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MEMORANDUM NO:
2009-HA-0801

September 28, 2009

MEMORANDUM FOR: Anthony P. Scardino, Acting Deputy Chief Financial Officer, F
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FROM: Sandra G. Elion, Director for Headquarters Audit Division, GAH

SUBJECT: Evaluation of the Final Front-End Risk Assessment for the Office of Healthy
Homes and Lead Hazard Control

INTRODUCTION

We reviewed the front-end risk assessment (assessment) for the Office of Healthy Homes and Lead Hazard Control (OHHLHC) for the U.S. Department of Housing and Urban Development (HUD). Our objective was to determine whether the assessment complied with the Office of Management and Budget's (OMB) implementing guidance for the American Recovery and Reinvestment Act of 2009 (Recovery Act), HUD's Streamlined FERA [front-end risk assessment] Process, and HUD's Departmental Management Control Program handbook.

We confirmed that OHHLHC took actions to implement the three recommendations included in the draft memorandum. As such, the recommendations will be closed upon issuance of the memorandum. Should you or your staff have any questions, please contact Donna Hawkins, Assistant Director for the Headquarters Audit Division, at (202) 402-8482.

METHODOLOGY AND SCOPE

Using OMB's implementing guidance for the Recovery Act, HUD's Streamlined FERA Process, and HUD's Departmental Management Control Program handbook, we evaluated the following factors against the final assessment for OHHLHC to ensure that major program objectives were sufficiently emphasized:

- Factor 1. Legislative
- Factor 2. Organizational structure and staffing
- Factor 3. Program objectives and performance measures
- Factor 4. Program structure and administration
- Factor 5. Coverage by written and other procedures
- Factor 6. Systems
- Factor 7. Funding/funds control plan and organizational checks and balances

- Factor 8. Management attitude
- Factor 9. Reporting and documentation
- Factor 10. Monitoring
- Factor 11. Special concerns and impacts

We performed our work from May through August 2009 at our Washington, DC, headquarters office. For this memorandum, our work was not conducted in accordance with generally accepted government auditing standards. Under the Recovery Act, inspectors general are expected to be proactive and focus on prevention; thus, this memorandum is significantly reduced in scope.

BACKGROUND

OHHLHC has administered the lead hazard control program since 1993. The program has been instrumental in achieving a reduction of over 70 percent in childhood lead poisoning cases from the early 1990s to today. As part of the Recovery Act, Congress appropriated \$100 million to the lead hazard control program. Of this amount, \$99.5 million was awarded under four grant programs: (1) Lead Hazard Control, (2) Lead Hazard Reduction Demonstration, (3) Healthy Homes Demonstration, and (4) Healthy Homes Technical Studies. The grants were to be awarded to applicants who had applied under the Lead Hazard Reduction Program notices of funding availability (notices) for fiscal year 2008 and were found to be qualified for an award but were not given a grant because of funding limitations. The remaining \$500,000 appropriated by Congress was to be used to administer the grants.

The purpose of the lead hazard reduction program is to reduce health and safety hazards in housing in a comprehensive and cost-effective manner. OHHLHC supports this mission by assisting States and local governments in remedying the unsafe housing conditions and the acute shortage of decent and safe dwellings for low-income housing.

The new funding under the Recovery Act requires an ongoing evaluation and analysis of risk and continued monitoring to work toward achieving the goals of the legislation. In applying the Recovery Act guidance regarding risk management, HUD must incorporate elements of its existing assessment process into its assessment of programs receiving Recovery Act funds.

The streamlined assessment process should build upon the analysis and ongoing work to implement the provisions of the Recovery Act, maximize use of existing documents and materials, and supplement procedures and documents as necessary to ensure that controls are in place. In addition, the analysis of the program's general controls should include assigning a risk rating as either high, medium or low based on the following criteria.

- *High Risk* – The program has the potential for significant control weaknesses, large dollar volume, high media exposure or strong congressional interest.
- *Medium Risk* – The program has problems in areas where management controls are not sufficient, but can be corrected without major revisions and resource commitment.
- *Low Risk* – The program has management controls built in that are effective and efficient.

OMB's implementing guidance for the Recovery Act, provides an accountability risk framework that shows objectives under phases of the funding life cycle. It lists the following "accountability objectives" that apply to all agencies and programs:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefit of these funds is reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes; and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results, on broader economic indicators.

