
AUDIT REPORT



AWARD AND ADMINISTRATION OF LEAD-BASED PAINT HAZARD REDUCTION GRANTS

2004-AO-0001

FEBRUARY 6, 2004

OFFICE OF AUDIT
HEADQUARTERS AUDITS DIVISION
WASHINGTON, DC



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TO: David E. Jacobs, Director, Office of Healthy Homes and Lead Hazard Control, L

Saundra G. Elion

FROM: Saundra G. Elion, Director, Headquarters Audits Division, GAH

SUBJECT: Award and Administration of Lead-Based Paint Hazard Reduction Grants

In response to a hotline complaint, we completed an audit of the Office of Healthy Homes and Lead Hazard Control (OHHLHC) grant award and administration process. Our audit objectives were to determine whether: (1) grants awarded based on unsolicited proposals were properly evaluated; (2) grants were extended and increased based on sufficient evaluation and proper justification; and (3) OHHLHC efficiently and effectively expended grant funds appropriated by Congress.

Our report contains three findings with recommendations requiring action by your office. The three findings address OHHLHC's controls over the award and administration of unsolicited proposals, grant amendments, and unexpended balances.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me or Donna Hawkins (Assistant Director) at (202) 708-1342.

Executive Summary

We completed an audit of the grant award and administration process of the Office of Healthy Homes and Lead Hazard Control (OHHLHC). The purpose of the audit was to determine whether: (1) grants awarded based on unsolicited proposal were properly evaluated; (2) grants were increased and extended based on sufficient evaluation and proper justification; and (3) OHHLHC efficiently and effectively expended grant funds appropriated by Congress.

Unsolicited proposals were not evaluated

OHHLHC awarded grants without meeting HUD requirements for evaluating the unsolicited proposals and without maintaining a complete log of all such proposals submitted for consideration. These deficiencies occurred because OHHLHC did not have adequate management controls for evaluating proposals and the Director of OHHLHC effectively had sole responsibility and control over selecting and awarding grants for unsolicited proposals. As a result, OHHLHC awarded five grants, totaling \$3,782,563, for services based on unsolicited proposals that were not evaluated to ascertain whether the objectives furthered OHHLHC's mission or if the grantees had the capacity to fulfill the grant agreement.

We recommend that the Director of OHHLHC ensure: (1) the implementation of the unsolicited proposal procedures outlined in the Grant Management Desk Guide; (2) a review panel performs preliminary and comprehensive evaluations of all unsolicited proposals and document the evaluations in writing; (3) all grantees maintain appropriate financial documentation to support costs charged to grants; (4) all costs associated with the United Parents Against Lead of Michigan (UPAL) grant are accounted for, and recover any unsupported costs; and (5) suspension of further funding of UPAL grant.

Grant amendments were not adequately evaluated

OHHLHC approved requests for grant amendments for award increases and extensions without adequately evaluating the grantees' requests and documenting the evaluation. Specifically, five grants were increased to more than 3 times their original grant amounts, and their performance periods were extended significantly beyond the original period. These excessive award increases and extensions occurred because OHHLHC did not have adequate controls for modifying and amending grants. As a result, OHHLHC had no assurance that the additional

\$11,134,207 awarded to these grantees was an efficient use of funds.

We recommend that the Director of OHHLHC: (1) require GTRs adhere to the Grants Management Desk Guide on grant monitoring, modifications, and amendments; and (2) ensure that grant officers properly execute the amendments to the existing awards before signing HUD-1044.

Grant funds were not expended timely

OHHLHC did not ensure that grantees timely expended funds. This occurred because of inadequate oversight by OHHLHC. As a result, grantees had approximately \$27 million in unexpended grant funds that OHHLHC could have put to better use.

We recommend that the Director of OHHLHC: (1) ensure that the spend-out schedule used to evaluate the grantees' progress mirrors the time frames outlined in the grant agreement; (2) review grants that are 5 years or older and recapture unexpended balances; and (3) ensure that GTRs and division directors monitor grantees' performance to allow for timely expenditure of funds.

We provided a discussion draft report to OHHLHC on December 9, 2003, and discussed the report during the exit conference on December 22, 2003. We considered OHHLHC's comments and issued a final draft report on January 15, 2004. OHHLHC provided written comments to the recommendations on January 29, 2004. We summarized and evaluated OHHLHC's comments after each finding. OHHLHC's written comments are included in their entirety in Appendix D.

