



Issue Date January 11, 2010

Audit Report Number 2010-HA-0001

TO: Jon Gant, Director, Office of Healthy Homes and Lead Hazard Control, L
//s//
FROM: Sandra G. Elion, Director, Headquarters Audit Division, GAH
SUBJECT: HUD's Office of Healthy Homes and Lead Hazard Control Awarded Grants to Ineligible Applicants

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Healthy Homes and Lead Hazard Control's (OHHLHC) selection procedures used to award American Recovery and Reinvestment Act of 2009 (Recovery Act) grants. This audit was mandated by the Office of Management and Budget and was part of our fiscal year 2009 audit plan. Our objective was to determine whether OHHLHC awarded (1) Recovery Act funds in accordance with the selection criteria specified in the fiscal year 2008 notices of funding availability (notices) and the Recovery Act and (2) fiscal year 2008 funds in accordance with the selection criteria.

What We Found

OHHLHC did not have adequate controls to ensure that only qualified applicants were selected to receive grant funds. As a result, OHHLHC improperly awarded \$1.9 million in Recovery Act funds to the City of Greenville, NC (Greenville), and \$874,821 to Healthy Homes Resources. In addition, OHHLHC awarded \$3 million in fiscal year 2008 funds to the City of Cincinnati, OH (Cincinnati).

In reviewing OHHLHC grant selection procedures, we identified other deficiencies in OHHLHC's operations that need to be addressed. These deficiencies relate to the selection official's approval of the selected grantees, maintaining documentation on

creating and retaining jobs, conducting initial screening reviews within the prescribed timeframe, and maintaining an audit trail of deficiencies found during the initial screening review process (see Appendix C).

What We Recommend

We recommend that the Director of OHHLHC rescind the \$2.8 million in Recovery Act funding that was improperly awarded to Greenville and Healthy Homes Resources, ensure that the selection procedures are followed, and take appropriate actions against employees.

We also recommend that the Director of OHHLHC rescind the \$3 million in fiscal year 2008 funding that Cincinnati received, ensure that the application review panels follow threshold review requirements when determining eligibility, and take appropriate action against employees.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

HUD's Response

We provided the discussion draft report to OHHLHC on December 18, 2009, and held the exit conference on December 23, 2009. OHHLHC provided written comments on January 6, 2010. OHHLHC agreed with our findings and all recommendations except the recommendations to rescind the grants awarded to Greenville and Cincinnati.

The complete text of OHHLHC's written response, along with our evaluation of that response, is in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Recovery and Reinvestment Act of 2009 (Recovery Act), signed on February 17, 2009, made supplemental appropriations to (1) preserve and create jobs and promote economic recovery, (2) assist those impacted by the recession, (3) provide investments needed to increase economic efficiency and provide long-term economic benefits, and (4) stabilize State and local government budgets. This act appropriated \$100 million to the U.S. Department of Housing and Urban Development's (HUD) Office of Healthy Homes and Lead Hazard Control (OHHLHC) for its lead hazard reduction programs. The funds were to be awarded first to applicants that had applied under the lead hazard reduction program notices of funding availability for fiscal year 2008 (notices) that were found to be qualified for an award but were not awarded because of funding limitations. Any remaining funds were to be added to the fiscal year 2009 lead hazard reduction program appropriations.

OHHLHC has administered a Lead Hazard Control program since 1993. The mission of OHHLHC is to reduce health and safety hazards in a comprehensive and cost effective manner, with a particular focus on protecting the health of children and other sensitive populations in low-income households. It supports this mission by assisting states and local governments to remedy the unsafe housing conditions and the acute shortage of decent and safe dwellings for low-income housing.

OHHLHC has seven lead hazard grant programs but has restricted the Recovery Act funds to the following four programs: Lead-Based Paint Hazard Control, Lead Hazard Reduction Demonstration, Healthy Homes Demonstration, and Healthy Homes Technical Studies. OHHLHC believed that these programs were most likely to create or retain jobs and gave priority to the lead hazard grants because those grants "account for the highest number of housing units rehabilitated or improved, and thus are most likely to create jobs for lead-based paint and housing rehab/construction professionals." By using these more restrictive criteria, OHHLHC developed a plan and quickly allocated the \$99.5 million¹ in supplemental Recovery Act funds to 53 grantees. As specified in the Recovery Act, OHHLHC selected the 53 grantees from the fiscal year 2008 applicants that were not funded but had competitively ranked applications that received a minimum score of 75 points.

