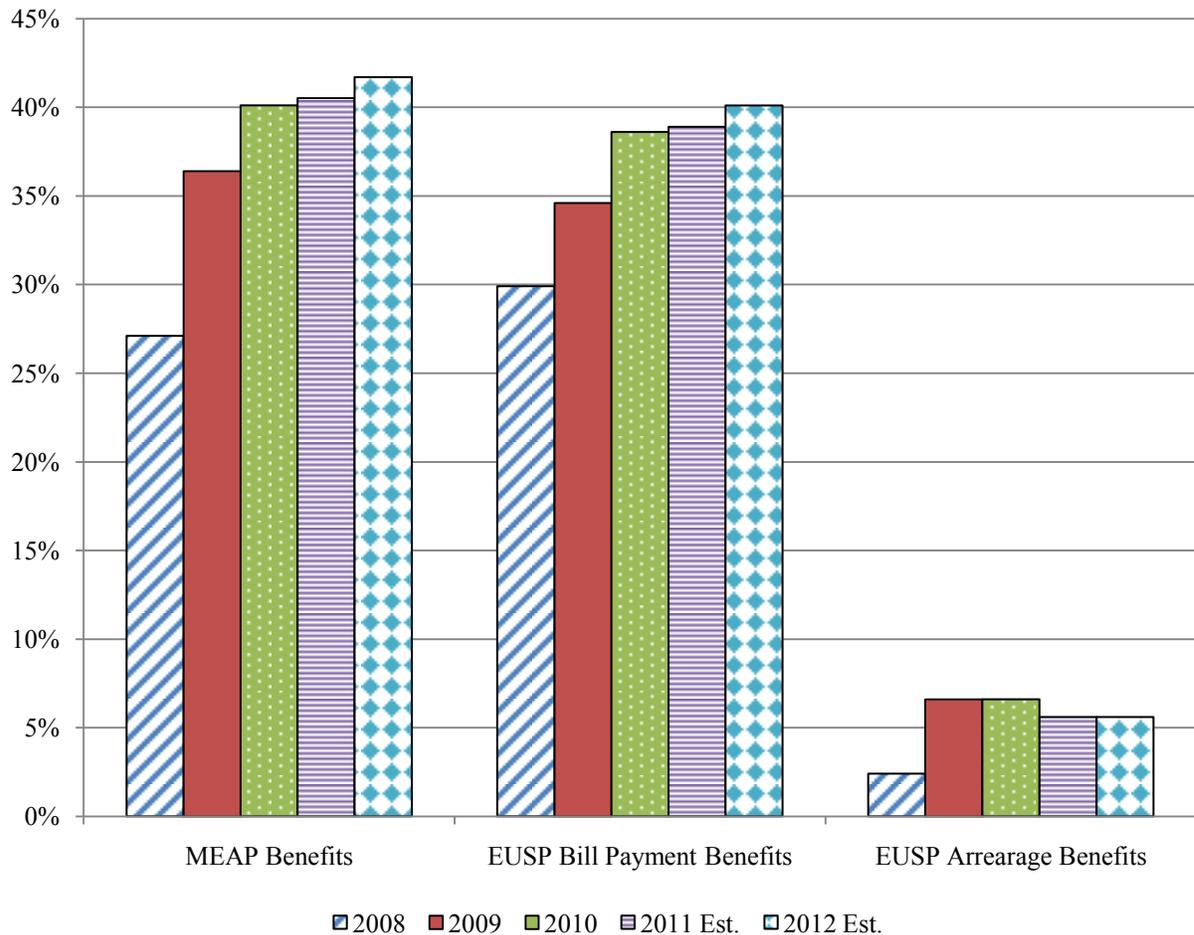
OHEP: Office of Home Energy Programs

Note: Fiscal 2011 revised estimate reflects changes from the fiscal 2011 working appropriation to recognize the proposed deficiency appropriation as well as \$17.7 million in additional Low Income Home Energy Assistance Program funds allocated for Maryland, but not yet appropriated.

Source: Department of Human Resources; Governor’s Budget Books; U.S. Department of Health and Human Services, Administration for Children and Families

As the overall number of cash benefits provided has increased, the percent of eligible households certified for each type of benefit has also increased, as shown in **Exhibit 2**. In fiscal 2010, slightly more than 40.0% of eligible households were certified for MEAP benefits and 38.6% of eligible households were certified for EUSP bill assistance benefits. OHEP anticipates these percentages will continue to increase through fiscal 2012 at which point OHEP will certify more than 40.0% of eligible households in each program.

