

Department of Health and Human Services  
**Office of Inspector General**



Office of Audit Services

June 2025 | A-01-22-02502

# **Michigan Did Not Effectively Monitor Home Heating Benefits Provided Under the Low-Income Home Energy Assistance Program**



JUNE 2025 | A-01-22-02502

## Michigan Did Not Effectively Monitor Home Heating Benefits Provided Under the Low-Income Home Energy Assistance Program

### Why OIG Did This Audit

- From October 2019 through September 2022, Michigan received approximately \$240 million in Low Income Home Energy Assistance Program (LIHEAP) funding to provide heating assistance to eligible households through its Home Heating Credit (HHC) program.
- Funding for LIHEAP increased rapidly in response to the COVID-19 pandemic and rising energy prices. Prior OIG work found that States did not always adequately monitor the organizations that administer LIHEAP on their behalf.
- The rapid increase in LIHEAP funding combined with prior audit findings increases the risk of fraud and abuse in LIHEAP. We performed this audit to determine whether Michigan monitored the administration of its HHC program for compliance with Federal and State LIHEAP requirements.

### What OIG Found

Because Michigan did not effectively monitor its HHC program, it was unaware that approximately \$25 million in benefits were processed and paid without being reviewed. In addition, Michigan:

- was unaware that credits were not prorated for part-year residents as required,
- did not ensure that quarterly monitoring reviews of HHC payments were done in a timely manner, and
- did not ensure that high risk payments were included in quarterly monitoring reviews.

As a result, Michigan did not detect overpayments of \$26,763.

### What OIG Recommends

We made six recommendations, including that the Michigan Department of Health and Human Services refund \$26,763 to the Federal Government and assess the risk of payment errors associated with HHC benefits that were processed and paid without being reviewed. The full recommendations are in the report.

Michigan did not indicate concurrence or nonconcurrence with our recommendations; however, it agreed with our findings and outlined actions that it has taken and plans to take to address our recommendations.

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## INTRODUCTION

### WHY WE DID THIS AUDIT

The Low-Income Home Energy Assistance Program (LIHEAP) assists low-income households in meeting their immediate home energy needs. States may use LIHEAP funds to help low-income households pay for heating and cooling costs, crisis assistance, and weatherization expenses to reduce the need for energy assistance. At the Federal level, the Administration for Children and Families (ACF) Office of Community Services (OCS) administers LIHEAP.

In response to the COVID-19 pandemic, Congress appropriated \$5.4 billion for LIHEAP through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan (ARP) Act. Congress appropriated additional LIHEAP funding of \$100 million a year for 5 years in November 2021 through the Infrastructure Investment and Jobs Act in response to steeply rising energy prices. These funds were in addition to the approximately \$3.7 billion in LIHEAP funds awarded annually to States, Tribes, and territories from October 2019 through September 2022 (Federal fiscal years (FFYs) 2020 through 2022).

Prior OIG work in this area found that States did not always adequately monitor the organizations that administer LIHEAP on their behalf.<sup>1</sup> The rapid increase in LIHEAP funding combined with prior audit findings increases the risk of fraud and abuse in the LIHEAP.

Based on our risk assessment of States that received a large amount of LIHEAP funding or were identified by OCS as being high risk, we selected Michigan for review. Michigan's LIHEAP benefits provide low-income households with assistance paying heating bills and provide energy crisis assistance and energy conservation services. Because approximately 82 percent of the people who received services through Michigan's LIHEAP received heating assistance, this audit focused on Michigan's Home Heating Credit (HHC) program.

### OBJECTIVE

Our objective was to determine whether the Michigan Department of Health and Human Services (MI DHHS) monitored its HHC program to ensure compliance with Federal and State LIHEAP requirements.

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<sup>1</sup> OIG, [\*South Carolina Generally Claimed Costs on Behalf of Wateree Community Actions, Inc., That Were in Accordance With the Grants and Applicable Federal Regulations, but Wateree Mismanaged Federal Funds \(A-04-14-04026\)\*](#), Mar. 25, 2016.

## **BACKGROUND**

### **Low-Income Home Energy Assistance Program**

Title XXVI of the Omnibus Budget Reconciliation Act of 1981 established LIHEAP to assist low-income households, particularly those with the lowest incomes that pay a high proportion of household income for home energy, in meeting their immediate home energy needs. The LIHEAP statute establishes Federal eligibility for households with incomes at or below 150 percent of the poverty level or 60 percent of the State median income,<sup>2</sup> whichever is higher, although States may set lower limits.

States, Tribes, and territories use LIHEAP funds to help low-income households meet their home energy costs, intervene in crisis situations, and provide low-cost residential weatherization and other cost-effective energy-related home repairs. States receive LIHEAP funds as block grants that provide flexibility when designing and implementing the program.<sup>3</sup> Each State prepares a State Plan annually that outlines how the State will operate LIHEAP. A State either administers LIHEAP or designates other organizations to administer the program on the State's behalf.