Historically, HUD has made grant awards based on applications submitted in response to notices of funding availability. The notices were published in the Federal Register and announced publicly the type and amount of grants available within HUD. They included the requirements for competing for the available funds. Like all other HUD program offices, OHHLHC appointed an application review panel comprised of program representatives to score each grant application.

Under the fiscal year 2008 notices, OHHLHC received a total of 202 applications for its seven grant programs. Decisions on the applications were as follows:

OHHLHC's fiscal year 2008 and Recovery Act funds grant awards

¹ The remaining \$500,000 will be used to administer the grants.

Grant program	Applications received	Qualified applicants	Fiscal year 2008 awards		Recovery Act awards	
Lead-Based Paint Hazard Control	67	55	25	\$70,379,218	30	\$77,949,463
Lead Hazard Reduction Demonstration	21	14	13	\$44,087,870	1	\$2,616,843
Lead Elimination Action Program	13	9	9	\$17,500,000	0	\$0
Lead Outreach	36	18	5	\$1,463,725	0	\$0
Lead Technical Studies	11	5	5	\$2,200,000	0	\$0
Healthy Homes Demonstration	36	25	5	\$4,374,761	20	\$17,167,142
Healthy Homes Technical Studies	18	10	4	\$2,100,000	2	\$1,766,552
Total	202	136	66	\$142,105,574	53	\$99,500,000

The objective of our audit was to determine whether OHHLHC awarded (1) Recovery Act funds in accordance with selection criteria specified in the fiscal year 2008 notices and the Recovery Act and (2) fiscal year 2008 funds in accordance with the selection criteria.

RESULTS OF AUDIT

Finding 1: OHHLHC Awarded \$2.8 Million in Recovery Act Funds to Ineligible Applicants

OHHLHC awarded \$2.8 million in Recovery Act funds to two applicants despite their applications not meeting the minimum threshold score of 75 points established in the fiscal year 2008 notice. These awards were made because the application review panel incorrectly awarded two bonus points to both applicants' overall application scores. As a result, the City of Greenville, NC (Greenville) and Healthy Homes Resources incorrectly received \$2.8 million in Recovery Act funds that should have been awarded to other qualified applicants.

Two Grantees Were Ineligible To Receive Recovery Act Funding

The Healthy Homes and Lead Hazard Control Programs' fiscal year 2008 notice, dated May 12, 2008, states that the "The application must receive a total score of at least 75 points to be considered for funding." In addition, "Applicants are eligible for two (2) bonus points to each application that includes a valid form HUD-2990 certifying that the proposed activities/projects in the application are consistent with the strategic plan for an empowerment zone² (EZ) designated by HUD or the U.S. Department of Agriculture (USDA), the tax incentive utilization plan for an urban or rural renewal community designated by HUD (RC), or the strategic plan for an enterprise community designated in round II by USDA (EC-II), and that the proposed activities/projects will be located within the RC/EZ/EC-II identified above and are intended to serve the residents."

The application review panel is responsible for rating and scoring applications and recommending applicants for funding. To maintain consistency in scoring, OHHLHC develops an evaluation form that is based on requirements contained in the specific grant program notice.

In scoring the applications submitted in response to the fiscal year 2008 OHHLHC notices, the application review panel awarded bonus points to Greenville and Healthy Homes Resources without verifying that the applicants were in a designated zone or obtaining a valid certification form.

² An empowerment zone is a distressed area in need of sustainable community development.