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Abbreviations:

GTRs – Government Technical Representatives
HUD – Department of Housing and Urban Development
NCHH - National Center for Healthy Housing
OHHLHC – Office of Healthy Homes and Lead Hazard Control
OMB – Office of Management and Budget
QMR – Quality Management Review
SuperNOFA – Super Notice of Funding Availability
UPAL – United Parents Against Lead of Michigan

Introduction

On October 28, 1992, Congress enacted the Residential Lead-Based Paint Hazard Reduction Act of 1992 (Public Law 102-550), also known as Title X of the Housing and Community Development Act of 1992. This section of the Act authorized a grant program for State and local governments for the evaluation and reduction of lead-based paint hazards in privately owned housing built before 1978 and occupied by low-income families.

In 1991, HUD established the Office of Healthy Homes and Lead Hazard Control (OHHLHC) to bring together health and housing professionals in a concerted effort to eliminate lead-based paint hazards. The current organizational structure consists of the Director, Deputy Director, a Special Assistant, and two staff assistants. There are also five divisions: Lead Hazard Control Grants Division, Lead Technical Assistance Division, Healthy Homes Division, Compliance Assistance and Enforcement Division, and Budget and Administrative Services Division. OHHLHC has 18 Government Technical Representatives (GTRs) and two grant officers.

OHHLHC is responsible for: (1) developing lead-based paint regulations, guidelines, and policies; (2) providing technical assistance to HUD Field Offices, program offices, housing authorities, nonprofit housing providers, State and local agencies, housing developers, inspectors, real estate professionals, contractors, and public health authorities; (3) conducting demonstrations and studies; (4) developing standards; (5) maintaining a community outreach program; (6) creating liaisons with State and local governments; and (7) enforcing HUD's lead paint disclosure regulations.

To carry out its mission OHHLHC administered two major programs, Lead-Based Paint Hazard Control and Healthy Homes.

Lead-Based Paint Hazard Control Program

The primary purpose of the Lead-Based Paint Hazard Control Program is to reduce the exposure of young children to lead-based paint hazards in their homes. This program provides grants ranging from \$1 million to \$2.5 million to State and local governments for control of lead-based paint hazards in privately-owned, low income owner-occupied and rental housing. Since 1993, OHHLHC has awarded \$609 million to over 200 State and local jurisdictions across the country.

Healthy Homes Program

Congress established the Healthy Homes Initiative in 1999 to “develop and implement a program of research and demonstration projects that would address multiple housing-related problems affecting the health of children.” OHHLHC's Healthy Homes Division provides grant funding on a competitive basis to develop, demonstrate, and promote cost-effective methods of making homes safer. The Healthy Homes Division awarded competitive grants (for up to 3 years) to public agencies and community organizations. The grants ranged from \$250,000 to \$1,500,000. Since 1999, 41 competitive grants were awarded in the following categories:

- Demonstration projects
- Education projects
- Technical Studies (research) projects

- Mold and Moisture Control projects

Complimenting the two programs are the Lead Technical Assistance Division and Compliance Assistance and Enforcement Division. The Lead Technical Assistance Division provides technical assistance to OHHLHC grantees and stakeholders in implementing their proposals and programs. The findings of technical studies have been used to develop guidance for the Lead-Based Paint Hazard Control grant program, to provide the basis for technical elements of the Lead Safe Housing Rule (24 CFR 35, subpart B-R), and for writing and updating HUD's Guidelines for the Evaluation and Control of Lead-Based Paint Hazards in Housing. The Compliance Assistance and Enforcement Division is responsible for ensuring compliance with the requirements of the 1996 Lead-Based Paint Hazard Reduction Act.


Between FYs 1992 and 2002, OHHLHC received \$864.7 million in appropriations for lead-based paint hazard reduction programs. Of the \$864.7 million, \$792.4 million was set aside to award 375 grants. The grant programs were designed to eliminate lead-based paint hazards in low-income housing, expand public awareness, and train a workforce to address lead-based paint hazards in housing.

HUD's Office of Departmental Operations and Coordination conducted a Quality Management Review (QMR) of OHHLHC during September 2002, and issued a report on October 16, 2002. The following areas were reviewed during the QMR:

- Management Plan/Office Goal Accomplishment;
- Internal Communications and Coordination;
- Personnel Management/Employee and Labor Relations;
- Government Performance and Results Act;
- Internal Management Controls; and,
- Grants Management Performance Assessment and Monitoring.