The LIHEAP statute requires States to report certain data on households that apply for and receive LIHEAP assistance. States use the LIHEAP Household Report to report the number of households that received heating, cooling, crisis, and weatherization assistance. Households that received multiple types of assistance are included in the count of households for each relevant assistance type.

### **Administration for Children and Families**

Each year, ACF's OCS conducts onsite and remote compliance monitoring for a sample of State LIHEAP programs. OCS uses a criteria-based process to prioritize States based on different measures that include the number and severity of audit findings, the adequacy of States' controls to prevent improper payments, the results from previous compliance monitoring, and the training and monitoring performed by States. Generally, OCS conducts compliance monitoring at each State every 5 to 7 years.

### **Michigan's LIHEAP Program**

MI DHHS administers Michigan's LIHEAP, which includes the HHC, State Emergency Relief, and Weatherization programs. During FFYs 2020 through 2022, Michigan received approximately \$766 million in LIHEAP funds. Of this amount, Michigan used approximately \$240 million to provide heating assistance to eligible households through its HHC program.

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<sup>2</sup> The LIHEAP Statute is codified at 42 U.S.C. §§ 8621–8630.

<sup>3</sup> A block grant is a noncompetitive, formula-based grant mandated by the U.S. Congress. Eligible entities must submit an annual application to demonstrate statutory and regulatory compliance to receive the funding.

Michigan homeowners and renters who are low income; deaf, disabled, or blind persons; disabled veterans; or senior citizens may qualify for HHC benefits. The HHC program provides two possible credits: a standard credit that is based on a published annual allowance amount and an alternate credit that is based on household heating expenses. Renters whose heat expenses are included in their rental agreements are not eligible for the alternate credit but can receive 50 percent of the standard credit. Part-year Michigan residents are also not eligible for the alternate credit but can receive a standard credit that is prorated by the number of days they lived in Michigan. For all other eligible applicants, the final HHC credit is the larger of the standard or alternate credit. HHC benefits are paid either directly to eligible individuals or to their heat providers to help cover an individual's heating costs.

### **Interagency Agreement With the Michigan Department of Treasury**

MI DHHS enters into an interagency agreement with the Michigan Department of Treasury (MI Treasury) annually to administer the HHC program on its behalf. Under the terms of the interagency agreement, MI Treasury:

- reviews HHC applications and determines whether applicants are eligible for an HHC credit,
- processes and issues HHC payments,
- reviews and resolves applicants' grievances, and
- provides data to MI DHHS such as applicant information and the number of households that received or were denied HHC benefits for monitoring and Federal reporting purposes.

MI Treasury is required to comply with all Federal award regulations, the LIHEAP award terms and conditions, the LIHEAP State Plan, and any other related Federal regulations as specified in the interagency agreement.

MI Treasury uses a legacy system called Bridge to process HHC applications and program benefits. The Bridge system allows for the comparison of different data sets and flags any errors or potential fraud.

Per the interagency agreement, MI DHHS:

- uses HHC payment data provided by MI Treasury monthly to draw down LIHEAP funds,
- reimburses MI Treasury for administrative costs quarterly, and
- monitors MI Treasury's performance for compliance with the LIHEAP State Plan and the terms of the interagency agreement.

## Home Heating Credit Monitoring Process

MI DHHS's interagency agreement with MI Treasury and its internal written processes specify how MI DHHS monitors the HHC program (Interagency Agreement, IATRS20-99002 and IATRS21-99002, "Work Statement of Each Party," and Home Heating Credit Audit Process, Version 1.1, dated June 26, 2017).

Each quarter, MI DHHS requests that MI Treasury provide a random sample of 30 HHC payments and related household data. MI DHHS randomly selects 12 of the 30 payments for MI Treasury to review for accuracy and compliance with HHC regulations. After MI Treasury reviews the 12 payments, it provides MI DHHS with its findings, any corrective actions taken, and documentation showing how each payment was calculated.

## HOW WE CONDUCTED THIS AUDIT

Our audit covered MI DHHS's HHC program monitoring during FFYs 2020 through 2022 (audit period). Specifically, we audited MI DHHS's process for monitoring its HHC program and MI Treasury's performance to ensure compliance with Federal and State LIHEAP requirements. To accomplish our objective, we reviewed MI DHHS's interagency agreements, interviewed MI DHHS staff to understand the monitoring processes, and reviewed MI Treasury's findings for the HHC payments included in the quarterly monitoring.

In addition, we reviewed a nonstatistical sample of 90 HHC applications that were funded with the CARES act, ARP Act and annual LIHEAP appropriation funding. We identified four types of applications at high-risk for overpayment that we included in our sample:

- 21 HHC applications with high-dollar benefit payments,
- 10 HHC applications with negative household resources,<sup>4</sup>
- 6 HHC applications in which the number of exemptions exceeded the household size,<sup>5</sup> and
- 34 HHC applications with out-of-State mailing addresses.

We also identified two types of HHC applications that were at risk for underpayments: (1) applications that were denied and (2) applications that were not denied, but received \$0 or

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<sup>4</sup> HHC applicants report their total household income on their application. The applicant may subtract certain items from household income, such as medical insurance premiums, some retirement plan contributions, and alimony payments to calculate the total household resources. If the total income adjustments exceed the total household income, the applicant reports negative household resources on the HHC application.