Greenville

OHHLHC awarded \$1.9 million in Recovery Act funds to Greenville because the review panel had scored Greenville's application for the fiscal year 2008 notice at 75.73 points. This score included two bonus points for submitting a valid Form HUD-2990 (RC/EZ/EC-II). To be valid, the form had to be signed by a Greenville official certifying that the city was in or the proposed activities would be provided in a designated empowerment zone. However, the form contained in Greenville's official grant file had not been signed. More importantly, neither Greenville nor the State of North Carolina had been determined to be in one of the designated zones. Further, it was only after we made inquiries about Greenville's form in October 2009 that the review panel chair requested a signed form. He requested that a city official provide him a signed form "with last year's [sic] date of 08/04/2008." Such a request to backdate official forms is an ethical violation.

Thus, Greenville was not entitled to receive the additional points, and its actual total score of 73.75 was 1.25 points less than the minimum score needed for funding. In effect, Greenville was not a qualified applicant under the fiscal year 2008 notice.

Healthy Homes Resources

OHHLHC awarded Healthy Homes Resources \$874,821 in Recovery Act funds because the application review panel incorrectly determined that Healthy Homes Resources was qualified under the fiscal year 2008 notices. The review panel scored Healthy Homes Resources' application at 75.77 points. This score included two bonus points for submitting a valid Form HUD-2990. Healthy Homes Resources actually submitted two HUD-2990 forms, one with the designated zone as City of Pittsburgh and the other as Allegheny County. Upon further review, we determined that neither the City of Pittsburgh nor Allegheny County had been designated as an empowerment zone. Therefore, the two bonus points for being in a designated zone should not have been awarded. The final score should have been 73.77 instead of 75.77.

Ultimately, Healthy Homes Resources' final application score was less than the minimum score of 75 needed for funding consideration. Therefore, this applicant should not have been awarded the \$874,821 in Recovery Act funds.

Determining whether a grantee is in a designated zone is a matter of searching two Internet links. However, no one on the review panel searched these links before awarding bonus points to these two applicants.

By awarding the \$2.8 million to unqualified applicants, Greenville and Healthy Homes Resources, more qualified applicants³ were deprived of the opportunity to receive grant funding under the Recovery Act.

Conclusion

OHHLHC did not have adequate controls to ensure that only qualified applicants were selected to receive grant funds. This condition occurred because the application review panel incorrectly awarded two bonus points to Greenville's and Healthy Homes Resources' overall scores. OHHLHC needs to rescind the \$1.9 million given to Greenville and the \$874,821 to Healthy Homes Resources because neither applicant met the minimum qualifications to receive funding for OHHLHC grants. Also, the Director of OHHLHC should ensure that selection procedures are followed and grants are awarded in accordance with established criteria.

Recommendations

We recommend that HUD's Director of OHHLHC

- 1A. Rescind \$2.8 million in Recovery Act funding that was improperly awarded to Greenville (\$1.9 million) and Healthy Homes Resources (\$874,821) and award the funds to qualified applicants.
- 1B. Ensure that the procedures for selecting grantees are made in accordance with established criteria.
- 1C. Review the application review panel chair's behavior and take appropriate action.

³ Qualified applicants are those applicants that received at least 75 points on their application.

Finding 2: OHHLHC Awarded a \$3 Million Fiscal Year 2008 Grant to an Ineligible Applicant

OHHLHC awarded a \$3 million grant to the City of Cincinnati, OH (Cincinnati), in fiscal year 2008 although it was deemed ineligible during the threshold review. The grant was funded because the Director of OHHLHC's Programs Division assumed that the city intended to apply for a different grant program and allowed Cincinnati to resubmit its application after the deadline had expired. OHHLHC adversely affected the competitive process by allowing Cincinnati to resubmit its application. As a result, the \$3 million grant awarded to Cincinnati should have been awarded to a qualified applicant.

Cincinnati Was Ineligible To Receive an Award Under the Fiscal Year 2008 Notice

In fiscal year 2008, Cincinnati submitted an application for the lead hazard control program and requested funding of more than \$3.7 million. Applying for the lead hazard control grant and requesting such a large amount rendered Cincinnati ineligible for funding consideration. Cincinnati was ineligible because (1) it had received a lead hazard control grant in fiscal year 2007 and (2) the requested funding level of \$3.7 million exceeded the \$3 million maximum funding limit.

