



Issue Date	September 30, 2011
Audit Report Number	2011-CH-0003

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

//signed//

FROM: Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The Office of Healthy Homes and Lead Hazard Control Needs To Improve Its Monitoring of American Recovery and Reinvestment Act Grant Recipients

**HIGHLIGHTS**

**What We Audited and Why**

We audited the Office of Healthy Homes and Lead Hazard Control’s monitoring of its American Recovery and Reinvestment Act of 2009 grant recipients. The audit was part of the activities in our fiscal year 2011 annual audit plan. We selected Healthy Homes for audit based upon an internal audit suggestion regarding Healthy Homes’ monitoring of its grant recipients related to the Recovery Act. Our objective was to determine whether Healthy Homes monitored its recipients of Recovery Act grants in accordance with Recovery Act and HUD requirements.

**What We Found**

Healthy Homes did not maintain documentation in accordance with its requirements to support payments to four recipients totaling more than \$4.2 million of the nearly \$5 million in grant awards. The payments were made to reimburse the recipients for their claimed grant expenses. Additionally, Healthy Homes did not review the voucher requests for payments in a timely manner.

Documentation to support the recipients’ voucher requests for payment was either missing or not adequate. Healthy Homes accepted operating ledgers, billing summaries, email lists, a list of expenditures, budgets showing the current request

by category, and copies of check stubs as support for the voucher requests for payment.

Healthy Homes also did not ensure that recipients' working file included the required documents and reports such as annual and quarterly documents and reports.

### **What We Recommend**

We recommend that HUD's Director of Healthy Homes and Lead Hazard Control (1) obtain adequate documentation to support the payment of \$4,247,991 in Recovery Act funds as cited in this finding, (2) ensure that recipients' voucher requests for payment are reviewed in a timely manner, (3) implement adequate procedures and controls to correct voucher processing deficiencies, and (4) implement adequate policies and procedures to ensure that recipients' files contain the documentation and reports required by Healthy Homes' issued guidance.

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.

### **Auditee's Response**

We provided our review results to the Director of Healthy Homes and Lead Hazard Control during the audit. The Director declined our offer for an exit conference.

We asked the Director to provide comments on our discussion draft audit report by September 13, 2011. The Director provided written comments, dated September 12, 2011. The Director disagreed with the finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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*Office of Healthy Homes and Lead Hazard Control.* The U.S. Department of Housing and Urban Development's (HUD) Office of Healthy Homes and Lead Hazard Control was established in 1991 to eliminate lead-based paint hazards in America's privately-owned and low-income housing.

The American Recovery and Reinvestment Act was signed into law on February 17, 2009. The Recovery Act is an effort to jumpstart the economy, create or save jobs, and address neglected challenges. It includes measures to modernize the Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in great need.

The Recovery Act provided \$100 million to Healthy Homes to provide funds to State and local governments, and academic and not-for-profit firms to develop cost-effective ways to reduce lead-based paint hazards and other health hazards in the home environment that produce serious diseases and injuries in children. Appropriation for the Recovery Act has a 3-year obligation authority that expires on September 30, 2011.

Our objective was to determine whether Healthy Homes monitored its recipients of the Recovery Act grants in accordance with the Recovery Act and HUD requirements. Specifically, whether Healthy Homes established and maintained its recipients' working files in accordance with the Recovery Act and its requirements.

## RESULTS OF AUDIT

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### Finding 1: Healthy Homes Needs to Improve Its Monitoring of Recovery Act Grant Recipients

Healthy Homes needs to improve its monitoring of its Recovery Act grant recipients. It did not ensure that recipients' requests for reimbursement were adequately supported by original documentation and reviewed in a timely manner, and that the respective recipient's working file included the required documentation and reports. Its representative's desk guide had not been updated to comply with the monitoring process for the Recovery Act, other guidance used by the representatives was not in agreement, and additional documentation in support of the requests for reimbursement was not always requested. As a result, HUD lacked assurance that more than \$4.2 million in Recovery Act funds was used appropriately.

**More Than \$4.2 Million in Program Funds Disbursed Not Adequately Supported**

Healthy Homes did not ensure that recipients' requests for reimbursement were adequately supported by original documentation. It awarded Recovery Act grants to 53 recipients for its four programs funded under the Recovery Act. The four programs were its Demonstration grant, Technical Studies grant, Lead-Based Paint Hazard Control grant, and Lead-Based Paint Hazard Reduction Demonstration grant. We reviewed four recipients, one from each program, that were awarded nearly \$7.5 million in Recovery Act funds. As of April 22, 2011, the four recipients had received reimbursements totaling more than \$4.9 million without providing adequate documentation, including original documents, to support the nearly \$4.25 million in expenses claimed (86 percent). See the schedule below for details.

Grant number	Most recent payment	Program funds			
		Award	Reimbursed	Adequate	Unsupported or missing original documents
AZLHH0173-08	4/22/2011	\$875,000	\$503,058	\$0	\$503,058
CALHB0415-08	4/20/2011	3,000,000	2,414,347	576,742	1,837,605
DCLHD0193-08	3/22/2011	2,616,843	1,505,349	114,766	1,390,583
ILLHH0191-08	4/12/2011	973,982	521,812	5,067	516,745
<b>Totals</b>		<b><u>\$7,465,825</u></b>	<b><u>\$4,944,566</u></b>	<b><u>\$696,575</u></b>	<b><u>\$4,247,991</u></b>

Documentation provided by recipients was inadequate and at times not provided in support of the requested amount. In addition to reviewing supporting documentation for each request and as part of Healthy Homes' monitoring responsibilities, at least once per year and for any one voucher from each recipient, Healthy Homes was required to review original supporting documentation (see Appendix C for all criteria and explanations of requirements). Original copies of supporting documentation were not always requested. The front end risk assessment required receipts and invoices to justify expenditures. Instead, representatives accepted recipients' operating ledgers, billing summaries, email lists, expenditures lists, budgets showing the current request by category, and copies of check stubs as support for the voucher request for payment. Healthy Homes' requirements state that the representative may approve the payment request and its supporting documentation using the Line of Credit Control System including faxed or email versions. The requests were to include a detailed breakdown of the costs claimed. However, original copies of this material must be sent by mail to Healthy Homes and maintained in the representative's working file within 5 days of the payment request.