<sup>5</sup> HHC applicants are permitted to take one exemption for the applicant, the applicant's spouse if married and filing jointly, and any children or other dependents who live in the household. Applicants may take additional exemptions if anyone in the household is deaf, blind, disabled, or a qualified disabled veteran. The total number of exemptions is used to determine the household income ceiling and the allowable HHC benefit payment.

\$1 benefit payments. We included 13 denied HHC applications and 22 HHC applications that received \$0 or \$1 benefit payments in our sample.<sup>6</sup>

For each of the 90 applications, we obtained and reviewed the HHC application and payment history. Using this information, we reassessed the applicant's eligibility. If the applicant was eligible, we recalculated the household's HHC payment. If our eligibility assessment or HHC payment calculation differed from MI Treasury's results, we interviewed MI Treasury staff to understand the differences.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **FINDINGS**

MI DHHS did not effectively monitor its HHC program to ensure compliance with Federal and State LIHEAP requirements. MI DHHS relied on an interagency agreement with MI Treasury, which administers the HHC program on MI DHHS's behalf. Under this agreement, MI Treasury maintained HHC program data, processed HHC applications, paid program benefits, and conducted quarterly reviews of a small randomly selected sample of HHC payments. However, MI DHHS did not monitor MI Treasury's performance related to this agreement. Consequently, MI DHHS was not aware that the Bridge system edits were turned off for part of our audit period or that the Bridge system did not prorate credits for part-year residents as required.

Moreover, MI DHHS did not consistently ensure and document that MI Treasury conducted timely quarterly reviews of HHC payments or that MI DHHS included high-risk HHC applications and benefit payments in its sample selection. Finally, MI DHHS officials were unaware that HHC program data used in reporting program results to ACF were incomplete until our audit brought this to their attention.

Consequently, MI DHHS's ineffective monitoring did not detect and prevent the improper payments of HHC program benefits. For the sampled HHC applications, we determined that MI Treasury made 17 improper HHC payments. Specifically, MI Treasury made 15 HHC benefit overpayments totaling \$26,763 and 2 HHC benefit underpayments totaling \$264.

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<sup>6</sup> The breakdown of the types of HHC applications that we sampled is greater than 90 because some HHC applications met multiple factors.



## **MI DHHS DID NOT EFFECTIVELY MONITOR ITS HHC PROGRAM**

### **MI DHHS Was Unaware That Bridge System Edits Were Turned Off**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). Federal regulations also require LIHEAP grantees to establish appropriate systems and procedures to prevent, detect, and correct waste, fraud, and abuse in activities funded under LIHEAP. These systems and procedures address possible waste, fraud, and abuse by clients, vendors, and administering agencies (45 CFR § 96.84(c)).

Until we performed the audit, MI DHHS officials were unaware that MI Treasury turned off the Bridge system edits, which MI Treasury relied on to identify possible waste, fraud, and abuse in the HHC program. The Bridge system edits—such as edits to compare applicant’s information on the HHC application to the information reported on the State income tax return—flagged applications for manual review to research errors or potential fraud. During our audit, we learned that MI Treasury turned off the Bridge system edits in 2020.<sup>7</sup> Because MI DHHS officials were unaware of this, they did not perform additional monitoring of the HHC program to prevent, detect, and correct potential waste, fraud, and abuse in activities funded under LIHEAP.

During our review of the nonstatistical sample of 90 HHC applications, we noted that many of the HHC applications with high-dollar benefit payments were processed in 2020. When we reviewed the 90 HHC applications with Michigan staff, MI Treasury staff said that some of those HHC payments made in 2020 were processed while the Bridge system edits were turned off. Of the 90 HHC applications that we reviewed, 35 were processed in 2020. Of the 35 sampled HHC applications that MI Treasury processed in 2020, 10 included errors that resulted in incorrect HHC benefit payments ranging from a \$127 underpayment to an \$8,248 overpayment. Of these 10 errors, MI Treasury staff said that 8 were processed while the Bridge system edits were turned off. MI Treasury processed approximately 118,000 HHC applications while the Bridge system edits were turned off, resulting in \$25 million in HHC payments that had an increased risk of payment error. MI Treasury staff said that it is not their practice to recover HHC overpayments from the low-income beneficiaries who received them.

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<sup>7</sup> MI Treasury turned off the Bridge system edits in 2020 during the COVID-19 pandemic when only a few MI Treasury employees had remote access to the Bridge system and could process HHC applications and payments. The State of Michigan implemented remote business operations in response to the Michigan Governor’s March 23, 2020, Executive Order “Stay Home, Stay Safe.” The Executive Order directed all Michigan businesses and operations to temporarily suspend in-person operations that were not necessary to sustain or protect life. MI Treasury made payments based on the amount the applicants calculated without performing any additional review.