The Healthy Homes and Lead Hazard Control Programs fiscal year 2008 notice clearly states that recipients who received a lead hazard control grant in fiscal year 2007 cannot receive another grant for the same program the following year. Also, the maximum amount of the award in fiscal year 2008 was limited to \$3 million. Applications meeting these criteria should not have been referred to the application review panel for scoring.

Although the initial application review concluded that Cincinnati was not eligible for the grant it applied for, an OHHLHC director changed Cincinnati's application to a different grant program. The director sent a letter to Cincinnati stating: "It appears that you intended to submit to the Lead Hazard Reduction Demonstration instead of the Lead-Based Paint Hazard Control Program." Cincinnati's response did not indicate that it intended to apply for the lead hazard reduction program, but it resubmitted its application for the lead hazard reduction grant and reduced the requested amount.

The application Cincinnati resubmitted on August 6, 2008, (27 days after the deadline) only included changes relative to the budget. It did not include significant changes to the descriptions of the rating factors; in fact, the term "lead hazard control" was used throughout the resubmitted application. Upon closer examination

of the resubmitted application, we determined that Cincinnati clearly showed that it intended to apply for the lead hazard control grant program. Specifically, in response to factor 3 in its application, Cincinnati stated, “The Program Manager will file all HUD required monthly, quarterly, and annual reports of Lead Based Paint Hazard Control activities, and distribute quarterly and annual reports to the partnership agencies.”

OHHLHC acknowledged that “a subsequent review of the application materials does not indicate that the applicant intended to apply for any other program than the LBPHC [lead hazard control] Program” and the city should have been deemed ineligible for funding under the fiscal year 2008 notice. Despite this acknowledgement, OHHLHC believed that it was acceptable to rate the application under a different grant program and award Cincinnati a \$3 million grant for the Lead Hazard Reduction Demonstration program.

We believe that OHHLHC did not act prudently in permitting Cincinnati to switch from the lead hazard control program to the lead hazard reduction program after submitting its initial application. OHHLHC considered the switching of programs to be a technical deficiency and, therefore, correctable. However, submitting an application for the wrong program cannot be corrected by submitting new information. Based on the fiscal year 2008 notices, HUD may not seek clarification of items or responses that improve the substantive quality of the applicant’s response to any rating factor.

In effect, OHHLHC adversely affected the competitive process by allowing Cincinnati to submit an application after the deadline had expired and steering Cincinnati to a grant program for which it could receive funding. Both actions were opportunities not given to any other applicant. Furthermore, the \$3 million grant awarded to Cincinnati should have been awarded to a qualified applicant.

Conclusion

Since Cincinnati was not qualified for the grant it applied for in fiscal year 2008, OHHLHC should not have initiated actions to switch the application to another grant program. The actions of OHHLHC gave an undue advantage to Cincinnati that was not given to other applicants. The evidence supports rescinding the grant.

Recommendations

We recommend that HUD’s Director of OHHLHC

- 2A. Rescind the \$3 million in fiscal year 2008 funding that was improperly awarded to Cincinnati and award the funds to qualified applicants.

- 2B. Ensure that the application review panels follow threshold review requirements when determining eligibility and only rate applications under the programs for which applicants apply.
- 2C. Review the Programs Division Director's behavior during the fiscal year 2008 selection process and take appropriate action as deemed necessary.

SCOPE AND METHODOLOGY

We performed an audit of the selection procedures used by OHHLHC because under the Recovery Act, inspectors general are expected to be proactive and focus on prevention.

The audit period covered March 2008 through February 2009; however, we expanded the scope when necessary to include other periods. We performed the audit from August through November 2009 at HUD headquarters in Washington, DC.

To accomplish our objectives, we

- Reviewed applicable HUD regulations, including the fiscal year 2008 notices relating to the administration of the OHHLHC grant programs.
- Conducted interviews with OHHLHC employees to determine their roles and responsibilities during the fiscal year 2008 application review process.
- Obtained an understanding of OHHLHC's grant programs.
- Examined 32 of the 202 applications submitted under the 2008 notices and
 - Randomly selected seven applications that received fiscal year 2008 funds to determine if the funds were awarded in accordance with the fiscal year 2008 notices,
 - Randomly selected 16 applications that received Recovery Act funds to determine if the funds were awarded in accordance with the notices and the Recovery Act, and
 - Randomly selected nine applications that were not approved for funding during fiscal year 2008 to determine if they were scored in accordance with the fiscal year 2008 notices.

