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Audit Report Number	2010-HA-0002
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TO: Jon Gant, Director, Office of Healthy Homes and Lead Hazard Control, L

FROM: //s//  
Saundra G. Elion, Director, Headquarters Audit Division, GAH

SUBJECT: HUD's Office of Healthy Homes and Lead Hazard Control Grant Selection  
Procedures Used for the Lead Hazard Reduction Demonstration Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We completed an audit of the Office of Healthy Homes and Lead Hazard Control (OHHLHC) grant selection procedures for awarding the fiscal year 2009 Lead Hazard Reduction Demonstration (LHRD) grants. This audit was initiated based on a complaint to our hotline alleging that the managers of OHHLHC changed the scores assigned by the application review panel to award grants to applicants that were not ranked high enough to receive funding under the 2009 notice of funding availability (notice). Our objective was to determine whether (1) OHHLHC awarded grants in accordance with the selection criteria specified in the fiscal year 2009 notice and (2) the allegation in the complaint had merit.

### **What We Found**

We found no intent to change scores in order to fund certain applicants thus the allegation could not be substantiated. Some LHRD applicants' scores were changed to correct an error made during the threshold review but the error was not documented during the application review process. However, changes made to correct scoring errors ensured the correct ranking of the LHRD applicants. We also found that OHHLHC incorrectly

awarded two bonus points to five applicants that were not in designated empowerment zones, enterprise communities, or renewal communities. However, these errors did not affect the final ranking and awarding of applicants.

### **What We Recommend**

We recommend that HUD's OHHLHC Director ensure that (1) the Programs Division Director verifies the accuracy of the threshold reviews before sending the applications to the application review panel, (2) the quality control reviews are completed and documented before submitting the application review panel report for approval, and (3) the review panel members do not perform quality control reviews of applications that they reviewed. We also recommend that the OHHLHC Programs Division Director adhere to new procedures requiring the reviewers to verify that applicants are in designated empowerment zones, enterprise communities, or renewal communities.

The HUD OHHLHC Director stated that his office has taken additional steps to implement these recommendations. Therefore, we plan to close the recommendations upon issuance of the report.

### **Auditee's Response**

We provided the discussion draft to OHHLHC for comment on September 20, 2010. We revised the discussion draft based on comments and information provided at the exit conference on September 22, 2010. We received written comments from OHHLHC on September 22, 2010, that agreed with our findings and recommendations. The complete text of OHHLHC's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The mission of the Office of Healthy Homes and Lead Hazard Control (OHHLHC) is to reduce health and safety hazards in a comprehensive and cost-effective manner, with particular focus on protecting the health of children and other sensitive populations in low-income households. OHHLHC currently oversees seven grant programs: Lead-Based Paint Hazard Control, Lead Hazard Reduction Demonstration, Healthy Homes Demonstration, Lead Outreach, Lead Technical Studies, Operation Lead Elimination Action, and Healthy Homes Technical Studies.

The Lead Hazard Reduction Demonstration (LHRD) grant program was established in fiscal year 2003 to focus on major urban areas where children are disproportionately at risk for lead poisoning. The grants were awarded on a competitive basis to areas with the highest lead abatement needs. There remains a significant lead risk in privately owned housing, particularly in unsubsidized low-income units. The LHRD grant program assists State, tribal, and local governments in identifying and controlling lead-based paint hazards in privately owned housing that is owned by or rented to low- or very low-income families.

The U.S. Department of Housing and Urban Development's (HUD) fiscal year 2009 LHRD grant program was authorized \$48 million under the Omnibus Appropriations Act of 2009 (Public Law 111-8). Of the 31 applicants eligible for an LHRD grant, 15 were selected for funding on October 1, 2009.