Healthy Homes did not always request additional supporting documentation to review. Of the more than \$4.9 million reimbursed to the grant recipients, more than \$4.25 million did not have adequate support, including original documents, for the expenses claimed. Healthy Homes was revising its policies to reflect alternate methods for submitting adequate documentation in support of voucher payment requests. Chapter 2.D. of Healthy Homes Grants Management Desk Guide states a critical component of monitoring is reviewing the grantee's payment requests and financial reports.

The Recovery Act requires that grant recipients expend 50 percent of their award by the end of the second year of its grant period. We reviewed the grants for the four recipients and based upon the amount reimbursed to them, they all met the 2-year expenditure requirement. However, the representatives' files for the four recipients contained adequate documentation to support \$696,575 of the more than \$7.4 million that was paid to them. This was more than \$3 million less than the required 50 percent requirement ( $\$7,465,825 \times 50 \text{ percent} = \$3,732,913$ ). The following schedule shows the award amount, amount reimbursed and its corresponding percentage of the award amount, and amount that was adequately supported and its corresponding percentage of the award amount.

Grant number	Award	Amount reimbursed	Percentage expended and reimbursed	Amount adequately supported by documentation	Percentage expended and supported
AZLHH0173-08	\$875,000	\$503,058	57	\$0	0
CALHB0415-08	3,000,000	2,414,347	80	576,742	19
DCLHD0193-08	2,616,843	1,505,349	58	114,766	4
ILLHH0191-08	973,982	521,812	54	5,067	.5
<b>Totals</b>	<b><u>\$7,465,825</u></b>	<b><u>\$4,944,566</u></b>	<b><u>66.2</u></b>	<b><u>\$696,575</u></b>	<b><u>14.1</u></b>

### Voucher Payment Requests Not Reviewed In a Timely Manner

Healthy Homes did not review the voucher requests for payment in a timely manner. The voucher requests must be reviewed and the expenditures eligibility verified before payment is approved. Healthy Homes June 2003 Grants Management Desk Guide, Chapter 2.D., states that representatives must approve or reject payment requests within 5 working days of the grantee's entry into the Line of Credit Control System. The representative's working files did not always clearly identify the voucher approval dates for the respective recipients. Therefore, using the voucher request submission date, the date approved by Healthy Homes, when identified, or the Line of Credit Control System report history date, 12 of the 60 (20 percent) vouchers reviewed were from 1 to 21 days after the 5 business day requirement for reviewing the voucher request and supporting documents. We made minor changes to the schedule below based on Healthy Homes' comments to our draft finding outline.

Grant number	Date voucher received	Approval date	Calendar days to review voucher	Business days to review voucher	Number of days the review exceeded the 5 business day requirement
AZLHH0173-08	4/22/2011	5/02/2011	10	6	1
CALHB0415-08	4/14/2011	4/23/2011	9	7	2
	4/20/2011	5/04/2011	14	10	5
DCLHD0193-08	1/7/2010	2/16/2010	40	26	21
	2/17/2010	3/10/2010	21	15	10
	3/11/2010	3/24/2010	13	9	4
	4/8/2010	5/03/2010	25	17	12
	6/17/2010	6/25/2010	8	7	2
	8/26/2010	9/15/2010	20	13	8
ILLHH0191-08	10/28/2010	11/18/2010	21	14	9
	7/20/2010	7/28/2010	8	6	1
	10/8/2010	10/21/2010	13	8	3

### Recipients' Working Files Not Properly Maintained

Healthy Homes did not ensure that recipients' working files included the documents and reports as required by its Recovery Act Grant Provisions terms

and conditions. Working files did not always include the annual and quarterly documents and reports. Annual Race and Ethnic Data Reporting Form (form HUD-27061) data reporting on program participants and the annual Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (form HUD-60002) were not always included in the recipients' working file. Also missing from the working files were the following required quarterly documents: eLogic Models, Performance Progress Reports (SF-PPR), Federal Financial Reports (Standard Form 425), and progress reports results letters. Additionally, the Request Voucher for Grant Payment (form HUD-27053) forms were not original and the Federal Financial Reports (Standard Form 425) were not signed originals. In addition, the respective grant recipient's working file did not include the recipients' written policies and procedures, Office of Management and Budget Circular A-133 audit, contractor agreement, memorandum of agreement, memorandum of understanding, quality assurance plan, and an annual risk analysis.

Healthy Homes did not ensure that grant recipients followed the Davis-Bacon and Buy American Acts. According to the general provisions of the Recovery Act, the Davis-Bacon Act applies to contractors and subcontractors performing on federally funded or assisted contracts in excess of \$2,000 for the construction, alteration, or repair including painting and decorating. Federal agencies providing grants, cooperative agreements, and loans under the Recovery Act must ensure that the standard Davis-Bacon contract clauses found in 29 CFR (Code of Federal Regulations) 5.5(a) are incorporated into any resultant covered contracts that exceed \$2,000 for construction, alteration or repair including painting and decorating. According to HUD's Office of Labor Relations, Regional Labor Relations Officer, private owners are covered as Section 1606 states ... "projects funded directly by or assisted in whole or in part by and through the Federal Government pursuant to this Act shall be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor." Single and multifamily properties regardless of ownership are subject to the Act as long as the cost exceeds the \$2,000 requirement. In addition, all buildings, whether public or privately owned, are subject to the Act. There are no exceptions to the first 4 floors of a building. Also, if Recovery Act funding is used for construction, alteration, or repair, the materials used should be produced in America.