We conducted the 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.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Effectiveness and efficiency of operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has in place to ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following item is a significant weakness:

- OHHLHC did not have adequate procedures in place to ensure that only qualified applicants were awarded grants (findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	\$2,774,821
2A	\$3,000,000

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, when HUD implements our recommendations, it will deobligate the funds that.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation

Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

OFFICE OF HEALTHY HOMES AND
LEAD HAZARD CONTROL

January 6, 2010

MEMORANDUM FOR: Saundra G. Elion, Director, Headquarters Audit Division,
HAH

FROM: Jon L. Gant, Director, Office of Healthy Homes and Lead
Hazard Control, L

SUBJECT: Response to Draft Report Findings Identified in OIG Audit
Report Number 2010-HA-0001 of FY 2008 Notice of
Funding Availability Announcement (NOFA) Review
Process

The Office of Inspector General's (OIG's), Headquarters Audit Division, conducted an audit of the Office of Healthy Homes and Lead Hazard Control's (OHHLHC's) Fiscal Year (FY) 2008 Notice of Funding Availability Announcement (NOFA) review process. The OIG issued the draft Audit Report Number 2010-HA-0001 to OHHLHC for comment. During the audit, potential discrepancies were brought to the attention of the OHHLHC concerning three awardees, one under the permanent FY 2008 appropriation, the City of Cincinnati, OH, and two awarded under the American Recovery and Reinvestment Act of 2009 (ARRA), the City of Greenville, NC, and Healthy Homes Resources, Pittsburgh, PA. Two findings outlined in the draft Report are addressed in this response.

Finding 1: OHHLHC Awarded \$2.8 Million in Recovery Act Funds to Ineligible Applicants

Based on the review conducted on awards made under the Recovery Act to the City of Greenville, NC, (Lead-based Paint Hazard Control Grant) and Healthy Homes Resources, Pittsburgh, PA, (Healthy Homes Demonstration Grant), the OIG determined that OHHLHC awarded \$2.8 million in Recovery Act funds to ineligible applicants and recommended the following corrective actions:

- 1D. Rescind \$2.8 million in Recovery Act funding that was improperly awarded to Greenville (\$1.9 million) and Healthy Homes Resources (\$874,821) and award the funds to qualified applicants.
- 1E. Ensure that the procedures for selecting grantees are made in accordance with established criteria.
- 1F. Review the application review panel chair's behavior and take appropriate action.

Background

Auditors discovered that the City of Greenville's application did not contain a signed Form HUD-2990 (Certification of Consistency with the RC/EZ/EC-II's Strategic Plan). During the threshold review process, OHHLHC reviewers noted that Greenville did not submit the HUD-2990, as required by the NOFA and requested the applicant submit the form within the 14-day period allowed for curable deficiencies. The City of Greenville submitted the form as "not applicable" and unsigned, however; the OHHLHC Application Review Panel (ARP) review team erroneously gave bonus points to the applicant as if it had been signed and applicable.

This error resulted in the Greenville application receiving a score of 75.73; because the applicant's score met the minimum qualifying score for award of 75 in accordance with the General Section of the SuperNOFA, the City of Greenville was awarded an LBPHC grant under the Recovery Act. However, the score should have been 73.73 without the bonus points, below the minimum qualifying score. The application had met all minimum requirements to be considered for review but not qualified for funding consideration.

OIG auditors identified a similar issue associated with Healthy Homes Resources (HHR), Pittsburgh, PA. Auditors discovered that HHR's application contained two signed Form HUD-2990s certifying that the City of Pittsburgh and Allegheny County were areas where proposed activities/projects would be carried out within the respective jurisdiction's RC/EZ/EC-II and would be intended to serve the residents of the designated area by the applicant. The City and County's certifications were incorrect; neither jurisdiction included is within a RC/EZ/EC-II area.