Each LHRD grant application was scored based on responses to the following five rating factors:

- \* Rating factor 1: Capacity of the applicant and relevant organizational experience (20 points)
- \* Rating factor 2: Need/extent of the problem (15 points)
- \* Rating factor 3: Soundness of approach (40 points)
- \* Rating factor 4: Leveraging resources (10 points)
- \* Rating factor 5: Achieving results and program evaluation (15 points)

In addition to the five rating factors, applicants could receive two bonus points if their planned activities were in a designated empowerment zone.<sup>1</sup>

Beginning in fiscal year 2008, the Consolidated Appropriations Act of 2008 allowed HUD to waive the 25 percent matching requirement for qualified LHRD applicants. LHRD applicants with waiver requests approved by the OHHLHC Director had to provide a matching contribution of at least 10 percent of the requested grant amount to be eligible to apply for an LHRD grant.

The application review panel is responsible for rating and scoring applications and recommending applicants for funding. To maintain consistency in scoring, OHHLHC develops

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<sup>1</sup> Empowerment zones as used in this report include enterprise communities and renewal communities. All are programs that were established by Congress in 1993 to reduce unemployment and generate economic growth in selected census tracts.

an evaluation form that is based on requirements contained in the specific grant program notices of funding availability (notice).

The objective of our audit was to determine whether (1) OHHLHC awarded grants in accordance with the selection criteria specified in the fiscal year 2009 notice for the LHRD grants and (2) the allegation in the complaint had merit.

## RESULTS OF AUDIT

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### Finding 1: OHHLHC's Controls Over Its Grant Award Process Had Weaknesses

OHHLHC's controls over its grant award process had weaknesses. Specifically, (1) some applicants were awarded 10 points for the LHRD match waiver although they had not requested or been approved for a waiver, (2) the quality control process was not adequately documented until nearly 3 months after the grants had been awarded, and (3) the final application review panel report contained incorrect scores and statements. These errors occurred because a documented quality control review was not completed before the application review panel report was prepared. As a result, HUD did not have adequate assurance that the application scoring was accurate, nor that an adequate audit trail existed to support its determination for funding.

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#### Improved Quality Controls Needed

According to the OHHLHC Grants Management Desk Guide, dated June 2003, "Prior to being submitted to the ARP [application review panel] for scoring, each application undergoes a Threshold Review to ensure completeness and consistency in the application. During the Threshold Review, ARP members and/or advisors review applicant forms to ensure that consistent information is provided to HUD and deficiencies are noted on a Threshold Review checklist that is completed for each application. The Threshold Review checklist is developed for each NOFA [notice] to reflect required elements of the application."

For the LHRD grant applications, OHHLHC used Excel workbooks<sup>2</sup> to complete the threshold review sheet. The threshold reviewers extracted information from the applications, put it into the Excel workbook, and awarded points to applicants for rating factors 2 (need/extent of the problem) and 4 (leveraging resources). Consequently, the application review panel was only responsible for evaluating and scoring rating factors 1, 3, 5, and the bonus points.

During the threshold review, 10 applicants were awarded the maximum 10 points for the LHRD match waiver under rating factor 4 although they had neither applied for nor received the waiver. For example,

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<sup>2</sup> The Excel workbook contains all scoring documents and separate tabs with required supporting documentation. The separate tabs include the threshold review, Application for Federal Assistance (Standard Form 424), documented blood lead levels (rating factor 2 – need/extent of problem), leveraging resources point table, prior-year awards and the names of the applicants with waiver requests, applicant review panel review team summary scoring report, and review team's individual score sheets.

- The City and County of San Francisco, Mayor's Office of Housing, initially received the maximum 10 points for its 25.25 percent matching share although it was not entitled to any points because it only met the 25 percent requirement (see appendix A for point table),
- The Kansas Department of Health and Environment initially received the maximum 10 points for its 28.28 percent matching share when it was only entitled to 3 points, and
- The State of New Jersey initially received the maximum 10 points for its 29.31 percent matching share when it was only entitled to 4 points.