**Exhibit 2
Eligible Households Certified for Energy Assistance Benefits
Fiscal 2008-2012**



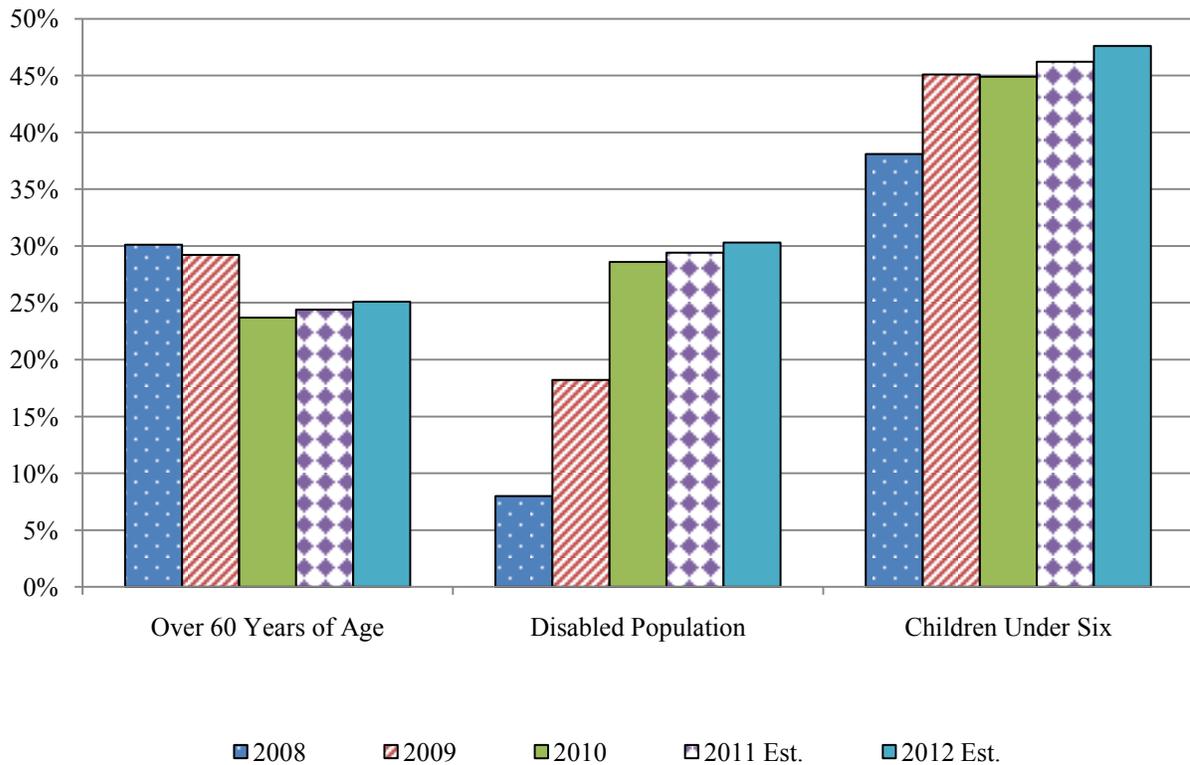
EUSP: Electric Universal Service Program
MEAP: Maryland Energy Assistance Program

Source: Department of Human Resources; Governor’s Budget Books

After experiencing 175.0% growth in the percent of eligible households certified for EUSP arrearage assistance between fiscal 2008 and 2009 (2.4 to 6.6%), the percent of eligible households certified was stable in fiscal 2010 and is expected to decrease in fiscal 2011 to 5.6%. DHR plans to cap arrearage assistance in fiscal 2011 to \$20.0 million, approximately \$10.0 million less than was provided in fiscal 2010, which is expected to reduce the number of households served through this program.

Although the overall percent of eligible households served through the bill assistance programs increased from fiscal 2008 to 2010, the percent of eligible households containing individuals in one of three targeted populations has not always followed that trend. As shown in **Exhibit 3**, the percent of eligible households with an individual over 60 years of age receiving OHEP benefits decreased in each fiscal 2009 and 2010, while the percent of eligible households with children under the age of six remained at virtually the same level in fiscal 2010. By contrast, the percent of eligible households with an individual with disabilities increased by more than 250% between fiscal 2008 and 2010. OHEP indicates that one reason for the substantial increase in the percent of this population served is the result of a change in the calculation which meant that fewer households were included in the eligible category.

Exhibit 3
Targeted Populations Receiving Benefits
Fiscal 2008-2012



Source: Department of Human Resources; Governor’s Budget Books

Fiscal 2011 Actions

Proposed Deficiency

A proposed fiscal 2011 deficiency appropriation reduces the funds available for energy assistance by a net of \$6.7 million. The deficiency appropriation reduces approximately \$19.8 million of special funds available from the Strategic Energy Investment Fund (SEIF) due to lower than anticipated revenue from the quarterly Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions. The fiscal 2011 budget assumed allowances would be sold at a price of \$2.19 per allowance; however, the allowance price has been lower than \$2.19 in each of the last five auctions, and in the last two auctions not all allowances put up for auction have sold. Approximately \$22.9 million of the SEIF would be available for energy assistance in fiscal 2011 after accounting for the proposed deficiency appropriation.

The deficiency appropriation also recognizes a higher level of federal fund support from LIHEAP than was assumed during the budget development process, approximately \$13.0 million. After accounting for the deficiency, OHEP's LIHEAP appropriation totals approximately \$61.8 million. Following the budget development, the U.S. Department of Health and Human Services (DHHS) announced a higher allocation of LIHEAP for Maryland (\$80.5 million) than is reflected in the deficiency appropriation, an additional \$17.7 million.

Proposed Budget

As shown in **Exhibit 4**, OHEP's fiscal 2012 allowance increases by approximately \$14.3 million, or 11.1%, compared to the fiscal 2011 working appropriation after accounting for across-the-board and contingent reductions. The special fund decrease of approximately \$24.2 million, or 30.1%, is more than offset by an increase in federal funds of \$38.5 million, or 78.9%.

The decrease in special funds is overstated if the proposed deficiency appropriation is taken into account, as shown in **Exhibit 5**. Including the reduction in the 2011 deficiency appropriation, the special fund decrease in the fiscal 2012 allowance is approximately \$4.4 million.

The increase in federal funds is also overstated if the proposed deficiency appropriation and additional releases of LIHEAP in fiscal 2011 is taken into account. After accounting for these changes in fiscal 2011, the increase in federal funds in the fiscal 2012 allowance is approximately \$7.7 million.