## **MI DHHS's Monitoring Did Not Ensure That HHC Payments to Part-Year Residents Were Accurate**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). Part-year residents or applicants who lived in Michigan for less than a year must prorate their standard HHC benefit by the number of days they owned, rented, or lived in their Michigan home (MI-1040CR-7, General Information, Standard Credit, Part-Year Resident or Occupied Homestead Less Than 12 Months).

MI DHHS's monitoring did not ensure that HHC payments to part-year residents were accurate. Specifically, MI DHHS did not include applications with out-of-State addresses in its monitoring sample to confirm that MI Treasury's process for paying HHC benefits to part-year residents was working as intended. As such, MI DHHS was unaware that the HHC benefits for part-year residents were not prorated based on the number of days the applicant lived in Michigan during the year.

MI DHHS relied on MI Treasury to correctly prorate the HHC benefits for part-year residents using information from the Bridge system. However, during our audit, we found that the Bridge system did not capture the number of days a part-year applicant lived in Michigan to calculate a prorated HHC benefit amount. Instead, to determine the prorated benefit amount for a part-time resident, the Bridge system compared the HHC benefit amount included on the HHC application to the full-year resident benefit amount that the system calculated. If the application amount was less than the Bridge system calculation, the lesser amount was paid.

Of the 34 sampled HHC applications processed for part-year applicants with mailing addresses outside of Michigan, 9 included errors that resulted in HHC benefit overpayments ranging from \$48 to \$528. Of the remaining 25 applications processed, 18 did not contain enough information to determine whether the HHC benefit amounts were correctly prorated, and we determined that 7 were prorated correctly.

## **MI DHHS DID NOT CONSISTENTLY DOCUMENT QUARTERLY MONITORING REVIEWS**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). MI DHHS must monitor MI Treasury's performance in carrying out its responsibilities under the provisions of Michigan's LIHEAP State Plan and the terms of the interagency agreement.

The interagency agreement between MI DHHS and MI Treasury requires that each quarter, MI Treasury provides a random sample of 30 HHC payments and related household data to MI

DHHS. MI DHHS requests from MI Treasury a random sample of 30 HHC payments processed during the quarter by the 15th day of the month following the quarter's end. By the end of the month, MI DHHS selects 12 HHC recipients from the sample, and MI Treasury reviews the recipients' supporting documentation for accuracy and compliance. MI Treasury provides the results of this review and supporting documentation to MI DHHS within 30 days (Interagency Agreement, IATRS20-99002 and IATRS21-99002, "Work Statement of Each Party," and Home Heating Credit Audit Process, Version 1.1, dated June 26, 2017).

MI DHHS did not consistently document that MI Treasury conducted timely quarterly monitoring reviews of HHC payments and related household data. Of the 12 quarters in our audit period, MI DHHS could only provide monitoring documentation for 4 of those quarters. For the remaining 8 quarters, MI DHHS provided partial documentation for 2 quarters and was unable to provide monitoring documentation (such as emails detailing the selection of HHC payments for review, HHC applications, and screenshots of the Bridge system showing how the HHC payments were calculated) for 6 quarters. When we inquired about the partial or lack of documentation, MI DHHS officials told us that they monitored MI Treasury's performance and did not find any HHC payment errors during our audit period. Absent documentation, we were unable to verify this assertion. Because MI DHHS did not consistently document its quarterly monitoring reviews of HHC payments and correct any errors, it may have missed opportunities to implement enhanced monitoring in the HHC program.

For the 6 quarters that MI DHHS provided documentation or partial documentation, MI DHHS initiated its monitoring process by requesting a random sample from MI Treasury between 6 and 189 days later than the deadlines outlined in MI DHHS's interagency agreement and its Home Heating Credit Audit Process. Separately, for 2 of the 4 quarters with complete monitoring documentation, MI Treasury provided MI DHHS with the results 55 and 85 days late. MI DHHS officials said that because of staff turnover they were unable to provide complete monitoring documentation or explain why MI DHHS did not initiate its monitoring in a timely manner.

In addition, MI DHHS did not ensure that MI Treasury reviewed a sample of 12 HHC payments as required by the interagency agreement. Based on the monitoring documentation that MI DHHS provided, MI DHHS requested and MI Treasury reviewed only 10 HHC payments each quarter. MI DHHS said that it did not request the full sample of 12 HHC payments to review because of a typo in its monitoring procedures that specified only 10 HHC payments should be reviewed.<sup>8</sup>

In its 2024 interagency agreement with MI Treasury, MI DHHS updated some monitoring requirements in response to our audit findings to clarify the deadline for MI Treasury to send

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<sup>8</sup> MI DHHS stated that because of a typo in MI DHHS's monitoring procedures, it selected only 10 HHC payments for MI Treasury to review each quarter instead of 12 HHC payments as specified in the interagency agreement. Given this administrative error, we determined that MI DHHS's monitoring documentation was complete for a quarter when it provided documentation for all 10 HHC payments that it selected.

the 30 randomly selected HHC applications to MI DHHS. MI DHHS stated that it is now following its procedure to sample 12 HHC payments each quarter.

