



**The State of Washington Generally Complied
With Lead Hazard Control Grant and Recovery
Act Requirements but Charged Excessive
Administrative Costs**



Issue Date: August 9, 2012

Audit Report Number: 2012-SE-1005

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

//signed//

FROM: Ronald Hosking, Regional Inspector General for Audit, Seattle Region, OAGA

SUBJECT: Washington State Generally Complied With Lead Hazard Control Grant and Recovery Act Requirements but Charged Excessive Administrative Costs

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the State of Washington's Recovery Act Lead Hazard Control grant.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5872.



August 9, 2012

Washington State Generally Complied With Lead Hazard Control Grant and Recovery Act Requirements but Charged Excessive Administrative Costs

Highlights

Audit Report 2012-SE-1005

What We Audited and Why

We audited the Washington State Department of Commerce to determine whether it complied with Lead Hazard Control grant project eligibility, matching contribution, administrative cost, and American Recovery and Reinvestment Act reporting requirements. This audit is part of the national mandate to monitor grant activities funded by the Recovery Act. We selected Washington State because it received the largest Lead Hazard Control grant in the State.

What We Found

The State generally complied with Lead Hazard Control grant and Recovery Act requirements. It selected eligible projects, provided adequate matching contributions, and accurately reported Recovery Act grant information. However, the State charged excessive administration costs to the Recovery Act Lead Hazard Control grant. This condition occurred because the State misunderstood the grant's administrative cost limitation requirement. As a result, \$202,824 was unavailable for lead-based paint control.

What We Recommend

We recommend that HUD require the State to reimburse the U.S. Treasury the \$202,824 spent on excessive administrative costs and provide training on the Lead Hazard Control grant program to the State.

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BACKGROUND AND OBJECTIVE

State of Washington

The State of Washington was awarded a \$3 million American Recovery and Reinvestment Act Lead Hazard Control grant (grant number WALHB0422-08), which was administered by the State's Department of Commerce Housing Improvements and Preservation Unit. The State used the Lead Hazard Control grant to provide funding for the control of lead-based paint hazards in low-income families' homes, training in lead-safe work practices, lead awareness, and outreach educational materials. The State worked with 10 subgrantees to administer the grant across the State of Washington.

Recovery Act Lead Hazard Control Grant

The Recovery Act included a \$100 million appropriation for the Office of Healthy Homes and Lead Hazard Control. Of the Recovery Act appropriation, \$78 million was announced as Lead-Based Paint Hazard Control awards. The purpose of the Lead-Based Paint Hazard Control Grant Program is to assist States, Native American tribes, cities, counties or parishes, or other units of local government in undertaking comprehensive programs to identify and control lead-based paint hazards in eligible privately owned rental or owner-occupied housing.

The Lead Hazard Control grants were first awarded to eligible applicants that applied under the 2008 Notice of Funding Availability (NOFA) but did not receive grants due to funding limitations. The 2008 NOFA required Lead Hazard Control grantees to use at least 65 percent of the grant awarded on direct lead hazard control costs and no more than 10 percent of the grant on administrative costs.

Our objective was to determine whether the State complied with Lead Hazard Control grant project eligibility, matching contribution, administrative cost, and Recovery Act reporting requirements.

RESULTS OF AUDIT

Finding: The State Charged Excessive Administrative Costs to Its Recovery Act Lead Hazard Control Grant

The State charged excessive administrative costs to its Recovery Act Lead Hazard Control grant. This condition occurred because the State misunderstood the grant's administrative cost limitation requirement. As a result, \$202,824 was unavailable for lead-based paint control.

Excessive Administrative Costs

The State charged excessive administrative costs to its Recovery Act Lead Hazard Control grant. It charged the grant \$290,492 for its administration costs and allowed its subgrantees to charge the grant \$212,332 for administrative expenditures. The subgrantee administrative costs were budgeted in the subgrant agreements signed by the State.

According to the Lead Hazard Control 2008 NOFA, administrative costs could not exceed 10 percent of the grant award. Thus, only \$300,000 of the \$3 million grant could be used for administrative costs. The \$502,824 total exceeded the administrative expense limit by \$202,824 and was nearly 17 percent of the grant amount.

Misunderstood Requirement

The State misunderstood the grant's administrative cost limitation requirement. A previous NOFA included an appendix stating that subgrantee program planning and management costs were not included in the 10 percent administrative cost limit. However, the 2008 NOFA did not include this same appendix. Consequently, the State did not understand that the 10 percent administrative cost limit described in the 2008 NOFA applied to total administrative costs charged to the grant.

Unavailable Funds

As a result of the State's misunderstanding, \$202,824 was unavailable for lead-based paint control.

Recommendations

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

- 1A. Require the State to reimburse the U.S. Treasury the \$202,824 spent on excessive administrative costs.
- 1B. Provide training to the State on the Lead Hazard Control grant program.