Since the inception of the programs, there have been a total of eight reporting periods beginning with the quarter April-June 2009 and ending with the quarter January-March 2011. The following schedule shows the number of missing documentation types in each recipient's working file.

Documentation type required annually	Annual documentation not maintained in recipients' working file			
	AZLHH0173-08	CALHB0415-08	DCLHD0193-08	ILLHH0191-08
Annual Race and Ethnic Data Reporting Form (form HUD-27061)	None	1	2	2
Annual Section 3 Summary Report (form HUD-60002)	None	2	1	None
Annual Risk Analysis	1	1		1

Documentation Type Required Quarterly	Quarterly documentation not maintained in recipients' working file			
	AZLHH0173-08	CALHB0415-08	DCLHD0193-08	ILLHH0191-08
Quarterly Performance Progress Reports (SF-PPR)	4	2	6	7
Quarterly eLogic Model	8	7	7	7
Quarterly Progress Report System review results letter.	None	None	1	2
Original & Signed Quarterly Federal Financial Report (Standard form 425)	8	8	4	6

General documentation type	Documentation not maintained in recipients' working file			
	AZLHH0173-08	CALHB0415-08	DCLHD0193-08	ILLHH0191-08
Original Request Voucher for Grant Payment forms (form HUD 27053)	16	7	2	19
Written policies and procedures.	1	1	1	1
Compliance with OMB Circular A-133	1	None	1	
Quality Assurance Plan	1	Not applicable	Not applicable	None
Contractor(s) memorandum of agreement or understanding	1	None	1	None
Compliance with the Davis-Bacon Act.	None	1	1	Not applicable
Compliance with "buy American"	None	1	1	Not applicable

According to the Healthy Homes' Programs Division Director, the race and ethnic data report is a HUD requirement and not a Recovery Act requirement and therefore, it was not required to be documented in recipients' working files. Because the front end risk assessment required 100 percent on-site monitoring, the annual risk analysis was not performed. Due to a system glitch, the quarterly eLogic Model reports could not be documented. A review by the representatives of the contract agreements between the recipient and its contractors was not required. Recipients' are responsible for maintaining all documentation. Accordingly, recipients were made aware of their responsibility to comply with the Davis-Bacon Act. There was no need to include all hard copy documents in the working file as long as the documents can be obtained through other means. The Director further stated that the eLogic Model reports would no longer be a requirement in the fiscal year 2011 notice of funding availability.

The technical assistant specialist stated that as of the September 1, 2010, revision to the terms and conditions, the quarterly performance progress report was no longer required.

Although HUD Handbook 2210.17 REV-2, paragraph 5-14.b. does not require specific documents to be maintained in the recipient's working file, Healthy Homes' terms and conditions, dated April 24, 2009, states that representatives are responsible for establishing and maintaining a working file to include but not limited to the following: quarterly Federal Financial Report (Standard Form 425); quarterly performance progress reports; and quarterly eLogic models. Annual required reports include the Race and Ethnic Data Reporting Form (form HUD-27061); and Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (form HUD-60002).

## **Conclusion**

Healthy Homes needs to improve its monitoring of grant recipients for its Recovery Act grants. Healthy Homes lacked adequate procedures and controls to ensure that its recipients complied with Recovery Act and its requirements. It did not ensure that adequate supporting documentation was provided for voucher payment requests, review was completed in a timely manner for the voucher payment requests, and that the grant recipients' working files included the required documentation.

## **Recommendations**

We recommend that the Director of HUD's Office of Healthy Homes and Lead Hazard Control

- 1A. Obtain adequate documentation to support the payment of \$4,247,991 in Recovery Act funds as cited in this finding,
- 1B. Ensure that recipients voucher requests for payment are reviewed in a timely manner,
- 1C. Implement adequate procedures and controls to correct its voucher processing deficiencies,
- 1D. Implement adequate policies and procedures to ensure that its recipient files contain the documentation and reports as required by its issued guidance.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws; Federal Register volume 73, no. 92, dated May 12, 2008 ; 24 CFR Parts 35, 84, 85, and 135; OMB Circular A123 and A-133; and Recovery Act Sections 1512, 1605 and 1606.
- HUD's grant recipients' files; terms and conditions dated April 7, 2009, April 24, 2009, and September 1, 2010; front end risk assessment dated June 23, 2009; HUD's 1044 agreements; Healthy Homes Grants Management Desk Guide dated June 2003, updated on November 23, 2010; policy guidance number 2001-03 dated October 1, 2001; grantee reporting and program guidance dated September 17, 2009; Healthy Homes grantee reporting requirement dated April 2009; HUD's 2008 Super Notice of Funding Availability; HUD Handbook 2210.17 REV-2, paragraph 5-14.b; and Line of Credit Control System report (hardcopy document) with history date.
- We interviewed key personnel at Healthy Homes and HUD's Office of Labor Relations.

We established our sample by using the U.S. Army Audit Agency statistical sampling system, with a 90 percent confidence level, single random numbers for the Healthy Homes Demonstration Grant, Healthy Homes Technical Studies Grant, and the Lead Based Paint Hazard Control Grant programs and selected the first grant recipient in each of the 3 programs. We selected the only applicant for the Lead Based-Paint Hazard Reduction Demonstration Grant program. We reviewed a total of 4 grant recipients.

We performed our on-site audit work from March 14 through June 3, 2011 at Healthy Homes. The audit covered the period April 10, 2009 through January 31, 2011, and was expanded as determined necessary.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals and objectives. Internal controls 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.