### **MI DHHS'S MONITORING DID NOT ENSURE THAT DATA REPORTED TO ACF WERE COMPLETE AND ACCURATE**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). As part of the annual LIHEAP application process, Federal regulations require States to report on the number and income level of households assisted by LIHEAP during the previous 12 months. States must also report the number of households assisted with members 60 years or older, disabled members, and young children (42 U.S.C. § 8624(c)(1)(G)).

MI DHHS's monitoring did not ensure that the number of households that received LIHEAP HHC benefits it reported to ACF on the LIHEAP Household Report was complete and accurate. Specifically, during our data testing, five of the HHC applications that MI Treasury processed were missing from the HHC application data file that MI DHHS provided to us.<sup>9</sup> MI DHHS officials said they were not aware of this problem until our audit. MI DHHS investigated the discrepancy, and MI DHHS officials told us that they believed that some HHC application data were lost when they were transferred from MI Treasury.

Each night, MI Treasury transmits HHC data for the applications it has processed that day to a data warehouse. MI DHHS downloads the data only during nonholiday weekdays and imports them into its system to report on the HHC program. MI DHHS staff query the MI DHHS system to calculate the number of households that have received HHC benefits during a given period and complete the LIHEAP Household Report. Typically, MI Treasury processes HHC applications and transfers the data to the data warehouse on weekdays. However, during times with high volumes of HHC applications, MI Treasury also processes applications on weekends and holidays. MI DHHS officials said that they believe that when MI Treasury transmitted data on a day when MI DHHS did not download the data, the data were overwritten by the subsequent day's data.

This occurred because MI DHHS did not have a process to ensure that its HHC data were complete. MI DHHS said that the missing data would not impact its monitoring because it used MI Treasury's data to select the random monitoring sample. However, because MI DHHS uses the data it downloads to its system to report on the HHC program, MI DHHS underreported the

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<sup>9</sup> To confirm that the data file we received from MI DHHS was accurate and complete, we compared the HHC applications and payment screens that MI Treasury sent to MI DHHS to support the results of its quarterly monitoring with the HHC application information in MI DHHS's data file. We found five examples in which HHC applications and payments did not appear in MI DHHS's data file.

number of households served in its LIHEAP Household Reports to ACF. ACF staff informed us that this would primarily affect how the program is reported to Congress.

## **CONCLUSION**

MI DHHS's monitoring of MI Treasury's administration of the HHC program was not effective to ensure compliance with Federal and State LIHEAP requirements. As a result, MI DHHS was not aware of significant actions taken by MI Treasury that impacted HHC program benefits, and MI DHHS could not ensure HHC payments were complete and accurate. Moreover, MI DHHS was unable to identify errors within the program and take steps to correct them.

## **RECOMMENDATIONS**

We recommend that the Michigan Department of Health and Human Services:

- take corrective action for the 17 improper payments in our sample of 90 HHC applications by:
  - refunding \$26,763 to the Federal Government for the 15 HHC benefit overpayments, and
  - paying \$264 in additional HHC benefits to the 2 HHC applicants that received underpayments;
- revise the interagency agreement to require MI Treasury to notify MI DHHS of any changes in procedures for processing HHC payments, including edits to the Bridge system;
- determine the feasibility of reprocessing the approximately 118,000 HHC applications paid while the Bridge system edits were turned off, or work with OCS to develop a statistical sampling methodology to obtain information about the extent of payment errors that were made while the Bridge system edits were turned off and take appropriate action to correct them;
- revise its Home Heating Credit Audit Process to:
  - incorporate a risk-based approach that includes high-risk HHC applications, such as those with high dollar payments and out-of-State mailing addresses, and
  - require and maintain documentation to support findings identified and corrective actions taken during the monitoring process;
- adhere to the interagency agreement's requirements and timeframes for quarterly monitoring; and

- test the HHC program data it receives from MI Treasury via the data warehouse to confirm that the data are complete and accurate before reporting HHC program information to ACF.

### **MI DHHS COMMENTS**

In written comments on our draft report, MI DHHS did not indicate concurrence or nonconcurrence with our recommendations; however, it stated that it agreed with our findings and outlined actions that it has taken and plans to take to address our recommendations.

Specifically, MI DHHS stated that it will refund the identified overpayments to ACF and that it and MI Treasury have issued payments to the two applicants with identified underpayments. MI DHHS also stated that the fiscal year 2025 Interagency Agreement with MI Treasury was updated to:

- require that MI Treasury notify MI DHHS within 7 business days of changes impacting the HHC manual review process, including the Bridge system edits, for MI DHHS direction and approval; and
- include a risk-based approach when selecting samples for the quarterly monitoring process to ensure that high-risk applications, including part-time residents, and high dollar payments are reviewed.

MI DHHS stated that it will work with MI Treasury to evaluate the feasibility of reprocessing the HHC applications paid while the Bridge system edits were turned off. MI DHHS also stated that it will retain detailed tracking logs for each quarterly monitoring review, including corrective action for any identified errors; it has expanded on the internal monitoring process to define and establish the quarterly review timeline; and it will complete quarterly monitoring reviews within 30 days of receipt of all required information from MI Treasury.