The QMR found that OHHLHC program management, particularly in terms of grants, needed substantial improvement. The grant management deficiencies were evidenced by: (1) insufficient on-site monitoring of grantees; (2) insufficient training of GTRs; (3) no formal internal procedures on grants management or oversight; and (4) poorly structured and organized GTR files. The QMR report also made observations about OHHLHC's internal management controls. Specifically, OHHLHC seriously neglected its responsibility to effectively expend funds appropriated by Congress.

While the Deputy Secretary has not formally approved OHHLHC's successful completion of the required QMR corrective actions, OHHLHC has taken actions to correct deficiencies identified in the QMR. One action was the development of the Grants Management Desk Guide. The Desk Guide describes OHHLHC's standard operating procedures and supplements HUD Handbook 2210.17 REV 2 for awarding and monitoring grants.



Audit objectives

In response to a hotline complaint, we developed the following audit objectives to evaluate allegations pertaining to OHHLHC's grant administration process. Determine whether: (1) grants awarded based on unsolicited proposals were properly evaluated; (2) grants were extended and increased based on sufficient evaluation and proper justification; and (3) OHHLHC efficiently and effectively expended grant funds appropriated by Congress.

Audit scope and methodology

To accomplish our objectives, we reviewed:

- OHHLHC's FY 1992 through FY 2002 appropriations;
- Applicable laws, regulations, and program documentation regarding the award and administration of grants;
- HUD's Office of Departmental Operations and Coordination's QMR Report and recommendations; and
- The payment history for grants awarded by the OHHLHC.

We also interviewed OHHLHC program officials and former employees of OHHLHC; obtained legal interpretations when appropriate; and gained an understanding of OHHLHC management controls relevant to our objectives.

We selected 17 of OHHLHC's 164 grants (10 percent) that were active as of August 2002 for detailed review. The 17 grants were selected as follows: 4 were named in the complaint; 3 were closely aligned with grantees named in the complaint; and the remaining 10 were randomly selected using computer-based software. Since the grant selections were not made statistically, the results cannot be projected to OHHLHC's grant universe. The grants included in our review totaled \$47,205,779.

We performed audit work from March 2003 through October 2003. The audit covered the period FY 1992 through December 2002. We extended the review, where appropriate, to include other periods. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Unsolicited Proposals Funded Without Evaluations

OHHLHC awarded grants without meeting HUD requirements for evaluating the unsolicited proposals. In addition, OHHLHC did not maintain a complete log of all such proposals submitted for consideration. These deficiencies occurred because OHHLHC did not have adequate management controls for evaluating proposals and the Director of OHHLHC effectively had sole responsibility and control over selecting and awarding grants for unsolicited proposals. Consequently, of the 17 grants we reviewed, OHHLHC awarded 5 grants, totaling \$3,782,563, for services based on proposals that were not evaluated to ascertain whether the proposed objectives furthered OHHLHC's mission or if the grantees had the capacity to accomplish the objectives.

Criteria

HUD Handbook 2210.17 REV 2, Discretionary Grant and Cooperative Agreement Policies and Procedures, Chapter 2, Section 2-11 d and e provides that unsolicited proposals should receive a preliminary and comprehensive evaluation. The preliminary evaluation should determine if the unsolicited proposal contains sufficient technical and cost information and has been approved by a responsible official or other representative authorized to contractually obligate the offeror.

If the proposal meets the preliminary requirements, then the evaluator must conduct a comprehensive evaluation. The evaluator should consider the following factors:

- Unique or innovative methods, approaches, or ideas originated or assembled by the offeror;
- Overall scientific, technical, or socioeconomic merits of the proposal;
- Potential contribution of the effort to HUD's mission;
- The qualifications, capabilities, and experience of the proposed principal investigator, team leader, or key personnel who are critical in achieving the proposal objectives; and
- The offeror's capabilities, related experience, facilities, techniques, or unique combination of these, which are integral factors for achieving the proposal objectives.

OHHLHC's unsolicited proposal process

Prior to grants being awarded, all unsolicited proposals were given to the Director of OHHLHC. The Director then

decided whether the proposal was applicable to OHHLHC and which OHHLHC division should evaluate the proposal. According to the Director, the GTR was responsible for evaluating the unsolicited proposals to determine if the proposal was helpful, unique, and consistent with Title X of the Housing and Community Development Act of 1992 and the offeror had an advanced ability to correct hazards in the homes. His decisions to award the grants were based on those evaluations. Although the Director stated that the GTR evaluated the proposals, the grant files did not support this assertion.