Exhibit 4
Proposed Budget
DHR – Office of Home Energy Programs
(\$ in Thousands)

| How Much It Grows: | Special Fund | Federal Fund | Total |
|----------------------------|-------------------------|-------------------------|----------------|
| 2011 Working Appropriation | \$80,169 | \$48,746 | \$128,915 |
| 2012 Allowance | <u>56,001</u> | <u>87,210</u> | <u>143,212</u> |
| Amount Change | -\$24,168 | \$38,464 | \$14,297 |
| Percent Change | -30.1% | 78.9% | 11.1% |
| Contingent Reductions | \$0 | -\$5 | -\$5 |
| Adjusted Change | -\$24,168 | \$38,460 | \$14,292 |
| Adjusted Percent Change | -30.1% | 78.9% | 11.1% |

Where It Goes:

Personnel Expenses

| | |
|--|------|
| Fully fund employee and retiree health insurance (net of across-the-board and contingent reductions)..... | \$46 |
| Turnover expectancy decrease from 7.35 to 6.18%..... | 9 |
| Employee retirement..... | 7 |
| Reclassifications..... | 5 |
| Regular earnings including furlough restoration and annualization of reclassification more than offset by the hiring of employees at a lower salary..... | -10 |
| Other fringe benefit adjustments..... | -3 |

Energy Assistance Benefits

| | |
|---|--------|
| Increase in energy assistance due to an increase in federal LIHEAP funding and EUSP funding partially offset by a lower anticipation of SEIF..... | 14,140 |
|---|--------|

Administrative Expenditures

| | |
|--|------|
| Contracts with local administering agencies..... | 205 |
| Printing of federal income eligibility guideline posters..... | 3 |
| Operating expenses primarily to reflect experience..... | -10 |
| Outreach activities with utility companies and the annual energy symposium to reflect recent experience..... | -100 |

Total **\$14,292**

EUSP: Electric Universal Service Program
 LIHEAP: Low Income Home Energy Assistance Program
 SEIF: Strategic Energy Investment Fund

Note: Numbers may not sum to total due to rounding.

Exhibit 5
Change in Fiscal 2011 Appropriation
Comparison by Source
Fiscal 2011-2012

| | <u>EUSP</u> | <u>SEIF</u> | <u>Federal Fund</u> | <u>Total</u> |
|---|--------------------|---------------------|---------------------|----------------------|
| 2011 Working Appropriation | \$37,468,798 | \$42,700,000 | \$48,746,140 | \$128,914,938 |
| 2011 Revised Appropriation Including Deficiency Appropriation | 37,468,798 | 22,932,362 | 61,784,760 | 122,185,920 |
| 2011 Estimate Including Additional LIHEAP Funds | 37,468,798 | 22,932,362 | 79,490,113 | 139,891,273 |
| 2012 Allowance | 38,896,003 | 17,105,200 | 87,210,461 | 143,211,664 |
| Difference from Fiscal 2012 Allowance to 2011 Estimate Including Additional LIHEAP Funds | \$1,427,205 | -\$5,827,162 | \$7,720,348 | \$3,320,391 |

EUSP: Electric Universal Service Program
LIHEAP: Low Income Home Energy Assistance Program
SEIF: Strategic Energy Investment Fund

Source: Department of Human Resources; U.S. Department of Health and Human Services, Administration for Children and Families; Governor’s Budget Books

Impact of Cost Containment

The fiscal 2012 budget reflects several across-the-board actions. In fiscal 2012, OHEP’s share of the reduction is \$1,781 in federal funds and \$55 in special funds for changes to employee health insurance. A reduction contingent upon a statutory change reduces \$2,947 in federal funds and \$92 in special funds for retiree prescription drug benefits. To the extent that OHEP has positions abolished under the Voluntary Separation Program, additional reductions will be implemented by the Administration.

Personnel

The fiscal 2012 allowance for personnel increases by \$59,292 before accounting for across-the-board and contingent reductions discussed earlier. The increase in personnel is largely the result of employee and retiree health insurance (\$50,831) underfunding in fiscal 2011 throughout DHR.

The fiscal 2011 allowance contained a series of negative entries in salaries, wages, and fringe benefits throughout DHR's budget, including \$44,319 in OHEP, which essentially served as an unallocated budget reduction. Section 42 of the fiscal 2011 budget bill required DHR to submit a plan to allocate the reductions to the objects, programs, and subprograms in which the reductions were to actually occur to the Department of Budget and Management (DBM). After reviewing and approving the plan, DBM was to reflect the allocation of the reduction in the appropriations included in the *Fiscal Digest*. These reductions were largely allocated to the employee and retiree health insurance appropriations, although \$3.0 million was allocated to the Temporary Disability Assistance Program. OHEP's share of the final allocation was \$30,007.

OHEP's turnover expectancy decreases in the fiscal 2012 allowance resulting in an increase in personnel expenditures of \$7,196. Other increases in personnel occur as a result of planned reclassifications and employee retirement. These increases are partially offset by regular earnings largely due to the hiring of employees to fill vacant positions at lower salaries and other adjustments.

Energy Assistance Funding

The fiscal 2012 allowance for energy assistance benefits increases by \$14.1 million compared to the fiscal 2011 working appropriation.

The SEIF available for energy assistance decreases by \$25.6 million primarily due to anticipated declines in proceeds from RGGI auctions and the availability in fiscal 2011 of revenue from five auctions compared to four in fiscal 2012. After accounting for the proposed deficiency appropriation, the decrease in the SEIF for energy assistance is \$5.8 million.