In addition, MI DHHS stated that it has implemented a process to ensure that the data received by MI Treasury are complete before they are uploaded to the data warehouse. Lastly, MI DHHS stated that it will implement an archive process for files received from MI Treasury to ensure that they are not overwritten.

MI DHHS comments are included in their entirety as Appendix B.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

Our audit covered MI DHHS's HHC program monitoring from October 2019 through September 2022 (audit period).

We reviewed MI DHHS's interagency agreements interviewed MI DHHS staff to understand the monitoring processes and reviewed the results of MI DHHS's monitoring. In addition, we selected a nonstatistical sample of 90 high-risk HHC applications and for each we obtained and reviewed the HHC application and payment history. We reassessed the applicants' eligibility and recalculated the household's benefits. We discussed our findings with MI Treasury staff.

We did not perform an overall assessment of MI DHHS's internal control structure. Rather, we limited our review of internal controls to those that were significant to our objective. Specifically, we reviewed MI DHHS's monitoring of MI Treasury.

We performed audit work from November 2022 through April 2025.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal requirements, regulations, and guidance;
- interviewed ACF staff to gain an understanding of LIHEAP and OCS's policies and procedures for monitoring of LIHEAP grant funds awarded to States;
- reviewed the Michigan's LIHEAP State Plan approved by ACF;
- reviewed MI DHHS's interagency agreement with MI Treasury;
- reviewed the State's policies and procedures for monitoring its HHC program;
- interviewed MI DHHS and MI Treasury's staff and reviewed their policies and procedures in relation to the administration of the HHC program;
- obtained 3 data files that included 900,940 HHC applications and \$185 million in HHC payments that were processed from October 1, 2019, through September 30, 2022,<sup>10</sup>

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<sup>10</sup> At the time of our audit, MI DHHS was only able to provide us with partial HHC program data for FY 2022 because of technical issues.

and that were funded with the CARES Act, ARP Act, and annual LIHEAP appropriation funding;

- selected a nonstatistical sample of 90 high-risk HHC applications based on our identified risk factors such as: (1) applications with high dollar benefits, (2) applications with negative household resources, (3) applications with exemptions that exceeded household size, (4) applications with out-of-State mailing addresses, (5) applications that were denied, and (6) applications that were not denied but received \$0 or \$1 benefit payments from a list provided by the State of Michigan;<sup>11</sup>
- reviewed supporting HHC sample documentation to ensure benefit payments were correctly calculated and made to eligible applicants; and
- discussed the results of our audit with MI DHHS and MI Treasury officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>11</sup> Some of the HHC applications in our sample included multiple high-risk factors. Because of this, there are instances throughout this report where the number of applications appears greater than 90.





STATE OF MICHIGAN

GRETCHEN WHITMER  
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

ELIZABETH HERTEL  
DIRECTOR

May 27, 2025

Mr. Curtis Roy  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services, Region 1  
JFK Federal Building  
15 Sudbury Street, Room 2300  
Boston, MA 02203

Re: Report Number A-01-22-02502

Dear Regional Inspector General Roy:

Enclosed is the Michigan Department of Health and Human Services' response to the draft report entitled "Michigan Did Not Effectively Monitor Home Heating Benefits Provided Under the Low-Income Home Energy Assistance Program."

We appreciate the opportunity to review and comment on the report before it is released. If you have any questions regarding this response, please contact Kate Stewart at [stewartk10@michigan.gov](mailto:stewartk10@michigan.gov) or (517) 241-8980.

Sincerely,

A handwritten signature in blue ink, appearing to read "Elizabeth Hertel".

Elizabeth Hertel

EH:sh

Enclosure

## **Finding: MI DHHS DID NOT EFFECTIVELY MONITOR ITS HHC PROGRAM**

### **MI DHHS Was Unaware That Bridge System Edits Were Turned Off**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). Federal regulations also require LIHEAP grantees to establish appropriate systems and procedures to prevent, detect, and correct waste, fraud, and abuse in activities funded under LIHEAP. These systems and procedures address possible waste, fraud, and abuse by clients, vendors, and administering agencies (45 CFR § 96.84(c)).

Until we performed the audit, MI DHHS officials were unaware that MI Treasury turned off the Bridge system edits, which MI Treasury relied on to identify possible waste, fraud, and abuse in the HHC program. The Bridge system edits—such as edits to compare applicant’s information on the HHC application to the information reported on the State income tax return—flagged applications for manual review to research errors or potential fraud. During our audit, we learned that MI Treasury turned off the Bridge system edits in 2020. Because MI DHHS officials were unaware of this, they did not perform additional monitoring of the HHC program to prevent, detect, and correct potential waste, fraud, and abuse in activities funded under LIHEAP.