OMB's guidance also discusses program-specific risks to be identified through the assessment process. Given the nature and purpose of the Recovery Act, the following objectives were emphasized:

- **Timeliness** - For every program step, it is critical to consider timing and whether the actions can be taken within the required timeframe.
- **Clear and measurable objectives** - All funds will be tracked to show results. It is critical to have clear and measurable outputs and outcomes and to have tracking mechanisms in place.
- **Transparency** - Information about how all funds are awarded, distributed, and used and what results are achieved must be available to the public.
- **Monitoring** - Workable plans for monitoring programs and related funds must be in place and must be carried out.
- **Reporting** - Identifying and tracking all funding under the Recovery Act are critical and must be reported on regularly.

RESULTS OF REVIEW

Of the 11 factors addressed in the assessment, none was found to be high risk, 4 were assessed as medium risk, and 7 were assessed as low risk. HUD's assessment of the lead hazard reduction program generally complied with the applicable assessment requirements with the exception of factor 5 (coverage by written and other procedures) which was rated as low. OHHLHC did not follow through on updating the OHHLHC Desk Guide and Program Guide, as stated in the assessment, to include the Recovery Act provisions.

HUD adequately addressed planned actions for the four factors it assessed as medium risk and completed the planned actions to mitigate the risks before we completed our review. The remaining six factors were assessed as low risk because effective management controls were in place prior to the Recovery Act.

Details of each factor are presented below.

- **Factor 1. Legislative:** OHHLHC clearly defined the legislative conditions in the assessment and noted that the Recovery Act provided \$100 million for the lead hazard control program. As specified in the Recovery Act, OHHLHC promptly allocated the funds to existing eligible applicants.

In February 2009, OHHLHC notified the 53 applicants that applied for, and were eligible to receive, funds provided under the fiscal year 2008 combined Lead-Based Paint Hazard Control, Lead Hazard Reduction Demonstration, Healthy Homes Demonstration, and Healthy Homes Technical Studies notices.

We agree with the low-risk rating for this factor because the award structure has existed for more than 15 years and deficiencies noted in the selection process have been corrected.

- **Factor 2. Organizational structure and staffing:** The organizational structure for OHHLHC and the roles and responsibilities of personnel involved in managing and administering grants have been in place since 1993. The existing grants management structure provides oversight of all awards including those made under the Recovery Act. OHHLHC has 49 full time equivalent employees (FTEs) on board. Its initial goal was to hire 5 more FTEs by the end of fiscal year 2009 to bring its total to 54 FTEs. However, after the final assessment, OHHLHC determined that it needed three additional staff to manage the additional work of processing awards and assisting in grant startup of the 53 additional grants. Of the current staff, 33 FTEs were dedicated to awarding and managing grants and providing technical assistance to grantees.

A medium-risk rating for this factor is appropriate given that the Recovery Act grants increased the total active grants awarded under the fiscal year 2008 notices from 66 to 119 without an increase in staff. OHHLHC had only received approval to hire one additional staff member by the end of fiscal year 2009.

- **Factor 3. Program objectives and performance measures:** The program objectives as outlined in the Recovery Act are stated in precise and measurable terms. OHHLHC is specifically directed to lead the Nation to a future in which homes are designed, constructed, rehabilitated, and maintained in an affordable manner that promotes the health and safety of occupants.

OHHLHC incorporated the following performance measures, from HUD's FY 2009 Management Plan, into the assessment:

- Make 11,800 units lead safe.
- Reduce the number of children under the age of six who have elevated blood lead levels to 210,000 or fewer.

As required, OHHLHC plans to separately track the progress made by Recovery Act grantees to increase the number of units made lead safe, reduce the number of children with elevated blood lead levels, and increase the number of units tested. In addition to these performance targets, OHHLHC plans to track the number of jobs created or retained as a result of the Recovery Act.

Performance measures will be tracked in the Quarterly Performance Reporting System (QPRS), an automated data management system that OHHLHC developed before the Recovery Act. This system will be modified to collect quarterly reports from grantees to measure results.

The low-risk rating assigned to this factor is appropriate since the performance measures are basically the same as those used for the other lead hazard control grants and OHHLHC will use

HUD's established process to monitor progress in achieving goals. In addition, OHHLHC incorporated more specific goals related to Recovery Act grants into its final assessment based upon our comments to its draft assessment.

- **Factor 4. Program structure and program administration:** OHHLHC has an established program structure to provide a system for grant review, award, monitoring, and technical assistance to ensure that grants properly perform and produce lead-safe and healthy units. The Grants Services Division, the principal division responsible for administering the grants, is managed by a senior grant officer with 20 years of experience in negotiating and administering HUD grants. In addition, funds management is governed by OHHLHC's funds control plan which describes the commitment, obligation, and disbursement of funds. This plan is also discussed in factor 7.

The low-risk rating for this factor is supported by the well established program structure as well as the voucher processing system used throughout HUD.