The decrease in the SEIF is more than offset by increases in other fund sources. The fiscal 2012 allowance includes an increase of approximately \$1.4 million of ratepayer funds compared to the fiscal 2011 working appropriation. In total, DHR's fiscal 2012 allowance, including those budgeted in DHR Administration for the OHEP data system, from ratepayer funds is \$39.9 million. Fiscal 2012 is the second consecutive year in which DHR's budget has assumed a higher level of spending from EUSP than the required statutory collection of \$37.0 million. In fiscal 2012, DHR anticipates that a higher level of EUSP will be collected than is required under statute. **DHR should comment on why it anticipates more funds for EUSP will be collected than is required under statute.**

The fiscal 2012 allowance assumes a return to the higher level of federal LIHEAP appropriations of fiscal 2009 and 2010, while the fiscal 2011 working appropriation assumes LIHEAP would be available to Maryland at closer to historic levels of allocation, resulting in an increase in the fiscal 2012 allowance of approximately \$38.3 million. However, after accounting for the proposed deficiency appropriation and the release of a higher allocation of LIHEAP by DHHS for Maryland than is accounted for in the deficiency appropriation, the federal fund increase in the fiscal 2012 allowance is \$7.6 million.

Issues

1. Fiscal 2011 and 2012 Funding Concerns

The expenditures of OHEP increased dramatically from fiscal 2006 to 2009, an increase of 133.3%, with most of the growth occurring between fiscal 2008 and 2009, as shown in **Exhibit 6**. Following this substantial increase in expenditures, OHEP's expenditures in fiscal 2010 decreased. The fiscal 2011 and 2012 funding are well below the fiscal 2009 and 2010 expenditure levels. The changes in funding availability in recent years result from changes in the federal LIHEAP allocation and revenue available from the SEIF.

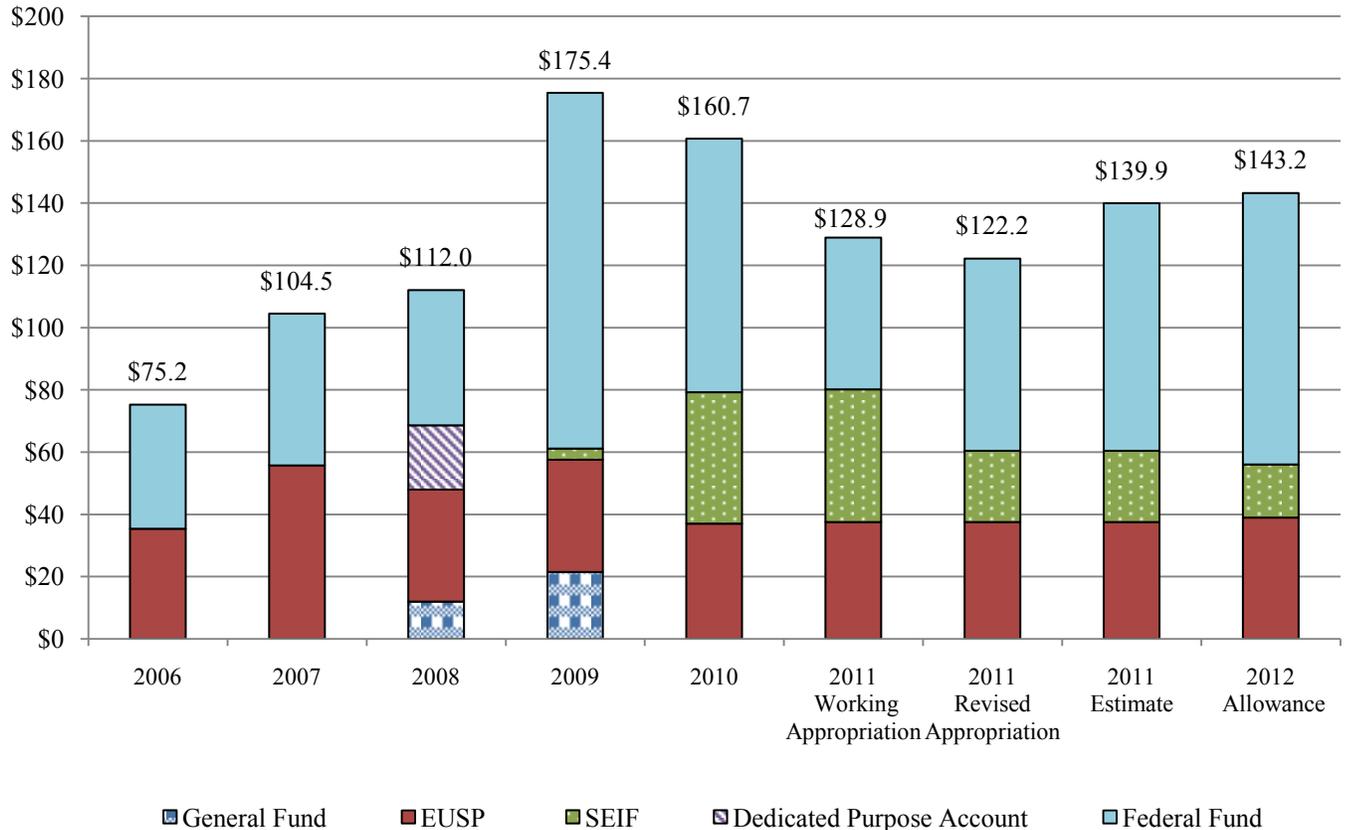
LIHEAP

In federal fiscal 2009, LIHEAP was funded at \$5.1 billion nationally, the highest level in program history. As a result of the increased federal LIHEAP funds, OHEP's fiscal 2009 federal fund expenditures were \$114.3 million compared to \$43.4 million in fiscal 2008. In federal fiscal 2010, LIHEAP was once again funded at \$5.1 billion nationally. However, a change in the distribution of the block grant reduced the amount of these funds Maryland received compared to fiscal 2009. As a result, OHEP's fiscal 2010 federal fund expenditures were approximately \$81.5 million.

Uncertainty continues to exist about the LIHEAP funding that will ultimately be available in federal fiscal 2011. LIHEAP, along with all other federal programs, has operated under a series of continuing resolutions in federal fiscal 2011. The current continuing resolution is in effect until March 4, 2011. Under the continuing resolutions, DHHS has released approximately \$4.1 billion nationwide, of which Maryland has been allocated approximately \$80.5 million, \$17.7 million more than is currently available in DHR's fiscal 2011 budget after accounting for the proposed deficiency appropriation.