During our review of the nonstatistical sample of 90 HHC applications, we noted that many of the HHC applications with high-dollar benefit payments were processed in 2020. When we reviewed the 90 HHC applications with Michigan staff, MI Treasury staff said that some of those HHC payments made in 2020 were processed while the Bridge system edits were turned off. Of the 90 HHC applications that we reviewed, 35 were processed in 2020. Of the 35 sampled HHC applications that MI Treasury processed in 2020, 10 included errors that resulted in incorrect HHC benefit payments ranging from a \$127 underpayment to an \$8,248 overpayment. Of these 10 errors, MI Treasury staff said that 8 were processed while the Bridge system edits were turned off. MI Treasury processed approximately 118,000 HHC applications while the Bridge system edits were turned off, resulting in \$25 million in HHC payments that had an increased risk of payment error. MI Treasury staff said that it is not their practice to recover HHC overpayments from the low-income beneficiaries who received them.

### **MI DHHS’s Monitoring Did Not Ensure That HHC Payments to Part-Year Residents Were Accurate**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). Part-year residents or applicants who lived in Michigan for less than a year must prorate their standard HHC benefit by the number of days they owned, rented, or lived in their Michigan home (MI-1040CR-7, General Information, Standard Credit, Part-Year Resident or Occupied Homestead Less Than 12 Months).

MI DHHS’s monitoring did not ensure that HHC payments to part-year residents were accurate. Specifically, MI DHHS did not include applications with out-of-State addresses in its monitoring sample to

confirm that MI Treasury's process for paying HHC benefits to part-year residents was working as intended. As such, MI DHHS was unaware that the HHC benefits for part-year residents were not prorated based on the number of days the applicant lived in Michigan during the year.

MI DHHS relied on MI Treasury to correctly prorate the HHC benefits for part-year residents using information from the Bridge system. However, during our audit, we found that the Bridge system did not capture the number of days a part-year applicant lived in Michigan to calculate a prorated HHC benefit amount. Instead, to determine the prorated benefit amount for a part-time resident, the Bridge system compared the HHC benefit amount included on the HHC application to the full-year resident benefit amount that the system calculated. If the application amount was less than the Bridge system calculation, the lesser amount was paid.

Of the 34 sampled HHC applications processed for part-year applicants with mailing addresses outside of Michigan, 9 included errors that resulted in HHC benefit overpayments ranging from \$48 to \$528. Of the remaining 25 applications processed, 18 did not contain enough information to determine whether the HHC benefit amounts were correctly prorated, and we determined that 7 were prorated correctly.

### **Finding Recommendations**

- take corrective action for the 17 improper payments in our sample of 90 HHC applications by:
  - refunding \$26,763 to the Federal Government for the 15 HHC benefit overpayments, and
  - paying \$264 in additional HHC benefits to the 2 HHC applicants that received underpayments;
- revise the interagency agreement to require MI Treasury to notify MI DHHS of any changes in procedures for processing HHC payments, including edits to the Bridge system;
- determine the feasibility of reprocessing the approximately 118,000 HHC applications paid while the Bridge system edits were turned off, or work with OCS to develop a statistical sampling methodology to obtain information about the extent of payment errors that were made while the Bridge system edits were turned off and take appropriate action to correct them;
- revise its Home Heating Credit Audit Process to:
  - incorporate a risk-based approach that includes high-risk HHC applications, such as those with high dollar payments and out-of-State mailing addresses, and

### **MDHHS Response**

MDHHS agrees with the finding.

MDHHS has updated the FY25 Interagency Agreement (IA) with the Michigan Department of Treasury (Treasury) to require that Treasury notify MDHHS within seven business days of changes impacting the HHC manual review process, including the Bridge system edits, for MDHHS direction and approval. Also,

MDHHS has updated the FY25 IA with Treasury to include a risk-based approach when selecting samples for the quarterly monitoring process to ensure that high-risk applications, including part-time residents, and high dollar payments are reviewed. In addition, Treasury established a dedicated team to enhance administration of the HHC program.

MDHHS will work with Treasury to evaluate the feasibility of reprocessing the HHC applications paid while the Bridge system edits were turned off.

MDHHS will refund the identified overpayments to the Administration for Children and Families. MDHHS and Treasury issued payments to the two applicants with identified underpayments.

### **Finding: MI DHHS DID NOT CONSISTENTLY DOCUMENT QUARTERLY MONITORING REVIEWS**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). MI DHHS must monitor MI Treasury's performance in carrying out its responsibilities under the provisions of Michigan's LIHEAP State Plan and the terms of the interagency agreement.

The interagency agreement between MI DHHS and MI Treasury requires that each quarter, MI Treasury provides a random sample of 30 HHC payments and related household data to MI DHHS. MI DHHS requests from MI Treasury a random sample of 30 HHC payments processed during the quarter by the 15th day of the month following the quarter's end. By the end of the month, MI DHHS selects 12 HHC recipients from the sample, and MI Treasury reviews the recipients' supporting documentation for accuracy and compliance. MI Treasury provides the results of this review and supporting documentation to MI DHHS within 30 days (Interagency Agreement, IATRS20-99002 and IATRS21-99002, "Work Statement of Each Party," and Home Heating Credit Audit Process, Version 1.1, dated June 26, 2017).