OHHLHC did not find the scoring errors pertaining to the waivers until after the application review panel had completed its final scores. The error was discovered during the writing of the application review panel's report. However, there was no documentation (audit trail) in any of the application files or the application review panel's notes explaining why the match waiver scores were changed. When we initially showed the changes in the scores to the panel members, they stated that they were due to a typing error.

According to the fiscal year 2009 notice's evaluation guide, "When problems are identified at any level ... the application is returned to the review team for correction." However, the LHRD applications were not returned to the application review panel; the application review panel chair and vice chair corrected the scores just 2 days before they sent the final report to the OHHLHC Director for approval.

According to the Programs Division Director the quality control review for the LHRD applications was conducted throughout the application review process, however it was not documented until after the grants were awarded. It was not until December 17, 2009, nearly 3 months after the grants had been awarded, that the quality control review was documented. In addition to the delay, the application review panel vice chair conducted the quality control review of an application he had reviewed and scored. Given that the duties of the reviewers are to ensure the quality of the application reviews, these duties (reviewing applications and quality control) should be separated. Separation is important because an independent verification of the forms validates the completeness and accuracy of scores awarded to each applicant.

According to the application review panel vice chair, the quality control review could have caught the waiver request error earlier. Although, the OHHLHC guide does not require a quality control review, we believe that the OHHLHC Programs Division should have documented that such a review occurred before submitting the scores for the final report.

Because a quality control review was not conducted timely, the final report contained incorrect scores and conflicting statements. Specifically, the recommendation section of the report stated, "This recommendation fully funds the highest-ranking 12 applicants whose scores range from 97.7 to 84.9, with the total recommendation amount of \$48,000,000, and partially funds one applicant" for a total of 13 applicants recommended

for funding. This statement should have been revised after the final application review panel report. However, the table in the same report showed that 15 applicants were awarded LHRD grants. The table reflected the corrected scores for those applicants that were funded, but statements in the recommendation section describing the awards did not correspond with the table in the report. Specifically, there was no applicant in the table that scored 84.9 as stated in the recommendation section because the Programs Division Director had reduced the applicant's score by 6 points to correct the waiver request error. Also, the scores in the table for two other applicants were incorrect. One applicant's score did not match the team summary score,<sup>3</sup> and the other applicant's score was rounded up although the guidance clearly states that it should not be rounded.

These errors occurred because established internal controls were not followed. The reviewers did not verify that the applicants had been approved for waivers for the match percentage requirement. Also, some of the inconsistencies in the application review panel report were attributed to multiple revisions that were made within the last 2 days before the report was submitted for approval.

Without adequate controls, HUD did not have sufficient assurance that the scores were accurate and an adequate audit trail to support its determination for funding. Because OHHLHC used the threshold review to filter rating factors 2 and 4 scores into the panel members' review scoring sheets the accuracy of all the scoring sheets was affected. Several of the applicants initially received higher scores than they were entitled to because of the incorrect information on the threshold review; had this error not been corrected, applicants could have improperly received funding.

## Conclusion

Some LHRD applicants' scores were changed after the application review panel completed its review of applications. As a direct result of errors in the threshold scoring, and subsequent failure to identify those errors through quality control review in a timely manner, the final application review panel report contained avoidable errors. These errors were corrected thus validating the applicants that were awarded. We found no intent to raise scores so that specific applicants would be funded. The scores were changed to correct errors in the waiver matching requirement percentage that were made during the threshold review. Nonetheless, OHHLHC needs to improve the quality control for the grant application review process.

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<sup>3</sup> The team summary score is the consensus score averaged between the two application reviewers. This is the final score for the applicant and should be used in the application review panel report.



## Recommendations

We recommend that HUD's Director of OHHLHC

- 1A. Ensure that the Programs Division Director verifies the accuracy of the threshold reviews before sending the applications to the application review panel.
- 1B. Ensure that the quality control reviews are completed and documented on all applications before submitting the application review panel report for approval.
- 1C. Ensure that the review panel members do not provide quality control reviews on applications they reviewed.