- **Factor 5. Coverage by written and other procedures:** Grant representatives in OHHLHC use both internal and external written documents including handbooks, regulations, statutes, and OMB circulars, for guidance in managing and administering grants. The two OHHLHC-specific guides, the Desk Guide and the Program Guide, were identified in the assessment as needing updates to incorporate Recovery Act requirements as a special appendix. According to the assessment, OHHLHC planned to issue updated guides by June 2009; however, neither guide was updated as planned. OHHLHC later decided to wait until fiscal year 2010 to "revisit" the need to update the guides. After we discussed the importance of including the Recovery Act provisions in these guides, OHHLHC agreed to update both guides by September 30, 2009.

The risk rating for this factor is low because OHHLHC updated the Desk Guide and Program Guide to include Recovery Act provisions.

- **Factor 6. Systems:** Various departmental systems are used to administer grant programs and manage disbursements. However, OHHLHC's management information system, QPRS, developed exclusively for OHHLHC will be used to track performance goals as well as outreach/training events, drawdown of funds, and other progress indicators.

A medium-risk rating was assigned to this factor because QPRS had to be modified to capture required data and OHHLHC had no control over when QPRS would be modified. The modification was completed in June 2009, thereby mitigating the risk.

- **Factor 7. Funding/funds control and organizational checks and balances:** OHHLHC plans to distribute and manage the Recovery Act funds in accordance with its approved funds control plan. The funds control plan includes a description of the account structure, apportionment process, funds control, and financial and reporting requirements. OHHLHC will use two distinct funds control plans, one for its regular grant funds and a separate one for the Recovery Act funds.

Unlike other lead hazard control grantees, the recipients who fail to comply with the expenditure requirements set forth in the Recovery Act will have to return the unexpended

funds. These funds will be recaptured and reallocated to recipients who are in compliance with Recovery Act requirements. Any funds not spent at the end of the three-year grant performance period will be returned to HUD.

The low-risk rating for this factor is appropriate since the process for funds control is managed by the Office of the Chief Financial Officer. OHHLHC's Budget Office will ensure compliance with the funds control plan and ensure that there is no unauthorized access to HUD's financial management systems.

- **Factor 8. Management attitude:** OHHLHC has an established practice whereby management and staff interact through weekly meetings. For these weekly meetings, the staff prepares reports on updated program issues and trends and on the progress of assigned tasks and responsibilities. The staff is encouraged to regularly communicate with grantees through site visits, e-mails, and telephone calls.

The government technical representative (GTR) is specifically responsible for monitoring, evaluating, and assessing the quality of the grantee's performance to ensure the successful implementation and completion of grant activities. OHHLHC management emphasizes team-work by partnering GTRs with regional healthy homes representatives for each grant. The GTR alerts the regional healthy homes representatives of grant policies and other operational requirements, while the healthy homes representatives report on anomalies observed during site visits or other communication with the grantees.

The low-risk rating assigned to this factor is appropriate because OHHLHC has established procedures to communicate information to the staff and grantees.

- **Factor 9. Reporting and documentation:** 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.

The medium-risk rating for this factor is appropriate because QPRS had to be modified to incorporate Recovery Act requirements into this automated system (see factor 6). Modifications to QPRS were completed in June 2009.

- **Factor 10. Monitoring:** OHHLHC plans to use established procedures for monitoring recipients of Recovery Act funds to assess risks.

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, OHHLHC provides on-site monitoring to its grantees. The Recovery Act grantees will also receive remote monitoring approximately six 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.

Other monitoring procedures require the GTRs to conduct annual risk analyses and review grantees' quarterly reports to identify program risk and set monitoring priorities. To

accomplish this assessment, GTRs use a core set of risk criteria in their analyses that incorporates grantee performance indicators from their work plan. GTRs also use additional risk criteria from the Departmental Management Control Program handbook.

The OHHLHC Grants Desk Guide provides standards and procedures for monitoring lead hazard control grants.

The medium-risk rating for this factor is appropriate because the increase in the number of active grants and reporting requirements will place a strain on staff if additional staff is not hired to monitor Recovery Act grants.

- **Factor 11. Special concerns and impacts:** The lead hazard control grant program has historically received congressional interest especially from U.S. senators and representatives in urban areas where there are high numbers of children with elevated blood lead levels. Likewise, the Office of Inspector General and Government Accountability Office have expressed interest in the implementation of the Recovery Act programs.

The Office of Inspector General conducted its last audit of OHHLHC in 2005. Results of the review indicated that OHHLHC did not properly award the majority of its fiscal year 2004 healthy homes and lead hazard control grants. OHHLHC implemented new procedures to correct the deficiencies.