The fiscal 2012 allowance assumes LIHEAP will be funded at the higher levels of the recent past. It is uncertain whether Congress will maintain the higher level of funding in the future. During initial budget action for federal fiscal 2011, the Senate Appropriations Committee was considering an appropriation level of only \$3.3 billion. President Barack H. Obama proposed to provide an appropriation of only \$2.6 billion in fiscal 2012, a portion of which would only be available through releases of contingency funds typically released in response to weather or energy prices.

**Exhibit 6
Office of Home Energy Programs Funding and Expenditures
Fiscal 2006-2012
(\$ in Millions)**



EUSP: Electric Universal Service Program
 SEIF: Strategic Energy Investment Fund

Note: The fiscal 2011 revised appropriation applies the proposed deficiency appropriation to the fiscal 2011 working appropriation. The fiscal 2011 estimate recognizes \$17.7 million in additional federal funds that have been allocated to Maryland by the U.S. Department of Health and Human Services but not yet recognized in the fiscal 2011 appropriation of the Office of Home Energy Programs. The dollar amount shown as the Electric Universal Service Program in fiscal 2007 includes funds from the dedicated purpose account.

Source: Department of Human Resources; U.S. Department of Health and Human Services, Administration for Children and Families; Governor's Budget Books

The SEIF

OHEP began receiving special funds from the SEIF in fiscal 2009, as a result of Chapters 127 and 128 of 2008 that allocated 17% of the revenue in the SEIF from the RGGI auctions to be used for EUSP and electricity assistance programs in DHR. The Budget Reconciliation and Financing Act (BRFA) of 2009 altered the allocation for auctions held between March 1, 2009, and June 30, 2011. Under the revised allocation, the energy assistance programs received up to 50% of the revenue from these auctions. The BRFA of 2010 extended this allocation for auctions held through June 30, 2012. In fiscal 2010, OHEP used approximately \$42.2 million of funds available through the SEIF for energy assistance. The fiscal 2011 appropriation for OHEP from the SEIF was \$42.7 million; however, as discussed earlier, declining revenue has led to a negative deficiency appropriation to reduce the appropriation by approximately \$19.8 million.

The BRFA of 2011 proposes to alter the allocation of the SEIF for fiscal 2012 to 2014. The proposed allocation for energy assistance is unchanged in fiscal 2012; however, OHEP would receive a higher allocation of the SEIF in fiscal 2013 and 2014 than would have been expected under current law. **Exhibit 7** presents a comparison of the SEIF allocation under the current law for fiscal 2012 (the BRFA of 2009 and 2010), the current law for fiscal 2013 and beyond (the original allocation), and the proposed allocation (the BRFA of 2011).

Exhibit 7
Comparison of the SEIF Allocations

| | <u>Current Law Fiscal 2012</u> | <u>Current Law Fiscal 2013 and Beyond</u> | <u>Proposed Allocation in the BRFA of 2011 Fiscal 2012-2014</u> |
|--|---|--|--|
| Energy Assistance for the Electric Universal Service Program and Other Electricity Assistance | Up to 50.0% | 17.0% | Up to 50.0% |
| Residential Rate Relief | 23.0% | 23.0% | 0.0% |
| Energy Efficiency and Conservation (at Least One-half for Low- and Moderate-income Programs) | At least 17.5% | At least 46.0% | At least 20.0% |
| Renewable and Clean Energy Programs; Energy-related Public Education and Outreach; and Climate Change Programs | At least 6.5% | Up to 10.5% | At least 20.0% |
| Administrative Expenses (Maryland Energy Administration) | Up to 3.0%, but no more than \$4 million | Up to 3.5%, but no more than \$4 million | Up to 10.0%, but no more than \$4 million |