## Finding 2: OHHLHC Did Not Verify Empowerment Zones Before Awarding Points

Five LHRD applicants were incorrectly awarded two bonus points to their overall application scores. The two points were awarded because the reviewers did not verify that the applicant was in an empowerment zone designated by HUD or the U.S. Department of Agriculture (USDA). As a result, applicants received scores higher than they were entitled to for their application. Although none of the LHRD applicants was affected by these additional points, similar discrepancies found during our previous audit showed that grantees did improperly receive funding based on bonus points.

### Empowerment Zone Not Verified

The fiscal year 2009 notice states that two bonus points will be given 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 zone designated by HUD or USDA.

In scoring the applications submitted in response to the fiscal year 2009 OHHLHC notice, the application review panel awarded bonus points without verifying that the applicants were in a designated zone or obtaining a valid certification form.

The application review panel incorrectly awarded two points to five applicants without verifying the form HUD-2990 with the Web sites that list the areas included in designated empowerment zones. The table below shows the applicants' corrected scores if they had not been awarded the two bonus points.

Grant name	Application review panel score	Corrected score
Nassau County	90.2	88.2
City of Erie, Redevelopment Authority	87.4	85.4
City of Portland	84.05	82.05
Kansas Department of Health and Environment	80.3	78.3
City and County of San Francisco, Mayor's Office of Housing	80.4	78.4

To receive the bonus points, the form HUD-2990 had to be signed by a certifying official in the empowerment zone. However, Nassau County's HUD-2990 was marked "not applicable" on the line for the name of the empowerment zone yet the review panel awarded the applicant the two points. Another reason the applicants should not have been awarded the bonus points was the planned activities/projects were not within the empowerment zone. The Web sites that list the designated empowerment zones also describe the specific geographical areas within each State that are included in the

designated zone; therefore, the reviewers could have easily verified whether the applicant was in an empowerment zone.

The reviewers acknowledged that they checked the forms for signatures only; they did not verify the HUD-2990 with the HUD and USDA Web sites that list the empowerment zones.

Although none of the fiscal year 2009 LHRD applicants' funding was affected by the bonus points, this same finding was reported in HUD Office of Inspector General (OIG) Audit Report No. 2010-HA-0001, "HUD's Office of Healthy Homes and Lead Hazard Control Awarded Grants to Ineligible Applicants," dated January 11, 2010. As a result of that review, OHHLHC implemented changes in its policies and procedures to address those deficiencies. However, those changes had not been implemented at the time the LHRD applications were reviewed.

## **Conclusion**

OHHLHC incorrectly awarded two bonus points to five LHRD applicants whose proposed activities/projects were not in designated empowerment zones. However, none of the applicants' funding was affected by these additional points. In the future, OHHLHC should ensure that the review panel verifies that applicants' proposed activities/projects are in a designated empowerment zone before awarding the bonus points.

## **Recommendations**

We recommend that HUD's Director of OHHLHC

- 2A. Adhere to new procedures requiring the reviewers to verify that applicants are in a designated empowerment zones, enterprise communities, or renewal communities.

## SCOPE AND METHODOLOGY

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We performed an audit of the selection procedures used by OHHLHC because we received a hotline complaint alleging that OHHLHC managers changed the scores assigned by the application review panel. Scores for the LHRD grants were purportedly changed to award grants to applicants that were not ranked high enough to receive funding under the 2009 notice.

The audit period covered May through October 2009. We performed the audit from May through August 2010 at HUD headquarters in Washington, DC.

To accomplish our objectives, we

- Reviewed applicable HUD regulations, including the fiscal year 2009 notice relating to the administration of the LHRD grant program.
- Conducted interviews with OHHLHC employees to determine their roles and responsibilities during the fiscal year 2009 application review process.
- Obtained an understanding of OHHLHC grant programs.
- Examined the 31 applications submitted for the LHRD grant program under the 2009 notice.