SCOPE AND METHODOLOGY

We performed our onsite audit work between April and May 2012 at the State’s office located at 1011 Plum Street SE., Olympia, WA, and at five subgrantee offices at various locations in the State of Washington. Our review covered the period April 2009 to April 2012.

To accomplish our objective, we reviewed applicable laws, regulations, HUD requirements, and the 2008 Lead-Based Paint Hazard Control NOFA; interviewed HUD and State staff members; and examined the State’s policies and procedures, Recovery Act reports, grant agreement, and subgrant agreements. We reviewed and analyzed the State’s documentation covering Recovery Act reporting and the Recovery Act Lead Hazard Control grant matching funds.

For our initial sample, we selected the five of the ten subgrantees that were awarded the most Recovery Act Lead Hazard Control grant funds totaling more than \$2 million. We examined the State’s subgrantee files and first and last contract payment requests. We also reviewed available documentation on project eligibility, subgrantee monitoring, and Davis-Bacon prevailing wage compliance relevant to the Recovery Act Lead Hazard Control grant program. We conducted site visits to the five subgrantees and performed drive-by visits to randomly selected properties assisted with Recovery Act Lead Hazard Control grant funds. During the site visits, we randomly selected and reviewed the subgrantees’ contract payment requests and the assisted properties’ files.

Subgrantee	1	2	3	4	5
Total assisted properties	29	1	2	22	17
Total visited properties	18	1	2	6	4
Total contract payments	30	4	8	28	29
Contract payments reviewed	6	4	8	2	2
Total dollars reviewed	\$53,443	\$323,044	\$233,829	\$52,185	\$42,664

We reviewed the State and all 10 subgrantees for administrative costs charged to the Recovery Act Lead Hazard Control grant. We reviewed the most recent Line of Credit Control System (LOCCS) draw from the State and the most recent or last contract payment request made by the subgrantees detailing total administrative costs charged.

We did not use computer-generated data to support our audit conclusions. We compared the source documentation maintained by the State and the subgrantees to data reported in LOCCS and FederalReporting.gov. All conclusions were based on source documentation reviewed during the audit.

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

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.

Relevant Internal Controls

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

- Controls to reasonably ensure that Recovery Act Lead Hazard Control projects are managed efficiently and effectively.
- Controls to ensure that Recovery Act Lead Hazard Control grant funds are used in compliance with the Recovery Act and HUD requirements.

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	\$202,824

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



STATE OF WASHINGTON

DEPARTMENT OF COMMERCE

1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • (360) 725-4000

www.commerce.wa.gov

August 2, 2012

Mr. Ronald J. Hosking, Regional Inspector General for Audit
Office of Audit (Region 10)
909 First Avenue, Suite 126
Seattle, Washington 98104

Dear Mr. Hosking:

This letter is the Department of Commerce's (Commerce) formal response to the preliminary audit finding as outlined in your letter dated July 11, 2012. We appreciate the opportunity to clear up what we regard as confusion on the application of administration costs. We believe we can provide you assurance and documentation that will show compliance with the 10 percent administrative limit.

Comment 1

The auditors looked at five sub-grantees that received American Recovery and Reinvestment Act (ARRA) funding for lead hazard control, including the City of Tacoma, Spokane Neighborhood Action Program (SNAP), Kitsap County Consolidated Housing Authority (Kitsap), Historic Seattle, and Opportunities Industrialization Center (OIC).

Commerce issued contracts with the sub-grantees with an administrative category of 10 percent of each sub-grantees total award. In addition, Commerce properly charged its administrative fee of 10 percent to the grant. This led the auditors to believe that instead of the 10 percent allowable administrative costs, Commerce charged an administrative cost of 16.7 percent, or \$202,824 over that allowed.

Comment 2 In looking at the charges for sub-grantee “administration,” most of the charges were for salary and fringe benefits for direct or allowable costs under the grant.

Comment 3 In the case of SNAP, Kitsap, and OIC, costs that could have been charged under direct and allowable were instead broken out and placed in the administrative category. Enclosed is a chart showing the staff assigned to the grant and the duties they performed.

Comment 5 In the case of the City of Tacoma, all direct staff were charged as administrative costs. For example, in the January 2011 billing, the City of Tacoma charged \$787.84 to administration, of that \$690.57 went towards salaries and fringe for [Employee 1] and [Employee 2]. [Employee 1] was the project manager for the City of Tacoma and directed the lead work onsite.

Comment 7 [Employee 2] tracked the costs of the grant. The remainder went to a title of a deed and postage to mail the deed Both direct expenses. This is but one

Comment 8 example among the sub grantees who made charges to the administrative category instead of the program category, resulting in an inflated administrative expenditure, when in fact, the cost remained consistent with the intent of the direct cost category and being a direct benefit cost to the client.