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## Relevant Internal Controls

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

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws or regulations on a timely basis.

## Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Healthy Homes did not ensure its grant recipients' voucher payment requests contained the adequate documentation, including the original documents, to support the use of Recovery Act funds (see finding).
- Healthy Homes did not ensure that its grant recipients' voucher payment requests were reviewed in a timely manner (see finding).
- Healthy Homes did not ensure that its grant recipients' working files included the required documents and reports (see finding).

# APPENDIXES

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## Appendix A

### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Unsupported 1/
1A	<u>\$4,247,991</u>
Totals	<u>\$4,247,991</u>

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### 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

September 12, 2011

MEMORANDUM FOR: Kelly Anderson, Regional Inspector General for Audit,  
(Region V), 5AGA

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

SUBJECT: Response to Findings Identified in OIG Audit Report Number 2011-CH-  
101X of American Recovery and Reinvestment Act Grantee  
Monitoring

The Office of Inspector General's (OIG's), Regional Inspector General for Audit in Region V, conducted an audit of the Office of Healthy Homes and Lead Hazard Control's (OHHLHC) monitoring of recipients of funding under the American Recovery and Reinvestment Act of 2009 (ARRA). The OIG issued the draft Audit Report Number 2011-CH-101X to OHHLHC for comment. During the audit, potential discrepancies were brought to the attention of the OHHLHC concerning four ARRA awardees. As a result of the OIG's audit, one finding was issued in the draft Report and is addressed in this response. However, in its July 15, 2011 response to the OIG Discussion Draft, the OHHLHC strongly disagreed with the finding that "Healthy Homes Did Not Adequately Monitor Its Recovery Act Grant Recipients" by highlighting the Office's extensive ongoing monitoring of both performance and financial reports. Nonetheless, the OHHLHC has made changes to its monitoring process in an effort to incorporate recommendations noted in the audit report.

#### **Comment 1**

#### **Finding 1: Healthy Homes Did Not Adequately Monitor Its Recovery Act Grant Recipients**

Based on the review conducted, the OIG determined that "[OHHLHC] did not adequately monitor its Recovery Act grant recipients. It did not ensure that recipients' requests for reimbursement were adequately supported and reviewed in a timely manner, and that the respective recipient's working file included the required documentation and reports. Its representative's desk guide had not been updated to comply with the monitoring process for the Recovery Act, other guidance used by the representatives was not in agreement, and additional documentation in support of the

**Ref to OIG Evaluation**

**Auditee Comments**

requests for reimbursement was not always requested. As result, HUD lacked assurance that more than \$4.2 million in Recovery Act funds was used appropriately.” The OIG determined that OHHLHC needed to improve its monitoring of ARRA grant recipients and recommended the following corrective actions:

- 1A. Obtain adequate documentation to support the payment of \$4,247,991 in Recovery Act funds as cited in this finding,
- 1B. Ensure that recipients’ voucher requests for payment are reviewed in a timely manner,
- 1C. Implement adequate procedures and controls to correct voucher processing deficiencies, and
- 1D. Implement adequate policies and procedures to ensure that recipients’ files contain the documentation and reports required by [OHHLHC’s] issued guidance.

***Response to OIG Recommendation 1A: Obtain adequate documentation to support the payment of \$4,247,991 in Recovery Act funds as cited in this finding.***

**Comment 2**

Pursuant to OHHLHC procedures and in conformance with OHHLHC Desk Guide requirements, adequate documentation was received to support payment of reimbursement requests cited in this finding. Staff approved LOCCS payment requests following receipt of voucher payment requests and Part 3 Financial forms (Form HUD 96006), as well as, any other requested back-up documentation submitted by the grant recipient. Nonetheless, the Office has reinforced current financial monitoring policy with Government Technical Representatives (GTR) as stated in the OHHLHC Desk Guide and Policy Guidance Issuance PGI 2010-01 (effective December 1, 2010).

In response to the recommendation, the OHHLHC has requested additional supporting documentation for payment cited in this finding from any recipients that had not complied with the existing requirements stated in PGI 2010-01. In addition, the OHHLHC will ensure that all ARRA grantees submit all supporting documentation for one reimbursement, chosen by the GTR, as part of the OHHLHC’s annual financial monitoring policies and procedures.

***Response to OIG Recommendation 1B: Ensure that recipients’ voucher requests for payment are reviewed in a timely manner.***

**Comment 2**

Although the OHHLHC’s own review of the data found only 11 of the 60 vouchers exceeding the time frame (2 of the 11 exceeded the time due to the illness/hospitalization of the GTR and 3 only exceeded the time established by 1 or

**Ref to OIG Evaluation**

**Auditee Comments**

2 business days), the OHHLHC has reinforced with staff the Desk Guide, FERA, and PGI 2010-01 (effective December 1, 2010) requirement to send by mail within five (5) business days the original documents of the Request Voucher for Grant Payment and supporting documentation for inclusion in the GTR's grantee working file.

***Response to OIG Recommendation 1C: Implement adequate procedures and controls to correct voucher processing deficiencies.***

**Comment 3**

The OIG Audit Report does not fully explain the basis for this recommendation. The OHHLHC maintains that its procedures and controls for processing reimbursement requests are compliant and sufficient. Nevertheless, the OHHLHC will reinforce current procedures and controls with staff to ensure voucher processing measures are fully understood and applied.

***Response to OIG Recommendation 1D: Implement adequate policies and procedures to ensure that its recipient files contain the documentation and reports as required by its issued guidance.***

**Comment 2**

As part of its ongoing monitoring of award recipients, the OHHLHC conducts onsite reviews of grantee records. The current monitoring policy of the Office is consistent with the Department's requirements. Nevertheless, the OHHLHC has issued guidance to GTRs regarding what documentation is to be maintained in grant recipient files when conducting monitoring visits. The documentation maintained in grantee files includes original or copies of: the Federal Financial Report (Standard Form 425), quarterly performance progress reports, quarterly eLogic models, Race and Ethnic Data Reporting Form (form HUD-27061) and Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (form HUD-60002). The OHHLHC will continue to review grantee files for adherence to the reporting and documentation requirements above during scheduled onsite monitoring events.