We conducted the audit in accordance with generally accepted government audit 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

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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.
- 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 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 or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiency

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

- OHHLHC did not have adequate procedures in place to ensure that the threshold review process properly identified applicants that received a waiver for the required matching amounts or that the quality control process was completed before the application review panel's report was finalized.

APPENDIXES

**Appendix A**

**MATCHED AND LEVERAGED RESOURCES POINT TABLES**

<b>LHRD (without match waiver) match and leveraged resources point table</b>	
<b>Match and leveraged resources as percent of requested Federal amount</b>	<b>Points awarded</b>
26 percent	1
27 percent	2
28 percent	3
29 percent	4
30 percent	5
31 percent	6
32 percent	7
33 percent	8
34 percent	9
35 percent or greater	10

<b>LHRD (with match waiver) match and leveraged resources point table</b>	
<b>Match and leveraged resources as percent of requested Federal amount</b>	<b>Points awarded</b>
11 percent	1
12 percent	2
13 percent	3
14 percent	4
15 percent	5
16 percent	6
17 percent	7
18-19 percent	8
20-21 percent	9
22 percent or greater	10

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1




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

OFFICE OF HEALTHY HOMES AND  
LEAD HAZARD CONTROL

September 28, 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 Report Findings Identified in OIG Audit Report 2010-HA-000X of HUD's Office of Healthy Homes and Lead Hazard Control Grant Selection Procedures Used for the Lead Hazard Reduction Demonstration Program

The Office of Inspector General's (OIG's), Headquarters Audit Division, conducted an audit of HUD's Office of Healthy Homes and Lead Hazard Control (OHHLHC) Grant Selection Procedures Used for the Lead Hazard Reduction Demonstration Program. On September 28, 2010, the OIG issued Audit Report 2010-HA-000X. The audit was issued in response to a complaint to the OIG's hotline alleging that the "managers of OHHLHC changed the scores assigned by the application review panel to award grants to applicants that were not ranked high enough to receive funding under the 2009 notice of funding availability (notice)."

The OIG's audit sought to determine whether (1) OHHLHC awarded grants in accordance with the selection criteria specified in the fiscal year 2009 notice and whether (2) the allegation in the complaint had merit. The OIG's review concluded that the grants were awarded in accordance with selection criteria and that the allegation in the complaint was without merit. At no time did the OHHLHC staff at any level take actions that would compromise the integrity of the application review process for programs awarded by this Office. OHHLHC takes seriously its responsibility to ensure a fair and objective review of grant applications occurs, and has aggressively acted upon recommendations to improve internal processes and policies to provide the public with confidence in our ability to conduct reviews that are beyond reproach.

Quality assurance is conducted at every step throughout the application review process in order to ensure that reviews are performed in accordance with the Department's standards and criteria. During the quality assurance process, reviewer errors and inconsistencies are identified and corrected prior to award. The review of the FY 2009 Lead Hazard Control Demonstration grant program applications was conducted professionally and methodically.

In the report, the OIG identified two findings pertaining to improvements needed in order to give further assurance to the public that our review process is of the highest quality: 1) OHHLHC's controls over its grant award process had weaknesses; and 2) OHHLHC did not verify Empowerment Zones before awarding points. The OHHLHC agrees with these findings and offers comments to the recommendations outlined in the report.

**Finding One: OHHLHC's controls over its grant award process had weaknesses**

*OHHLHC Response to Recommendation 1A* – Ensure that the Programs Division Director verifies the accuracy of the threshold reviews before sending the applications to the application review panel.

Comment 2

At the time of the OIG's review, OHHLHC had already implemented changes to the threshold review process to ensure that issues related to threshold review (e.g., determining eligibility, match requirements, etc.) were resolved prior to releasing applications to Application Review Panel (ARP) review teams. These changes were established in response to a January, 2009, OIG review of OHHLHC's review process for FY 2009 applicants (Audit Report Number 2010-HA-0001).