Despite the inflated administration costs, Commerce met or exceeded all of the benchmarks for the grant including spending at least 65% on lead based paint hazard control. In fact, the total administration that Commerce received was less than the allocated \$300,000--approximately \$273,000 because in an effort to spend the grant as required, the State over contracted and had to pass some of the real administrative costs onto sub grantees for their direct expenses.

Comment 9 The Office of Healthy Homes and Lead Hazard Control (OHHLHC) has yet to define what an administrative cost is. During the OHHLHC Grantee Program Manager’s Training April 27-28th, 2009, OHHLHC stated that the 10 percent administration costs were defined by the grantee. Commerce relied on that to determine the administrative costs as being the costs incurred by Commerce towards administering the grant not including administration given to the sub grantee for direct and allowable costs.

Comment 10

The confusion can be attributed to HUD's historical direction and policy interpretation regarding allowed administration rate. The 10 percent administration category in the sub-grantee contracts went towards either direct or other allowable costs as stated in the 2008 Notice of Funding Availability (NOFA).

If you have questions regarding this letter, please contact Cynthia Sanderson, Lead Program Manager at Cynthia.Sanderson@commerce.wa.gov or (360) 725-2941.

Sincerely,

Dan McConnon, Deputy Director
Community Services and Housing Division

Comment 6

Comment 11

Comment 12

Comment 13

Comment 14

Comment 11

Comment 15

Comment 16

Comment 12

Comment 12

Comment 11

Comment 17

Comment 17

Comment 18

Comment 18

City of Tacoma		
Name	Duties	Direct/Allowable
[Employee 1]	onsite project coordinator	Direct
[Employee 2]	Data collection analysis and evaluation	Allowable Cost
[Employee 3]	Environmental Reviews and Davis Bacon	Direct
[Employee 4]	Program oversight and eligibility verification	Direct
Kitsap		
Name	Duties	Direct/Allowable
[Employee 1]	Project Coordinator	Direct
[Employee 2]	Environmental Review and Eligibility verification for applicants	Direct
[Employee 3]	Risk assessor provides paint inspection/assessments oversees contractors and clearance for contractor work	Direct
SNAP		
Name	Duties	Direct/Allowable
[Employee 1]	Data collection analysis and evaluation	Allowable Cost
[Employee 2]	Data collection analysis and evaluation	Allowable Cost
[Employee 3]	Project Coordinator	Direct
[Employee 4]	Oversees lead work conducted on individual projects.	Direct
[Employee 5]	Oversees lead work conducted on individual projects.	Direct
[Employee 6]	Construction Project inspector	Direct
[Employee 7]	Construction Project inspector	Direct

Comment 18

[Employee 8]	Construction Project inspector	Direct
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Comment 12

[Employee 9]	Data collection analysis and evaluation	Allowable Cost
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Comment 18

[Employee 10]	Construction Project inspector	Direct
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Comment 15

[Employee 11]	Environmental Review and Eligibility verification for applicants	Direct
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OIC		
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<i>Name</i>	<i>Duties</i>	<i>Direct/Allowable</i>
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Comment 19

[Employee 1]	Inspects projects risk assessor	Direct
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Comment 12

[Employee 2]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 3]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 4]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 5]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 6]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 7]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 8]	Data collection analysis and evaluation	Allowable Cost
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Comment 12

[Employee 9]	Data collection analysis and evaluation	Allowable Cost
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OIG Evaluation of Auditee Comments

Comment 1 For our initial sample, we selected these five of the ten subgrantees. However we expanded our sample to all 10 subgrantees for administrative costs charged to the Recovery Act Lead Hazard Control grant.

Comment 2 While salary and fringe benefits were a large part of the administrative costs charged by the subgrantees to the lead hazard control grant, the subgrantees also charged administrative costs for office space, utilities, building depreciation, maintenance supplies, and other administrative expenses. These costs are not included in the 2008 NOFA's definition of direct or other allowable costs and are considered administrative costs.

Comment 3 The Lead Hazard Control 2008 Notice of Funding Availability defined the following allowable costs:

Lead Hazard Control Direct Costs

Lead hazard control direct costs specifically related to the performance of lead hazard control activities. Lead hazard control activities are defined as:

1. Performing lead dust, soil and paint-chip testing, lead-based paint inspections, risk assessments, clearance examination, and engineering and architectural activities,
2. Laboratory analysis,
3. Lead-based paint testing results, summaries of lead-based paint hazard control treatments, and clearances,
4. Interim controls of lead-based paint hazards including lead-contaminated dust and soil in housing must include specialized cleaning techniques to address lead dust,
5. Abatement of all lead-based paint (upon the auditee's special request to HUD),
6. Minimal housing rehabilitation activities specifically required to carry out effective hazard control, and
7. Temporary relocation of families and individuals.