The OHHLHC awarded HHR a grant based on the inaccurate information provided by the applicant. The applicant certified that it met the requirements to receive bonus points for working in a designated RC/EZ/EC-II zone, when it did not merit those bonus points regarding either of the jurisdictions. This error resulted in the HHR application receiving a score of 75.77; however, the score should have been 73.77, below the minimum qualifying score. Without the bonus points, the application did not qualify for funding consideration.

Response to OIG Recommendation A1. Rescind \$2.8 million in Recovery Act funding that was improperly awarded to Greenville (\$1.9 million) and Healthy Homes Resources (\$874,821) and award the funds to qualified applicants.

Comment 1 The OHHLHC concurs with the OIG finding that \$2.8 million in Recovery Act funding was improperly awarded to Greenville and Healthy Homes Resources due to errors in the OHHLHC ARP process. However, in the case of the City of Greenville, the OHHLHC does not concur with the OIG's recommendation to rescind the Recovery Act funding. As previously outlined in my letter of October 30, 2009, I believe that Greenville is statutorily eligible to receive funding and is not at fault for the scoring error that occurred. Accordingly, I believe the City of Greenville should be permitted to keep its grant funding. As a consequence, the Department is not required to recapture grant funds that have been awarded and expended in furtherance of grant activities, a precedent that has been established by previous Office of General Counsel (OGC) decisions on matters of funding errors similar to this.

Comment 2 With respect to Healthy Homes Resources a different set of circumstances is presented. HHR provided inaccurate information and should be held accountable for the scoring error that resulted in funding. Due to the improper certification of the Form HUD-2990 by HHR, the OHHLHC will recapture all remaining unobligated funds effective the date of receipt of notification by the grantee's authorizing official. The remaining unobligated balance, less any undisbursed obligations yet to be reimbursed, will be awarded to other eligible applicants.

The specific applicants to be funded have yet to be determined.

Response to OIG Recommendation A2. Ensure that the procedures for selecting grantees are made in accordance with established criteria.

The OHHLHC concurs with the OIG finding that procedures for selecting grantees should be reviewed and revised. If anything the timelines for completion of the ARP process were overly optimistic. In support of Recommendation A2, OHHLHC has established the following corrective actions:

Threshold Review Process

- Additional Quality Control (QC) measures have been included as part of the Threshold Review process, including adding a second level of QC review to double-check for potential deficiencies and ensure the application meets all of the eligibility requirements for review.
- The Threshold Review Work Sheet, which is used to ensure that the minimum requirements for eligibility are met to allow the application to be reviewed, has been revised to remove items that should not be considered curable deficiencies (i.e., Form HUD-2990). The Form HUD-2990 will be reviewed during the application review process, thus affording more time to verify the eligibility of applicants' documentation.
- Timeline for completing application intake and threshold review will change from 4 days to 10 business days.

Application Review Process

- If an applicant submits a complete Form HUD-2990, the ARP Review teams will verify if the form provided adequate certification to award bonus points (i.e., verify if the applicant's target area is in the designated Renewal Communities and Urban Empowerment Zones administered by the Department (www.hud.gov/cr) and/or Rural EZ/EC zones

administered by the U.S. Dept. of Agriculture (www.ezec.gov) and is properly signed and dated.

- The remediation actions outlined above will be incorporated in our NOFA Evaluation Guide. OHHLHC will provide copy of the revised Evaluation Guide once that has been completed.
- OHHLHC will notify the City of Pittsburgh and Allegheny County about the inaccurate certification made by their respective officials on HHR's Form HUD-2990.

Response to OIG Recommendation A3. Review the application review panel chair's behavior and take appropriate action.

The OHHLHC takes seriously the ethical behavior of all staff, in particular those given responsibility over processes that demand the highest level of integrity such as the application review process. OHHLHC senior management is reviewing the chain of events and the alleged ethical violations of the application review panel chair and will take appropriate action as necessary.