Comment 3

The OHHLHC has consistently conducted quality assurance of its applications review process. In fact, that quality assurance process was the basis for the correction in scoring that resulted in this audit. The OIG confirmed that those eligible for funding were properly awarded grants. Nevertheless, the OHHLHC agrees with the OIG's recommendation and has taken additional steps to ensure threshold reviews are completed in an accurate and timely manner. The OHHLHC *Application Review Guide* reflects additional quality assurance checks that are conducted. Staff are trained on these new requirements during ARP review team training.

*OHHLHC Response to Recommendation 1B* – Ensure that the quality control reviews are completed and documented on all applications before submitting the application review panel report for approval.

Comment 4

The OHHLHC has consistently conducted quality assurance of its applications review process. Nevertheless, the OHHLHC agrees with the OIG's recommendation and has taken additional steps to ensure quality assurance reviews are documented in an accurate and timely manner. The Programs Division Director has instituted a QA/QC checklist that must be certified by the ARP Chair and Co-Chair (neither of whom review applications) prior to release of the applications for review by ARP review teams, and prior to submission to the Program Director for approval of the ARP Final Report.

*OHHLHC Response to Recommendation 1C* – Ensure that the review panel members do not provide quality control reviews on applications they reviewed.

Comment 5

The Programs Division Director has directed the ARP Chair and Co-Chair not to review applications. These individuals are solely responsible for ensuring an objective and sound review of applications is conducted. As such, they are accountable for making certain that scores are accurate and justified, certifying that quality assurance controls were conducted and verifying the accuracy of the ARP's recommendations for award to the Programs Division Director. It is important to note, however, that in this case, the ARP Co-chair did not "re-score" any applications during quality assurance checks. Quality control review of applications was conducted by individuals outside the ARP review team structure; the ARP Co-chair signed a "QA Document" after awards were made to ensure application files were complete prior to the debriefing period. There was no actual or potential conflict of interest present in this case.



**Finding Two: OHHLHC did not verify Empowerment Zones before awarding points.**

*OHHLHC Response to Recommendation 2A* – Adhere to new procedures requiring the reviewers to verify that applicants are in designated empowerment zones, enterprise communities, or renewal communities.

Following the January, 2009, OIG review of OHHLHC's review process for fiscal year 2009 applicants (Audit Report Number 2010-HA-0001), the Programs Division Director implemented revised directives for verification of the form HUD-2990 (Certification of Consistency with RC/EZ/EC-Its Strategic Plan). More stringent review procedures of Empowerment Zone certification forms were established in response to this audit and documented in the OHHLHC's Application Review Guide. The ARP Chair and Co-chair verify that applicants are eligible for the additional points, and document the determination on the quality assurance checklist, prior to release to ARP review teams.

Thank you for the thoroughness and time spent in assisting the OHHLHC to increase the integrity of our 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.

Comment 6

## OIG Evaluation of Auditee Comments

- Comment 1 We issued the final audit report on September 29, 2010.
- Comment 2 Audit Report Number 2010-HA-0001, dated January 11, 2010, reviewed the selection process for the fiscal year 2008 applicants.
- Comment 3 We concur with OHHLHC's action. However, we encourage OHHLHC to verify that only qualified applicants receive the appropriate number of points for the waiver matching requirement.
- Comment 4 We concur that OHHLHC has taken additional steps to ensure that quality assurance reviews are documented in an accurate and timely manner.
- Comment 5 We concur that OHHLHC's Director directed that the application review panel chair and co-chair not review applications to ensure separation of duties.
- Comment 6 We concur that OHHLHC implemented new procedures requiring the application reviewers to verify that applicants are in designated empowerment zones.

We appreciate the courtesies OHHLHC extended to us during this audit.