The low-risk rating for this factor is appropriate because the Recovery Act was specific in who should be selected to receive these grants and noted audit deficiencies in the selection process have been corrected.

Other Matters

In reviewing the assessment for OHHLHC, we identified two transparency issues that need to be addressed. First, all lead hazard control awards must be published in the Federal Register, and second, information must be available to the public on HUD's Web site. Specifically, the Recovery Act states that information about how all funds are awarded, distributed, and used must be available to the public.

Awards Not Published

A total of 119 grants were awarded under the lead hazard control notices for fiscal year 2008 (66 grants in October 2008 and 53 grants in February 2009 under the Recovery Act). However, the public notification of grantee selections has not been published in the Federal Register as required by the HUD Reform Act. OHHLHC plans to publish both selections under a single Federal Register announcement, but OHHLHC could not provide us with a specific announcement date when the grant selections will be published in the Federal Register.

Broken Web Hyperlinks

OHHLHC did not maintain adequate Web hyperlinks for viewing Recovery Act and program information. We found four examples of broken Web hyperlinks that should have contained either Recovery Act or lead hazard control information. The broken Web hyperlinks are Grant

Policy Guidance (Recovery Act hyperlink), Lead Hazard Reduction Demonstration Program (OHHLHC's Grant Programs hyperlink), The Lead Safe Housing Rule (Recovery Act hyperlink), and Grantee Location by State (Recovery Act hyperlink).

These broken hyperlinks directly impact factor 8 since grantees are kept current with topics and program guidance via the OHHLHC Web site.

Conclusion

Our review of the assessment for OHHLHC determined that while OHHLHC generally complied with the Recovery Act, HUD's Streamlined FERA Process and the Departmental Management Control Program handbook, two OHHLHC-specific guides, the Desk Guide and the Program Guide, had not been updated as stated in the final assessment. In addition, we identified two issues regarding transparency that should be addressed to make information available to the public. We believe OHHLHC should take action as soon as possible to correct these deficiencies.

RECOMMENDATIONS

We recommend that OHHLHC

- 1A. Update the Desk Guide and Program Guide to include Recovery Act provisions as presented in the final assessment for OHHLHC, dated June 23, 2009.
- 1B. Establish follow-up procedures to ensure that the selection results are published in the Federal Register in a timely manner.
- 1C. Ensure that the transparency requirement of the Recovery Act is properly implemented so that Web hyperlinks are properly maintained and available to the public.

AUDITEE'S RESPONSE

We provided our discussion draft audit memorandum to HUD's Acting Deputy Chief Financial Officer and OHHLHC officials on September 11, 2009. OHHLHC provided written comments at the exit conference held on September 18, 2009. We confirmed that as of September 23, 2009, the corrective actions had been taken. The complete text of OHHLHC's response is in appendix A of this memorandum.

AUDITEE COMMENTS



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

OFFICE OF HEALTHY HOMES AND
LEAD HAZARD CONTROL

September 18, 2009

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

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

SUBJECT: Response to Recommendations for the Office of Healthy Homes
and Lead Hazard Control Evaluation of the Final Front End Risk
Assessment

Thank you for your draft report on the subject evaluation, received on September 11, 2009. We are pleased that you found the Office of Healthy Homes and Lead Hazard Control (OHHLHC) to be in compliance with the applicable Front End Risk Assessment (FERA) requirements, with the exception of Factor 5 (although you considered the risk low), which we have now addressed. Your draft report included three recommendations, which we have already addressed, as described below:

Recommendation 1: Require OHHLHC to update the Desk and Program Guides to include Recovery Act provisions as presented in the FERA for OHHLHC, dated June 23, 2009.

Response: We have completed a special appendix pertaining to the Recovery Act awards, as stated within Factor 5 of the FERA. We distributed the appendix to grantees and pertinent OHHLHC staff on September 17, 2009. Supporting documentation is attached.

Recommendation 2: Establish follow-up procedures to ensure that the selection results are published in the Federal Register in a timely manner.

Response: We have always published the selection results. However, we have revised procedures to ensure that the announcement of federal awards is done on a more timely manner. The procedures were inserted into the Grants Management Desk Guide on September 17, 2009. The announcement of funding awards for the OHHLHC's Recovery Act grantees was published September 17, 2009. Supporting documentation is attached.

Recommendation 3: Ensure that the transparency requirement of the Recovery Act is properly implemented so that web hyperlinks are properly maintained and available to public.

Response: We have corrected all the hyperlinks that were delivering error messages. Supporting documentation is attached.

I appreciate the professionalism of your review team and the suggestions you made to ensure our ARRA grants are administered properly.

If you have questions, please contact me at (202) 402-7025.