Thank you for assisting the OHHLHC to improve its oversight and monitoring of ARRA grants. Insights learned from the OIG audit will enhance accountability and make certain that ARRA funds are expended properly.

### **OIG's Evaluation of Auditee Comments**

- Comment 1** See Appendix D for the full text of Healthy Homes' response to the draft finding outline
- Comment 2** Healthy Homes failed to provide documentation to support that this finding has been corrected. However, Healthy Homes will have the opportunity to resolve the finding during the audit resolution process.
- Comment 3** Healthy Homes did not review the voucher requests for payment in a timely manner. The voucher requests must be reviewed and the expenditures eligibility verified before payment is approved.

## Appendix C

### FEDERAL REQUIREMENTS

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American Recovery and Reinvestment Act of 2009 Subtitle A - Transparency and Oversight Requirements, section 1512(c) states that at the end of each calendar quarter, each recipient that received recovery funds from a Federal agency must submit a report to that agency that contains detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006.

Title XVI – General Provision of the Recovery Act includes Sections 1605 and 1606. Use of American iron, steel, and manufactured goods at section 1605 (a) states that none of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. Section 1606 states that notwithstanding any other provision of law and in a manner consistent with other provisions in this Act, all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the Federal Government pursuant to this Act must be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of Title 40, United States Code. With respect to the labor standards specified in this section, the Secretary of Labor will have the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 (64 Stat. 1267; 5 U.S.C. (United States Code) App.) and section 3145 of Title 40, United States Code.

Healthy Homes' Recovery Act Grant Provisions, established terms and conditions, dated April 7, 2009, revised on April 24, 2009, and again on September 1, 2010. The April 7, 2009 terms and conditions states that representatives are responsible for establishing and maintaining a working file to include but not limited to the following: quarterly Federal Financial Report (Standard Form 425); quarterly Performance Progress Reports (SF-PPR Recovery); and quarterly eLogic Models. Annual required reports include the Race and Ethnic Data Reporting form HUD-27061; and form HUD-60002, Economic Opportunities for Low- and Very Low-Income Persons (Section 3). Monitoring is the responsibility of the Departments official representative or designee may review and monitor the practices of the grantee to determine whether it is in compliance with this Agreement or other requirements that arise as a result of the grant award. Each representative will also provide performance monitoring by tracking grantee's progress in meeting the goals and objectives of the program. Original vouchers shall be submitted for work performed and shall be supported by a detailed breakdown of the cost(s) claimed. The April 24, 2009 version requires that all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the Federal Government pursuant to the Recovery Act must be paid wages at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor. Federal agencies providing grants, cooperative agreements, and loans under the Recovery Act must ensure that the standard Davis-Bacon contract clauses found in 29 CFR

5.5(a) are incorporated into any resultant covered contracts that exceed \$2,000 for construction, alteration or repair (including painting and decorating). It also states that if the Grantee contracts or sub-awards funds under this agreement with a person or entity to perform work under this award, the grantee must include in the contract or subaward agreement such provisions as may be necessary to ensure that all contractors and subgrantees comply with the requirements of the grant and reporting provisions as set forth in these terms and conditions or as established by HUD. Pursuant to Reorganization Plan No. 14 and the Copeland Act, 40 U.S.C. 3145, the Department of Labor has issued regulations at 29 CFR Parts 1, 3, and 5, to implement the Davis-Bacon and related Acts. Healthy Homes September 2010 terms and conditions stated that original vouchers must be submitted for work performed and must be supported by a detailed breakdown of the cost(s) claimed. Healthy Homes must receive a signed original document. If the Grantee contracts or subawards funds under this agreement with a person or entity to perform work under this award, the Grantee shall include in the contract or subaward agreement such provisions as may be necessary to ensure that all contractors and subgrantees comply with the requirements of the grant and reporting provisions as set forth in these terms and conditions or as established by HUD.

Healthy Homes front end risk assessment, June 23, 2009, for voucher payment includes the following: representatives are responsible for reviewing and approving voucher requests for payment through the Line or Credit Control System within 5 business days of the Line or Credit Control System date request for reimbursement. Costs are to be verified for eligibility. Original documentation must be sent to the representative by mail within 5 business days. And not less than once per year, require that all supporting documentation for any requests for reimbursement be submitted to the representative regardless of the amount of reimbursement being requested

Front end risk assessment factor 4 states that representatives must review voucher requests and expenditures within 5 days of receipt of supporting documentation and verify that expenses are eligible for reimbursement. All expenditures must be approved before approval of vouchers. Representatives maintain documentation and vouchers as part of the representatives working file. It also states that representatives will also request additional back up documentation at least once per year over the grant period of performance, and review these materials as part of onsite monitoring visits. Additionally, factor 4 states the following: 1) Recipients will submit their Line of Credit Control System request, and then submit the backup documentation (using the Healthy Homes Form 3: Financial Reporting) to the representative for review. If any information seems unusual, additional back-up documentation will be requested, such as receipts and invoices, to justify expenditures. 2) Representatives will request additional back-up documentation at least once per year over the grant period of performance, and review these materials as part of onsite monitoring visits. 3) Recipient's will forward a hardcopy of the payment requests along with supporting documentation verifying expenses. 4) Representatives will maintain documentation and vouchers as part of their working files.