BRFA: Budget Reconciliation and Financing Act

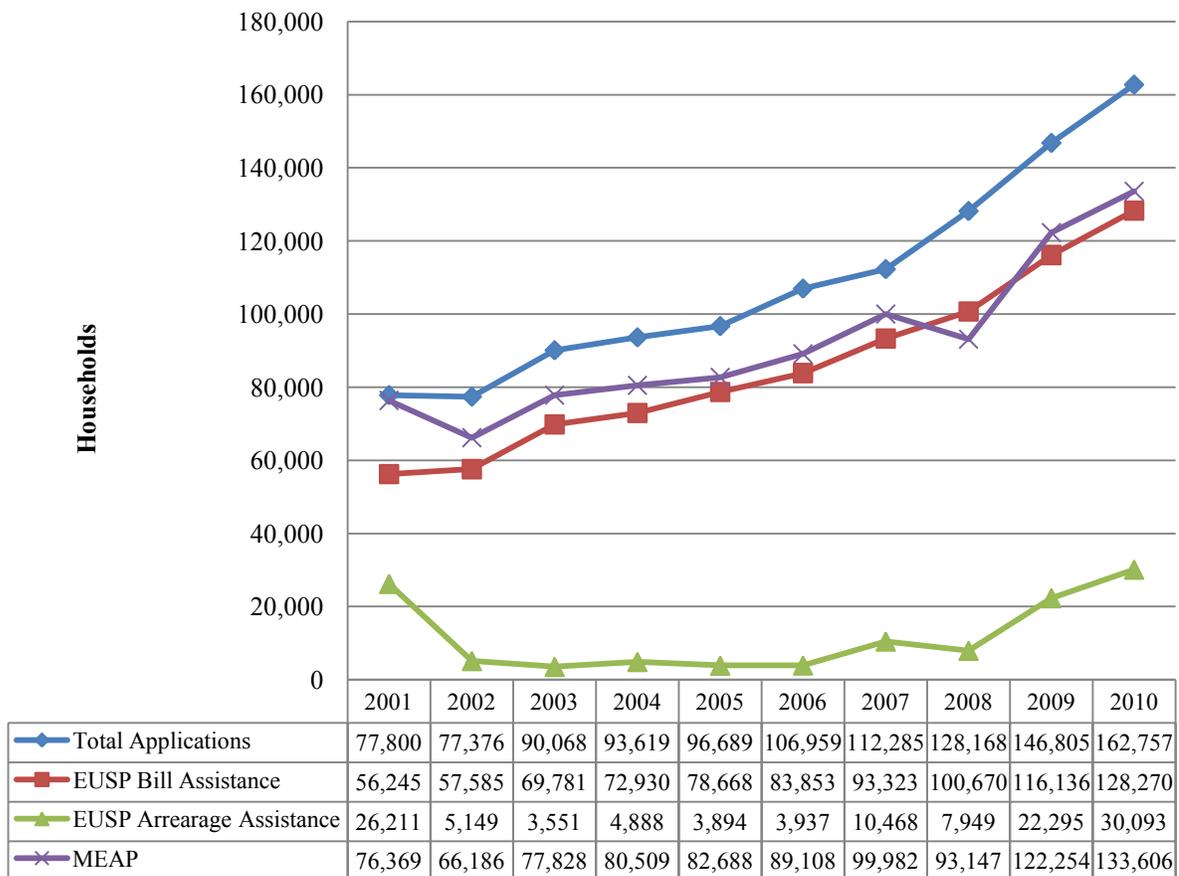
Source: Section 9-20B-05(g) of the State Government Article; Section 9-20B-05(g-1) of the State Government Article; HB 72/SB 87 of 2011

Although the proposed allocation for energy assistance under the BRFA of 2011 remains at 50%, due to lower anticipated revenue, only \$17.1 million of the SEIF is budgeted within OHEP in the fiscal 2012 allowance. **DHR should comment on how the proposed continuation of the higher allocation of the SEIF through fiscal 2014 may impact the need for general fund support in OHEP.**

Households Receiving Benefits

As shown in **Exhibit 8**, the number of households applying for energy assistance has increased in all years since fiscal 2002. The increase in applications has also typically translated into an increase in the number of households receiving each type of benefit. The largest percentage increases in the number of households served in fiscal 2009 (180.5%) and fiscal 2010 (35.0%) occurred in the EUSP arrearage assistance program, although arrearage assistance represents the smallest component of the program.

Exhibit 8
Office of Home Energy Programs Benefit Provision History
Fiscal 2001-2010



EUSP: Electric Universal Service Program
 MEAP: Maryland Energy Assistance Program

Source: Department of Human Resources

Through December 2010, the number of applications and households receiving benefits is higher than during the same time period in fiscal 2010, with the exception of arrearage assistance, as shown in **Exhibit 9**. Households receiving benefits has actually increased at a higher rate than the number of applicants primarily due to processing improvements, improved staffing ratios, and an emphasis on timely processing.

Exhibit 9
Office of Home Energy Programs Applications and Benefits Data
July through December Data

| | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Change</u> | <u>% Change</u> |
|---------------------------------------|--------------------|--------------------|---------------|-----------------|
| Applications | | | | |
| MEAP | 110,758 | 117,356 | 6,598 | 6.0% |
| EUSP Bill Payment | 106,406 | 113,119 | 6,713 | 6.3% |
| EUSP Arrearage | 22,965 | 19,090 | -3,875 | -16.9% |
| Receiving Benefits | | | | |
| MEAP | 73,829 | 80,548 | 6,719 | 9.1% |
| EUSP Bill Payment | 72,878 | 79,851 | 6,973 | 9.6% |
| EUSP Arrearage | 18,322 | 14,380 | -3,942 | -21.5% |
| Average Benefit | | | | |
| MEAP | \$334 | \$450 | \$116 | 34.7% |
| EUSP Bill Payment | \$587 | \$440 | -\$147 | -25.0% |
| EUSP Arrearage | \$1,013 | \$932 | -\$81 | -8.0% |
| Benefits Paid (\$ in Millions) | | | | |
| MEAP | \$24.7 | \$36.2 | \$11.5 | 46.8% |
| EUSP Bill Payment | \$43.5 | \$35.1 | -\$8.4 | -19.3% |
| EUSP Arrearage | \$18.6 | \$13.4 | -\$5.1 | -27.8% |
| Total Benefits Paid | \$86.7 | \$84.7 | -\$2.0 | -2.3% |

EUSP: Electric Universal Service Program
 MEAP: Maryland Energy Assistance Program

Source: Department of Human Resources

Implications

In fiscal 2010, DHR reduced the percent of a household's bill paid through the energy assistance benefits by 10% to accommodate the growth in recipients with fewer available funds. In fiscal 2011 and 2012, the challenge to accommodate continued growth is more significant. DHR

indicates that it has implemented additional reductions of 20% in the percent of a household's bill paid in fiscal 2011 that are expected to continue in fiscal 2012.

DHR also decided to cap the amount of arrearage assistance it will provide in fiscal 2011 and 2012 at \$20.0 million. In fiscal 2010, DHR provided approximately \$30.0 million of arrearage assistance. Given that DHR has paid out approximately \$13.4 million in arrearage assistance benefits through December 2010, it seems likely that some individuals applying for arrearage assistance will not be able to receive this benefit.