Finding 2: OHHLHC Awarded a \$3 Million Fiscal Year 2008 Grant to an Ineligible Applicant

During the review of the FY 2008 NOFA review process, OIG auditors determined that the OHHLHC awarded a \$3 million grant to the City of Cincinnati, OH, that was deemed ineligible during the threshold review. The OIG report recommends the following:

- 3A. Rescind the \$3 million in FY 2008 funding that was improperly awarded to Cincinnati and award the funds to qualified applicants.
- 2B. Ensure that the application review panels follow threshold review requirements when determining eligibility and only rate applications under the programs for which applicants apply.
- 2C. Review the Programs Division Director's behavior during the FY 2008 selection process and take appropriate action as deemed necessary.

Background

The OHHLHC received the City of Cincinnati's application for the Lead-Based Paint Hazard Control (LBPHC) Program, as identified in the SF-424, and began threshold review of the application per the Office's NOFA Evaluation Guide. During this review, it was noted that Cincinnati requested a funding amount of \$3,743,983, as indicated on line 18a of the SF-424, which far exceeded the maximum funding amount of \$3 million permitted under the NOFA guidelines for the LBPHC Program. The NOFA stated that requests for funding in excess of the maximum funding amount would render the application ineligible and would not be considered for funding.

Due to an apparently high funding request amount and to Cincinnati having received LBPHC funding in the previous fiscal year, reviewers concluded that Cincinnati may have erroneously applied for the LBPHC Program but intended to apply for the Lead Hazard

Reduction Demonstration (LHRD) Program, which has a maximum funding amount of \$4 million and one for which they were eligible.

The OHHLHC requested information from Cincinnati to clarify which program they intended to apply for. Cincinnati's response clarified the funding request amount of \$3 million (\$743,983 in match and leverage contributions), but did not indicate that it had intended to apply for the LHRD Program. Nevertheless, Cincinnati's application was reviewed competitively and awarded funding under the LHRD Program in the amount of \$3 million. A subsequent review of the application materials does not indicate that the applicant intended to apply for any program other than the LBPHC Program and Cincinnati should have been ineligible for consideration as an LBPHC applicant due to receiving funding in the previous year under the same program.

Response to Recommendation 2A. Rescind the \$3 million in FY 2008 funding that was improperly awarded to Cincinnati and award the funds to qualified applicants.

Comment 3

Although the City did not resubmit its application but provided clarification via email regarding the original submission, the OHHLHC concurs that it erred in awarding Cincinnati a grant under the LHRD NOFA competition. However, because the City of Cincinnati, a statutorily eligible unit of local government, at no time intended to mislead reviewers into considering it for funding under the LHRD NOFA, I have determined not to recapture or rescind the \$3 million award. As previously outlined, the Department is not required to recapture grant funds that have been awarded and expended in furtherance of grant activities, a precedent that has been established by previous OGC decisions on matters of funding errors similar to this.

Response to Recommendation 2B. Ensure that the application review panels follow threshold review requirements when determining eligibility and only rate applications under the programs for which applicants apply.

OHHLHC concurs with the OIG Recommendation contained in 2B. In response, OHHLHC has implemented the following corrective actions regarding the Threshold Review Process:

- Additional Quality Control (QC) measures have been included as part of the Threshold Review process, including adding a second level of QC review for deficiencies and whether the application meets all of the eligibility requirements for review.
- Applications will be reviewed and considered for funding only for the grant program indicated by the CFDA number on the SF-424. There will be no exceptions to this rule.
- The OHHLHC NOFA Evaluation Guide is being reviewed and updated to include these actions.

Response to Recommendation 2C. Review the Programs Division Director's behavior during the FY 2008 selection process and take appropriate action as deemed necessary.

OHHLHC takes seriously the professional behavior of all staff, in particular those given responsibility over processes that demand the highest level of integrity such as the application review process. OHHLHC senior management is investigating the chain of events related to the former Programs Division Director's actions.

Thank you for the thoroughness and time spent in assisting the OHHLHC to better steward the application review process. Insights learned from the OIG audit will enhance the OHHLHC's ability to conduct a fair and open NOFA competition. If you have any questions, please feel free to contact me at (202) 708-0310.