Factor 5 requires compliance with the following Office of Management and Budget Circulars: A-21 - Cost Principles for Educational Institutions, A-87 - Cost Principles for State, Local, and Indian Tribal Governments, A-102 - Grants and Cooperative Agreements with State and Local Governments (Implemented by 24 CFR Part 85), A-110 - Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (Implemented by 24 CFR Part 84), A-122 - Cost Principles for Non-Profit

Organizations, and A-133 - Audits of States, Local Governments, and Non-Profit Organizations (Implemented by 24 CFR Part 84 and Part 85)

Front end risk assessment factor 9 reporting and documentation, states that within 120 days, grantees must submit information related to the environmental review and its written policies and procedures. For the Healthy Homes Demonstration and Technical Studies grants, grantees are also to develop a quality assurance plan. In addition, it states that existing reporting systems and documentation requirements will be used to track and monitor Recovery Act grantees. Examples of required documentation include updated work plans and benchmarks showing quarterly progress, quality assurance plans, environmental reviews, and grantees' written policies and procedures.

Front end risk assessment factor 10 states that monitoring assesses the effectiveness of general controls. It also states that a risk analysis is conducted by representatives for all grants, during the fourth quarter of each fiscal year. Ongoing monitoring involves continuous communication and evaluation through telephone calls, e-mails, and written communications; analysis of reports and audits; and meetings. During the first year of the grant, Healthy Homes provides on-site monitoring to its grantees. The Recovery Act recipients will also receive remote monitoring approximately 6 months before the end of the second year of performance. Remote monitoring ensures that the grantees are on track for completing all required draw downs and are not at risk for grant deobligation. It also requires documenting all interaction and evaluations.

Front end risk assessment appendix 1, paragraph 9, process for validating payment requests against an obligation, states that the voucher process requires grantees to enter their payment requests into HUD's voice response system and forward a hardcopy of the voucher along with supporting documentation verifying expenses to the representative the same day the voice system request is made. Within 5 days of receipt of supporting documentation, representatives review the voucher request and expenditures, and validate that expenses are eligible for reimbursement in accordance with grant agreement. Grantees are required to use HUD's voice system when requesting payments of vouchers. Grantees are eligible for reimbursement when a Request Voucher for Grant Payment form, form HUD-27053, is submitted along with part 3 of the financial reporting statement. Paragraph 10(F) further states that representatives maintain official copies of all commitments, obligating documents, and payment of funds.

Healthy Homes' June 2003 Grants Management Desk Guide states that representatives are responsible for the technical and financial, oversight and evaluation of the recipient's performance and may approve Line of Credit Control System payment requests via fax with supporting back-up documentation, but original copies of this material must be sent by mail for the representative files. Representatives are to evaluate and document a grantee's quarterly performance and maintain the evaluation and documentation in the working file. A critical component of monitoring is reviewing the grantee's payment requests and financial reports. A risk analysis is conducted by representatives for all grants, during the first quarter of each fiscal year. The representative must approve or reject payment requests within 5 working days of the grantee's entry into the Line of Credit Control System. Representatives may approve Line of Credit Control System payment requests via fax with supporting back-up documentation, but original copies of this material must be sent by mail for the representative files. Representatives should regularly request complete sets of invoices from the grantee for specific Line of Credit

Control System payment requests, and review these invoices against the Line of Credit Control System payment request to ensure quality control. It is essential that representatives conduct a thorough analysis of recipient expectations versus actual accomplishments. Representatives must keep good records of recipient reviews. Communications with recipients, results of report evaluation and approval or disapproval, important telephone calls or other events must be documented in the representatives working file. Recipient performance, progress or obstacles to performance, and their solutions must be adequately documented. And not less than once per year, require that all supporting documentation for any requests for reimbursement be submitted to the representative regardless of the amount of reimbursement being requested.

Healthy Homes' Grants Management Desk Guide dated November 23, 2010, states that it is the responsibility of the assigned representative to review and approve requests for payment through the Line of Credit Control System. The representative approves or rejects grantee payment requests within 5 business days of the request for reimbursement. Grantees shall submit the following documentation, including, but not limited to:

- a. Part 3 of the financial reporting form,
- b. Request Voucher for Grant Payment, form HUD-27053,
- c. Supporting documentation for all costs on voice response system requests exceeding \$100,000,
- d. Any other documentation requested by the representative.

The following reimbursement process is being implemented in connection with this new policy guidance:

1. The grantee makes reimbursement request using the voice request system telephone system and emails or faxes copies of original documents required in support of the request to the grantee's assigned representative.
  - a. Complete documentation in support of requests exceeding \$100,000 will be required for all direct costs, including personnel and fringe benefits. A description of direct costs is provided in the notice of funding availability under which the award was made.
  - b. For requests less than \$100,000, part 3 of the financial reporting form and the voice request system Request Voucher for Grant Payment, form-HUD 27053, are required, unless additional provisions are required in the grant agreement. Healthy Homes will not approve Line of Credit Control System requests without supporting documentation.

Healthy Homes' Recovery Act grantee program guidance, dated September 17, 2009, states that the signed copy of the sub-recipient and vendor determination worksheet will be included in the representative's files. The sub-recipient and vendor determination worksheets are designed to document the relationship that exists between the organization and the organizations/entities that provide grant program services for the program.

HUD's 2008 notice of funding availability states that the Lead Hazard Reduction Demonstration grant program is the same as the Lead-Based Paint Hazard Control program, with the exception that the Lead Hazard Reduction Demonstration grant program is targeted for urban jurisdictions with the greatest lead-based paint hazard control needs.

HUD's eLogic model reports on goals, policy priority, planning, programming, measures program outcome, and addresses accountability for the program.