As shown in Exhibit 9, through December 2010, DHR had paid nearly the same amount of benefits in the three programs combined as at the same point in fiscal 2010 (approximately \$2 million less) despite the decrease in benefit levels. It is not clear at this point whether the change in benefits and cap in arrearages will be sufficient to allow OHEP to serve all individuals who apply or whether at some point OHEP may have to turn away applicants, given that the estimate of available funds in 2011 is approximately \$24 million less than the fiscal 2010 expenditures.

DHR should comment on any additional actions it is considering or plans to take to allow the program to accommodate the increasing caseload within the fiscal 2011 and 2012 funding level. DHR should also comment on the potential impact on individuals applying for benefits if the funding available for energy assistance would be exhausted.

Given the uncertainty in federal LIHEAP funding and proceeds from RGGI auctions, the Department of Legislative Services recommends committee narrative requesting DHR develop a plan for the long-term sustainability of funding for OHEP.

2. Government Accountability Office Report on the Low Income Home Energy Assistance Program

In June 2010, the U.S. Government Accountability Office (GAO) released a report focused on the potential for fraud and abuse in LIHEAP. The report examined case studies of fraud and abuse and key weaknesses in the program's internal controls. In the audit, GAO reviewed case files for seven states (Illinois, Maryland, Michigan, New Jersey, New York, Ohio, and Virginia) and conducted proactive testing in West Virginia and Maryland. GAO findings included:

- 260,000 applications with invalid identity information;
- 11,000 deceased individuals included as an applicant or household member;
- 725 incarcerated individuals as an applicant or household member;
- 1,100 federal employees with federal salaries exceeding income requirements receiving benefits;

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- benefits issued to individuals with significant assets, although GAO acknowledged the individuals may have met income requirements; and
- in proactive testing all five cases were issued benefits (three to a fake energy company and two to a fake landlord).

GAO focused on the lack of specific guidance by DHHS on preventing fraud and specifically the development of a fraud prevention system. In addition, the GAO report indicated that states also lacked the key elements of a prevention system. Maryland had only one of the six fraud prevention control measures in place that were highlighted in the GAO report. The five measures that Maryland did not have in place related to validating identify information; comparing information to death records, prison records, and long-term care patient information; and verifying income independently. GAO also noted that some state officials acknowledged that investigations and prosecutions related to LIHEAP are not typically pursued.

The GAO report included six recommendations for improvement that focused on:

- obtaining Social Security numbers for applicants and household members;
- evaluating the feasibility of validating information with the Social Security Administration (SSA);
- developing edit checks prior to payment to prevent duplicate benefits;
- evaluating feasibility of using SSA or State vital records to prevent benefit provision to deceased individuals;
- evaluating the feasibility of preventing incarcerated individuals (using prisoner records) from receiving benefits; and
- evaluating the feasibility of using independent sources to ensure income does not exceed eligibility.

Changes to OHEP Processes

Several changes have been made, or are expected to be made, at the federal and State level as a result of the GAO report. Some of the State changes are being made as a result of guidance and policy changes by DHHS. For federal fiscal 2011, DHHS required states to submit a program integrity supplement as part of the annual state plan. DHHS has also developed a workgroup involving representatives from several states and staff.

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OHEP classified changes in the State program as policy and procedural, communication, training, and data system. Some of the data system changes implement the policy and procedural changes. Examples of policy changes that have been implemented or are being considered are:

- requiring Social Security numbers for all applicants and household members consistent with DHHS’s information memorandum revising the policy on use of Social Security numbers as a condition of eligibility;
- comparing Social Security numbers to data on incarcerated individuals and death records;
- issuing payments to sub-metering company or landlord;
- creating an administrative disqualification penalty for known fraud or abuse cases; and
- requiring the State OHEP office to review applications that result in a direct payment to an applicant, due to an application listing a nonparticipating supplier.

Other changes would provide fraud prevention posters to agencies, require communication on application verification, and provide information on how to report suspected fraud. OHEP also has planned to have the department’s Office of the Inspector General provide refresher training on identifying and addressing fraud to the local agency program directors and to discuss fraud related information on the monthly conference calls with the local agencies. DHR reports it will implement any requirements or guidance issued by HHS.

The department has implemented, is planning to implement, or is considering changes to the data system including:

- centralizing the function of entering landlord information and determining the legitimacy of the information;
- verifying the legitimacy of energy suppliers;
- adding a field to designate that the Social Security number has been verified;
- adding a field to identify a previous application that was fraudulent; and
- requiring at least two individuals to review an application.

OHEP also reports that its data system already had features that prevent applications that are fraudulent such as, reports to identify duplicate applications, duplicate payments, or duplicate Social Security numbers, and pre-entering energy supplier/vendor information by State OHEP staff. OHEP continues to revise the duplicate application report to improve the review process, for example, by adding fields for notes and status.

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DHR should comment on whether any additional changes to policy, procedure, or the data system to prevent fraud and abuse are planned.

Recommended Actions

1. Adopt the following narrative:

Plan for Long-term Funding Sustainability: In recent years, the Office of Home Energy Programs (OHEP) has experienced substantial growth in the number of individuals applying for and receiving energy assistance benefits. This increase coincided with the availability of additional federal Low Income Home Energy Assistance Program (LIHEAP) funding and the availability of funds from the Strategic Energy Investment Fund (SEIF). However, the SEIF revenue has fallen short of estimates in fiscal 2010 and 2011, and LIHEAP funding has been uncertain in fiscal 2011. Although the Department of Human Resources (DHR) has made adjustments to the program to accommodate changes in funding availability, the committees are concerned about the ability of OHEP to meet the demand for energy assistance over the long term given the funding decreases and uncertainty. The committees request that DHR develop a plan for the long-term funding sustainability of the Electric Universal Service Program (EUSP) and Maryland Energy Assistance Program. This plan should consider options to adjust:

- eligibility;
- benefit levels; and
- the ratepayer surcharge for EUSP.