OIG Evaluation of Auditee Comments

- Comment 1** We agree that Greenville is “statutorily eligible” to **apply** for a grant because under the terms of the notices, states, cities and local governments are eligible to apply for lead-based paint grants. But, according to HUD’s regulations, applicants must meet a minimum score of 75 to be considered for funding. Greenville scored 73.73, which is less than the minimum. Waiving the minimum scoring requirements could have the appearance of favoritism. Therefore, OHHLHC should rescind the grant.
- Comment 2** We agree that OHHLHC should recapture the unobligated balance from Healthy Homes Resources.
- Comment 3** We disagree with OHHLHC’s decision not to recapture or rescind the grant to Cincinnati. The precedent Office of General Counsel decision that OHHLHC provided to us on January 7, 2010, does state “. . . the Department is not required to recapture funds that have been awarded to statutorily eligible applicants . . .” However, we believe OHHLHC also set a precedent by recapturing the unexpended grant funds from the principal applicant described in the Office of General Counsel’s decision. That applicant, like Cincinnati, was ineligible to receive funding because it too had received a grant the previous year and the terms of the notice prohibited applicants from receiving the same type of grant in two consecutive years. Cincinnati was not eligible to receive funding consideration therefore their grant should be rescinded.

Appendix C

OTHER MATTERS

In reviewing OHHLHC grant selection procedures, we identified other deficiencies in OHHLHC's award process that need to be addressed. These deficiencies relate to the selection official's approval of the selected grantees, maintaining documentation on job creation and retention, conducting initial screening reviews within the prescribed timeframe, and maintaining an audit trail of deficiencies found during the initial application review process.

The Selection Official Did Not Prepare a Written Statement Approving Grantees

The Director of OHHLHC did not prepare a written statement indicating his approval of the grantees for fiscal year 2008. The OHHLHC Grants Management Desk Guide requires the Director to prepare a statement that is based on the grantees recommended by the review panels.

Instead of preparing a separate statement, the Acting Director initialed the application review panel's recommendations because he believed that his initials would suffice for the approval. As a result, the Acting Director did not provide the grant officer adequate documentation to negotiate and award funds to the grantees. This omission caused the grant officer to fund the grantees recommended by the application review panel report without proper documentation.

OHHLHC Could Not Support How Job Creation and Retention Were Used for Selecting Recovery Act Grantees

OHHLHC did not use job creation and retention as criteria for selecting Recovery Act grantees. Although OHHLHC stated that it gave priority to those grant programs that were most likely to create or retain jobs, we noted that creating and retaining jobs were not specifically used as criteria in selecting the Recovery Act grantees. OHHLHC management believed that the Lead-Based Paint Hazard Control, Lead Hazard Reduction Demonstration, and Healthy Homes Demonstration programs directly conducted construction activities and would yield job creation and retention the soonest. However, OHHLHC did not provide us with evidence that the programs selected to create and retain jobs could achieve this priority.

**OHHLHC Did Not Perform
Threshold Reviews on Applications
Within the Established 4-Day
Requirement**

OHHLHC did not perform threshold reviews on submitted applications within the period established by the 2008 OHHLHC NOFA [notice of funding availability] Evaluation Guide (evaluation guide). The evaluation guide states that the threshold reviews should be completed within 4 days of receipt of the application. Of the 32 applications reviewed, 28 applications exceeded the 4-day requirement, and the other four applications did not include a date indicating when the threshold review was completed. For one applicant, the City of Sioux City, the number of days that had elapsed between the date the application was received and the threshold review was conducted was 55 business days.

**OHHLHC Was Not Consistent in
Applying the Timeline for
Correctable Deficiencies**

OHHLHC was not consistent in applying the timeline for correctable deficiencies. The Grants Management Desk Guide states, “If an application is found to be deficient, the applicant is notified of the deficiency and is given 14 working days to submit the correct documentation to HUD.”

Of the 32 applicants reviewed, 8 had correctable deficiencies. Of the eight applicants, (1) four responded to the deficiency notice in a timely manner, but we could not find one applicant’s responses in the files; (2) two of the unsuccessful applicants had correctable deficiencies, but OHHLHC did not notify them; (3) one applicant’s response to the correctable deficiency exceeded the 14-day requirement; and (4) both the deficiency letter and response were missing from the grant files of another applicant.