Office of Management and Budget Circular A-123 required HUD to conduct a front end risk assessment for any new programs created as a result of the American Recovery and Reinvestment Act of 2009. The assessment required HUD's managers to consider the appropriate balance between controls and risk in their programs and operations. Too many controls can result in inefficient and ineffective government. Managers must ensure an appropriate balance between the strength of controls and the relative risk associated with particular programs and operations. The benefits of controls should outweigh the cost.

Office of Management and Budget Circular A-133 Subpart B-Audits section 200 Audit requirements state that (a) non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this (b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards must have a single audit conducted.

## Appendix D

### AUDITEE'S RESPONSE TO DRAFT FINDING OUTLINE

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July 15, 2011

MEMORANDUM FOR: Ronald Farrell, Assistant Regional Inspector General  
For Audit, SEGA

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

SUBJECT: Response – Draft Finding Audit – Internal Audit – Office of  
Healthy Homes and Lead Hazard Control ARRA Grant  
Recipients  
Monitoring Nationwide Review

#### Summary

The following is in response to the HUD Office of Inspector General (OIG) Draft Finding Outline on the Office of Healthy Homes and Lead Hazard Control (OHHLHC) Monitoring of American Recovery and Reinvestment Act Grant Recipients.

The OIG report stated that “Healthy Homes and Lead Hazard Control Did Not Adequately Monitor its American Recovery and Reinvestment Act Grant Recipients.” The OIG also noted that “Healthy Homes did not maintain adequate documentation to support the use of \$4,298,508 (86%) of the \$4,994,566 in expenses claimed by the recipients” and that the recipient’s working files were not adequately maintained by the GTR. In addition, the OIG indicated that Healthy Homes did not review the Line of Credit Control System (LOCCS) request for payment vouchers according to the established time frame. Finally, the OIG indicated that “Healthy Homes did not adequately monitor its Recovery Act grant funds. It did not ensure that the voucher requests for payment were adequately supported and grant recipient’s [GTR] working files were not properly maintained.”

Based on the OIG audit, the following recommendations were made to HUD’s Director of the Office of Healthy Homes and Lead Hazard Control:

1. Implement adequate procedures and controls to correct the voucher processing deficiencies to include the following:
  - a. Obtain supporting documentation for each voucher request for payment submitted by the recipient
  - b. Ensure that recipients maintain files with the required documentation; and
  - c. Ensure the Voucher Request for Payments are reviewed timely.

Although OHHLHC accepts the recommendation made by the OIG to correct the voucher processing deficiencies noted, OHHLHC strongly disagrees with the conclusion made by the OIG that the OHHLHC did not adequately monitor its American Recovery and Reinvestment Act Grant recipients.

### **OHHLHC Response**

The OIG did not fully evaluate OHHLHC's monitoring efforts of Recovery Act grantees. The OIG, in arriving at its conclusion that OHHLHC did not adequately monitor its Recovery Act grantees, did not include in its review, the extensive ongoing OHHLHC monitoring of Recovery Act performance in meeting both program and expenditure requirements. These extensive efforts and accomplishments included, but were not limited to the following:

- Completed a Front End Risk Assessment to minimize risk
- Developed appropriate guidance documents and provided technical assistance to Recovery Act grant recipients pertaining to Davis-Bacon Act, Recovery Act Section 1512 Reporting and other requirements on an ongoing basis
- Provided on-site visits to all Recovery Act grantees
- Provided continuous communication, monitoring and evaluation of grant recipient performance in meeting benchmark milestones conducted by the GTRs and the ARRA Coordinator
- Provided Recovery Act Training and Updates to Grantees through Meetings and Conferences:
  - New Grantee Orientation (Orlando, FL) – June 2010
  - Program Manager School Sessions (Memphis, TN) – June 2010
  - ARRA Grantee Workshop (Annapolis, MD) – December 2010

The following comments highlight what OHHLHC perceives as shortcomings in the report and forms the basis of OHHLHC's disagreement with the conclusion made by the OIG.

1. The OIG made its determinations after conducting a review of only four (4) Government Technical Representatives (GTR) working files representing one file from each of the OHHLHC grant program areas: 1) Lead-Based Paint Hazard Reduction (LBPHC); 2) Lead Hazard Reduction Demonstration (LHRD); 3) Healthy Homes Demonstration (HHD); and 4) Healthy Homes Technical Studies (HHTS). OHHLHC believes this is a limited sample size. OHHLHC, at the time of the review, monitored 52 Recovery Act grants. The four (4) files reviewed only represented 7.7% of the ARRA GTR files available. Further, since the audit was conducted using only 1 file from each of the program areas, only 2 files or 3.8% were from the major program areas (LBPHC and HHD) and both files selected were assigned to the same GTR. The file for the LHRD grant program was only transferred to a new GTR just prior to the audit entrance conference, as the previous GTR left federal service.
2. The OIG limited its review primarily to the financial reports of the Recovery Act grant recipient. HUD's primary tool for grant monitoring is both recipient performance and

financial reports. The OIG's draft finding outline primarily focused on the GTR monitoring of the financial reports of a grant recipient without any discussion or recognition of the GTR monitoring of the grant recipient's performance in meeting established program milestones and requirements, including the Recovery Act reporting and expenditure requirements. GTRs and other OHHLHC staff have consistently communicated with grantees in person, by phone and by mail in order to ensure the highest levels of performance and accountability.

From the inception of the Recovery Act Programs, OHHLHC has been one of HUD's stalwart performers in monitoring grantee reporting, expenditures, and in remediating health and safety risks to children and families. Through GTR monitoring efforts, OHHLHC achieved 100% compliance for reporting in all FederalReporting.gov reporting periods beginning in October 2009. GTRs were primarily responsible and instrumental in ensuring that grant recipients achieved the 2 year 50% expenditure requirement. The OIG did not reference any program performance achievements even though they were documented and available for the review.