| Information Request | Author | Due Date |
|---|---------------|------------------|
| Plan for long-term funding sustainability | DHR | November 1, 2011 |

Current and Prior Year Budgets

Current and Prior Year Budgets DHR – Office of Home Energy Programs (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Fiscal 2010 | | | | | |
| Legislative Appropriation | \$0 | \$55,037 | \$42,057 | \$0 | \$97,094 |
| Deficiency Appropriation | 0 | 24,132 | 39,945 | 0 | 64,077 |
| Budget Amendments | 0 | 0 | 6,388 | 0 | 6,388 |
| Cost Containment | 0 | -9 | 0 | 0 | -9 |
| Reversions and Cancellations | 0 | 0 | -6,862 | 0 | -6,862 |
| Actual Expenditures | \$0 | \$79,160 | \$81,528 | \$0 | \$160,688 |
| Fiscal 2011 | | | | | |
| Legislative Appropriation | \$0 | \$81,189 | \$49,726 | \$0 | \$130,915 |
| Budget Amendments | 0 | -1,020 | -980 | 0 | -2,000 |
| Working Appropriation | \$0 | \$80,169 | \$48,746 | \$0 | \$128,915 |

Note: Numbers may not sum to total due to rounding.

Fiscal 2010

The fiscal 2010 actual expenditures of OHEP were approximately \$63.6 million higher than the legislative appropriation.

An increase of \$24.1 million in special funds recognized the SEIF available as a result of the BRFA of 2009 that temporarily increased the share of these funds available for low income energy assistance. This increase was partially offset by a decrease of \$9,392 due to cost containment actions to reflect furlough savings.

OHEP's fiscal 2010 federal fund expenditures were approximately \$39.5 million higher than the legislative appropriation. Increases totaling approximately \$46.3 million provided funding to reflect Maryland's full federal LIHEAP block grant allocation as well as Maryland's share of emergency contingency funds. OHEP cancelled approximately \$6.9 million as a result of a higher than expected release of emergency contingency funds. The cancelled funds are expected to be used in fiscal 2011.

Fiscal 2011

OHEP's fiscal 2011 appropriation has decreased by \$2 million reflecting a transfer of funding for software maintenance and system support for the OHEP data system to the Office of Technology for Human Services (OTHS) within DHR. Language in the fiscal 2011 budget bill restricted these funds to be used only in OTHS.

Audit Findings

| | |
|------------------------------|-------------------------------|
| Audit Period for Last Audit: | April 1, 2007 – June 30, 2010 |
| Issue Date: | February 2011 |
| Number of Findings: | 4 |
| Number of Repeat Findings: | 0 |
| % of Repeat Findings: | 0% |
| Rating: (if applicable) | |

Finding 3: Matching procedures were not used to verify data required to ensure program eligibility and the proper calculation of energy assistance benefits.

Finding 4: Documentation to support certain required application data was not always obtained by local administering agencies.

Finding 5: The Family Investment Administration had not established adequate controls over OHEP data management system used to process applications and energy assistance payments.

Finding 6 Controls over cash receipts, which consisted primarily of refunds from utility companies, were not sufficient.

*Bold denotes item repeated in full or part from preceding audit report.

Note: The Office of Home Energy Programs (OHEP) is part of the Family Investment Administration (FIA). These findings are specific to OHEP and are taken from the FIA audit.

**Object/Fund Difference Report
DHR – Office of Home Energy Programs**

| <u>Object/Fund</u> | <u>FY 10 Actual</u> | <u>FY 11 Working Appropriation</u> | <u>FY 12 Allowance</u> | <u>FY 11 - FY 12 Amount Change</u> | <u>Percent Change</u> |
|---|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 15.87 | 13.87 | 13.87 | 0.00 | 0% |
| 02 Contractual | 0.50 | 0.00 | 0.00 | 0.00 | 0.0% |
| Total Positions | 16.37 | 13.87 | 13.87 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 1,307,997 | \$ 808,717 | \$ 868,009 | \$ 59,292 | 7.3% |
| 02 Technical and Spec. Fees | 261,962 | 1,250 | 1,250 | 0 | 0% |
| 03 Communication | 34,721 | 51,829 | 44,797 | -7,032 | -13.6% |
| 04 Travel | 6,075 | 2,294 | 1,883 | -411 | -17.9% |
| 06 Fuel and Utilities | 7,450 | 9,097 | 7,659 | -1,438 | -15.8% |
| 08 Contractual Services | 158,390,884 | 127,964,004 | 142,211,860 | 14,247,856 | 11.1% |
| 09 Supplies and Materials | 61,269 | 73,647 | 71,331 | -2,316 | -3.1% |
| 10 Equipment – Replacement | 542 | 0 | 0 | 0 | 0.0% |
| 11 Equipment – Additional | 2,192 | 0 | 0 | 0 | 0.0% |
| 12 Grants, Subsidies, and Contributions | 550,782 | 0 | 0 | 0 | 0.0% |
| 13 Fixed Charges | 63,643 | 4,100 | 4,875 | 775 | 18.9% |
| Total Objects | \$ 160,687,517 | \$ 128,914,938 | \$ 143,211,664 | \$ 14,296,726 | 11.1% |
| Funds | | | | | |
| 03 Special Fund | \$ 79,159,714 | \$ 80,168,798 | \$ 56,001,203 | -\$ 24,167,595 | -30.1% |
| 05 Federal Fund | 81,527,803 | 48,746,140 | 87,210,461 | 38,464,321 | 78.9% |
| Total Funds | \$ 160,687,517 | \$ 128,914,938 | \$ 143,211,664 | \$ 14,296,726 | 11.1% |

Note: The fiscal 2011 appropriation does not include deficiencies. The fiscal 2012 allowance does not include contingent reductions.