Other Allowable Costs

Other allowable costs are costs for allowable activities that are not lead hazard control direct costs. These other allowable activities include:

1. Purchasing or leasing equipment having a per-unit cost under \$5,000,
2. Performing blood lead testing and air sampling,
3. Conducting targeted outreach, affirmative marketing, education or outreach programs on lead hazard control and lead poisoning prevention,

4. Supporting data collection, analysis, and evaluation of grant program activities,
5. Providing resources to build capacity for lead safe housing and lead hazard control, including free delivery of HUD-approved lead-safe work practices training courses
6. Conducting planning, coordination, and training activities to support the expansion of a workforce properly trained in lead-safe work practices
7. Participating in applied research, studies, or developing information systems to enhance the delivery, analysis, or conduct of lead hazard control activities

Other Costs

Other costs are administrative costs and cannot exceed 10 percent of the grant award.

If the cost charged to the grant did not fall under the first two categories then by default, the cost was under the “Other Costs” category and an administrative cost.

Comment 4 The State did not provide any supporting documents for the chart showing staff assignment and duties.

Comment 5 Project management conducted by the subgrantee is not included in the 2008 NOFA’s definition of direct or other allowable costs and is therefore an administrative cost. While data collection, analysis, and evaluation falls under other allowable program cost, day-to-day operations of fiscal, clerical, and administrative staff such as making contract payment requests are not included in other allowable costs and are administrative costs.

Comment 6 We replaced the all the sub grantee employee names with employee numbers to protect the privacy of the employees named.

Comment 7 The only acquisition costs allowed under the Lead Hazard Grant program is for the purchase or lease of equipment having a per-unit cost under \$5,000. Costs associated with the acquisition of real property are not eligible under the Lead Hazard Control program and so the costs associated with the deed title and postage should not be charged to the Lead Hazard Control grant.

Comment 8 Based on our review of the sub grantee records, the administrative costs the sub grantees charged to the administrative category were appropriately identified as administrative costs.

Comment 9 The 2008 Lead Hazard Control NOFA defined three allowable cost categories including lead hazard control direct costs, other allowable costs, and other costs (administrative). If costs charged to the grant were not included in the definition of direct or other allowable costs, by default the cost was an administrative cost.

- Comment 10** As we stated in the report, we do acknowledge that changing criteria as attributed to the confusion regarding administrative costs. However, the majority of the administrative costs charged by the subgrantees did not go to direct or other allowable costs as defined by the 2008 NOFA.
- Comment 11** Project coordination is not included in the 2008 NOFA's definition of direct or other allowable costs; therefore the cost is an administrative cost.
- Comment 12** The State will need to show how these sub-grantee staff members activities were related to the data collection, analysis, and evaluation of grant program activities.
- Comment 13** While costs related to laboratory analysis and testing results are direct program costs, costs related to carrying out Davis-Bacon prevailing wage compliance are not included in the 2008 NOFA's definition of direct or other allowable costs and are therefore administrative costs. The State will need to provide an itemized break-down of the staff member's hours spent on conducting environmental review and carrying out Davis-Bacon prevailing wage compliance.
- Comment 14** Costs relating to program oversight and eligibility verification are not included in the 2008 NOFA's definition of direct or other allowable costs; therefore the cost is an administrative cost.
- Comment 15** While costs related to laboratory analysis and testing results are direct program costs, costs related to verifying applicant eligibility are not included in the 2008 NOFA's definition of direct or other allowable costs and are therefore administrative costs. The State will need to provide an itemized break-down of the sub-grantee staff member's hours spent on conducting environmental review and verifying applicant eligibility.
- Comment 16** While costs relating to paint inspection and assessment are direct program costs, costs related to contractor oversight are not included in the 2008 NOFA's definition of direct or other allowable costs and are therefore administrative costs. The State will need to provide an itemized break-down of the sub-grantee staff member's hours spent on conducting paint inspections and assessments and on overseeing contractors.
- Comment 17** Unless these costs are relate to the direct supervision of lead hazard control activities, costs related to contractor oversight are not included in the 2008 NOFA's definition of direct or other allowable costs and are therefore administrative costs.
- Comment 18** While costs relating to paint inspections and assessments are direct program costs, costs related to general project construction inspections are not included in the 2008 NOFA's definition of direct or other allowable costs and are therefore administrative costs. The State will need to provide an itemized break-down of

the sub-grantee staff member's hours spent on conducting paint inspections and assessments and on general project construction inspections.

Comment 19 Unless these costs are related to the direct inspection of lead-based paint, costs related to general inspections are not included in the 2008 NOFA's definition of direct or other allowable costs and are therefore administrative costs.