MI DHHS did not consistently document that MI Treasury conducted timely quarterly monitoring reviews of HHC payments and related household data. Of the 12 quarters in our audit period, MI DHHS could only provide monitoring documentation for 4 of those quarters. For the remaining 8 quarters, MI DHHS provided partial documentation for 2 quarters and was unable to provide monitoring documentation (such as emails detailing the selection of HHC payments for review, HHC applications, and screenshots of the Bridge system showing how the HHC payments were calculated) for 6 quarters. When we inquired about the partial or lack of documentation, MI DHHS officials told us that they monitored MI Treasury's performance and did not find any HHC payment errors during our audit period. Absent documentation, we were unable to verify this assertion. Because MI DHHS did not consistently document its quarterly monitoring reviews of HHC payments and correct any errors, it may have missed opportunities to implement enhanced monitoring in the HHC program.

For the 6 quarters that MI DHHS provided documentation or partial documentation, MI DHHS initiated its monitoring process by requesting a random sample from MI Treasury between 6 and 189 days later than the deadlines outlined in MI DHHS's interagency agreement and its Home Heating Credit Audit Process. Separately, for 2 of the 4 quarters with complete monitoring documentation, MI Treasury provided MI DHHS with the results 55 and 85 days late. MI DHHS officials said that because of staff turnover they were unable to provide complete monitoring documentation or explain why MI DHHS did not initiate its monitoring in a timely manner.

In addition, MI DHHS did not ensure that MI Treasury reviewed a sample of 12 HHC payments as required by the interagency agreement. Based on the monitoring documentation that MI DHHS provided, MI DHHS requested and MI Treasury reviewed only 10 HHC payments each quarter. MI DHHS said that it did not request the full sample of 12 HHC payments to review because of a typo in its monitoring procedures that specified only 10 HHC payments should be reviewed.

In its 2024 interagency agreement with MI Treasury, MI DHHS updated some monitoring requirements in response to our audit findings to clarify the deadline for MI Treasury to send the 30 randomly selected HHC applications to MI DHHS. MI DHHS stated that it is now following its procedure to sample 12 HHC payments each quarter.

#### **Finding Recommendations**

- revise its Home Heating Credit Audit Process to:
  - require and maintain documentation to support findings identified and corrective actions taken during the monitoring process;
- adhere to the interagency agreement's requirements and timeframes for quarterly monitoring; and

#### **MDHHS Response**

MDHHS agrees with the finding. In May 2025, MDHHS expanded on the internal monitoring process to define and establish the quarterly review timeline and documentation standards. MDHHS will complete the quarterly monitoring review within 30 days of receiving all required information from Treasury and retain detailed tracking logs for each review, including corrective action for any identified errors.

**Finding: MI DHHS's MONITORING DID NOT ENSURE THAT DATA REPORTED TO ACF WERE COMPLETE AND ACCURATE**

Federal regulations require LIHEAP grantees to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes; in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and so that subaward performance goals are achieved (45 CFR § 75.352(d)). As part of the annual LIHEAP application process, Federal regulations require States to report on the number and income level of households assisted by LIHEAP during the previous 12 months. States must also report the number of households assisted with members 60 years or older, disabled members, and young children (42 U.S.C. § 8624(c)(1)(G)).

MI DHHS's monitoring did not ensure that the number of households that received LIHEAP HHC benefits it reported to ACF on the LIHEAP Household Report was complete and accurate. Specifically, during our data testing, five of the HHC applications that MI Treasury processed were missing from the HHC application data file that MI DHHS provided to us. MI DHHS officials said they were not aware of this problem until our audit. MI DHHS investigated the discrepancy, and MI DHHS officials told us that they believed that some HHC application data were lost when they were transferred from MI Treasury.

Each night, MI Treasury transmits HHC data for the applications it has processed that day to a data warehouse. MI DHHS downloads the data only during nonholiday weekdays and imports them into its system to report on the HHC program. MI DHHS staff query the MI DHHS system to calculate the number of households that have received HHC benefits during a given period and complete the LIHEAP Household Report. Typically, MI Treasury processes HHC applications and transfers the data to the data warehouse on weekdays. However, during times with high volumes of HHC applications, MI Treasury also processes applications on weekends and holidays. MI DHHS officials said that they believe that when MI Treasury transmitted data on a day when MI DHHS did not download the data, the data were overwritten by the subsequent day's data.

This occurred because MI DHHS did not have a process to ensure that its HHC data were complete. MI DHHS said that the missing data would not impact its monitoring because it used MI Treasury's data to select the random monitoring sample. However, because MI DHHS uses the data it downloads to its system to report on the HHC program, MI DHHS underreported the number of households served in its LIHEAP Household Reports to ACF. ACF staff informed us that this would primarily affect how the program is reported to Congress.

**Finding Recommendations**

- test the HHC program data it receives from MI Treasury via the data warehouse to confirm that the data are complete and accurate before reporting HHC program information to ACF.

**MDHHS Response**

MDHHS agrees with the finding. In April 2024, MDHHS, in partnership with the Department of Technology, Management, and Budget (DTMB), implemented a process to ensure that the data received

by Treasury is complete before it is uploaded to the data warehouse. MDHHS and DTMB will also implement an archive process for files received from Treasury to ensure that files are not overwritten.



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