3. The OIG indicated that the OHHLHC did not review the Line of Credit Control System (LOCCS) request for payment vouchers according to the established time frame. Although the OIG referenced 5 business days as the time line for GTRs to review LOCCS payment voucher requests, the OIG calculated the variance between the date the voucher was received and the date the voucher was approved using calendar days. The OIG noted that 17 of 60 (28.3%) of the vouchers reviewed exceeded the time frame (with 10 of the 17 or 58.8% from the LHRD grantee).

OHHLHC's own review of the data using the 5 business days as the established time frame, found only 11 of the 60 vouchers exceeding the time frame (2 of the 11 exceeded the time line due to the illness/hospitalization of the GTR, 6 were late from the LHRD grantee and the final 3 only exceed the time line by 1 or 2 business days).

4. Finally, the OIG indicated that "Healthy Homes did not adequately monitor its Recovery Act grant funds. It did not ensure that the voucher requests for payment were adequately supported and grant recipient's [GTR] working files were not properly maintained." This statement by the OIG is not entirely accurate. GTRs followed the Desk Guide requirements and approved LOCCS payment requests via fax transmission of voucher payment requests and Part 3 Financial forms (Form HUD 96006) and any other requested back-up documentation submitted by the grant recipient. Specifically, the Desk Guide 2-18 D. Reviewing Voucher Payment Requests indicates that:

"GTRs may approve LOCCS payment requests via fax with supporting back-up documentation, but original copies of the material must be sent by mail for the GTR files. The grantee is required to submit the LOCCS-VRS Request Voucher for Grant Payment (form HUD-27053—See Appendix 3) and back-up documentation (at a minimum a Part 3 – Financial Reporting of HUD Form 96006 – See Appendix 3) every time a request for payments from LOCCS is made..."

Since the “fax” of the Request Voucher and the Part 3 Financial Report constitutes the minimum requirements to “support” the approval and reimbursement of expenses claimed by the grant recipient, GTRs met the minimum requirements to initially approve the payment. OHHLHC accepts the “fax” transmission as supporting documentation and does not agree with the OIG classification that these are “unsupported” expenses.

OHHLHC

does acknowledge that the original copies of the documentation were absent in the GTR files and will take the necessary steps to ensure that original copies are in the GTR file. However, OHHLHC is also exploring the use of electronic transmission of documentation in support of the Request Voucher for Grant Payment and other required forms that may prompt changes in the GTR working file content and requirements.

5. The OIG noted that “as part of Healthy Homes monitoring, at least one voucher for each recipient was required to contain all original supporting documentation at least once per year.” According to the OHHLHC Desk Guide, GTRs *should* regularly request complete sets of invoices from the grantee for specific LOCCS payment requests. The Front End Risk Assessment (FERA) indicates that the request for complete sets of invoices is to be done at least once a year. GTRs should review these invoices against the LOCCS payment request to ensure quality control. OHHLHC acknowledges that this requirement was not met. However, OHHLHC has taken steps to ensure that all ARRA grantees will have this accomplished by December 31, 2011.
6. The OIG noted that some forms and original documents were missing from the GTR working files. The OHHLHC disagrees with the OIG’s analysis that all these forms were missing from the GTR files. HUD Handbook 2210.17 REV 2, 5-14 b. outlines what the GTR shall maintain in a working file. However, the Handbook does not specifically identify whether original or copies of specific forms and documents are required to be included. With the exception of the “Request Voucher for Grant Payment” forms, copies of the original forms and documents are sufficient for the GTR working file since OHHLHC has the discretion to determine the content of the GTR working file.

Further, the OIG’s review of the files indicated that “Original and signed” documentation was not maintained in the grantee working file yet there was no mention whether copies of the documents were maintained in the GTR files. Certain documents such as written policies and procedures, contractor agreements, memorandum of agreement or understanding, compliance with using materials produced in American, and compliance with OMB A-133 are not required in the GTR working file per HUD Handbook 2210.17.

### **OHHLHC Corrective Actions**

OHHLHC has taken the following steps to ensure that the OIG recommendation is implemented and that adequate documentation in support of the grant recipient’s financial reports and records is included in the GTR files.

- Reaffirmed with OHHLHC GTRs, the Desk Guide, FERA, and Policy Guidance Issuance 2010-01: *Revised Line of Credit Control System (LOCCS) Reimbursement Procedures* (dated December 1, 2010) requirement to send by mail within five (5) business days, the

original copies of the Request Voucher for Grant Payment and supporting documentation for inclusion in the GTR file.

- GTRs will request a complete set of invoices in support of LOCCS payment requests from grant recipient at least once prior to December 1, 2011, regardless of the amount of the request.
- OHHLHC will add a requirement/note to accompany the Part 3 Financial Report that the grantee “affirms/certifies” that invoices, purchase orders, time sheets, receipts and other documentation in support of the Request for voucher Payment Request and Part 3 Financial Form are on file and maintained by the program or grant organization.
- OHHLHC has effectively monitored grantee performance in meeting Recovery Act and Program and Grants requirements. As a result, the following actions have been taken for grantees that failed to meet expectations or requirements:
  - Recovery Act grantees that were designated as High Risk:
    - Waterbury, CT
    - Wisconsin Department of Commerce
    - Utica, NY
    - Galveston, TX
  - Recovery Act grantees that were terminated for poor performance and/or failure to meet Recovery Act requirements:
    - Utica, NY
    - Galveston, TX

### **Conclusion**

For the variety of reasons outlined above, the OHHLHC respectfully requests that the overall conclusion by the OIG that “Healthy Homes Did Not Adequately Monitor its American Recovery and Reinvestment Act Grant Recipients” be changed to more accurately reflect the facts of our monitoring process and to recognize the diligent and consistent oversight provided by the OHHLHC to all of the ARRA grantees.