Proposals were funded
without evaluations

Our review of the 17 grants¹ disclosed that OHHLHC awarded five grants without evaluating the merits of the unsolicited proposals. The grant files did not contain any documentation indicating that a preliminary or a comprehensive evaluation was conducted by the GTRs. Because we could not find evaluations in the files, we requested the evaluations from the Director of OHHLHC. The Director maintained that the GTRs were responsible for performing these evaluations.

Two of the three GTRs we contacted informed us that they did not review the unsolicited proposals for their merits because the Director had already made the decision to award the grants. The other GTR stated that her immediate supervisor told her that the unsolicited proposals would be funded; therefore she did not evaluate the proposal. In effect, the GTRs only reviewed the proposals to negotiate the terms of the agreements, not to determine the merits of the proposal or whether a grant should be awarded. (Note: Negotiations are held after the grantee is selected and notified of the award.)

For example, OHHLHC awarded the Alliance to End Childhood Poisoning (the Alliance) a \$2.3 million grant without evaluating the Alliance's proposal. The Director maintained that OHHLHC did what Congress asked them to do, evaluated the proposal and determined that a grant was warranted. However, the grant files did not contain any documentation indicating an evaluation was conducted. Congress neither directed nor earmarked funds for the Alliance, instead, the Conference Report encouraged "HUD to evaluate a proposal from the Alliance. . .and

¹ Seven of the 17 grants included in our review were awarded based on unsolicited proposals.

provide a grant if warranted.” The Alliance proposal should have been evaluated as all unsolicited proposals are required to be evaluated.

Unsolicited proposal log not maintained

In addition to not properly evaluating unsolicited proposals, OHHLHC did not maintain an official log of all unsolicited proposals submitted for consideration. According to the Budget and Administrative Services Division Director (Director of Budget), the Director of OHHLHC is the only official who knows how many unsolicited proposals the office received. In May 2003, the Director of OHHLHC acknowledged to us that there was no official list or log documenting the number of unsolicited proposals received. However, one month later the Director informed us that a renewed search by his staff assistant had “uncovered” logs for 1993-1997 and 2003². His staff assistant subsequently acknowledged that she found a file containing proposals and other related documents, which she used to create the log. Therefore, OHHLHC did not maintain a log to account for unsolicited proposals submitted for consideration.

Procedures for processing unsolicited proposals were inadequate

In response to our requests for internal policies and procedures for unsolicited proposals, the Director provided us with written procedures entitled “OLHC Guidelines for Unsolicited Proposals” (the Guidelines), which were drafted in 1993. However, he did not know when the Guidelines became effective or when they were issued. In fact, none of the key staff (Director of Budget, grant officer, or GTRs) were aware of the Guidelines. Therefore, it is questionable whether the Guidelines were ever disseminated. In addition, we determined that the Guidelines were insufficient because they did not include specific internal procedures for processing unsolicited proposals. At a minimum, the procedures should address who will receive the proposals, how the proposals should be logged into OHHLHC’s system; who should evaluate the proposals (GTR, grant officer, or division director); what the evaluation process should encompass; and how disagreements should be handled and resolved. The Guidelines drafted in 1993 did not delineate who was responsible for performing the various tasks; therefore,

²OHHLHC could not provide information on the number of proposals received between 1998 and 2002; nor could OHHLHC give any assurances that the logs contained all unsolicited proposals received.

OHHLHC could not assure that duties for processing unsolicited proposals were properly segregated.

More important than the inadequate procedures, the Director effectively had sole authority over selecting which unsolicited proposals would be funded. He received and approved the proposals and/or made initial awards totaling \$3,782,563 to four grantees. (Note: Through subsequent amendments, these grantees received an additional \$3,708,795, for a total of \$7,491,358. See Finding 2 for details on grant award increases.) Table 1 summarizes the status of the five grants awarded based on unsolicited proposals that were not adequately evaluated.

Table 1: Grants Awarded for Unsolicited Proposals Without Evaluations

Grantee	Effective Date	Original Grant Period (in months)	Total Grant Period (in months)	Original Grant Amount	Grant Increases	Total Grant Amount
The Tides Center	9/1/97	36	76	\$ 334,950	\$1,658,971	\$1,993,921
University of Cincinnati Medical Center	7/1/95	42	102	300,000	1,554,057	1,854,057
United Parents Against Lead of Michigan (UPAL)	4/1/97	18	65	99,650	495,767	595,417
UPAL	9/1/02	36	36	747,963	0	747,963
Alliance to End Childhood Lead Poisoning	1/1/02	24	24	2,300,000	0	2,300,000
Total				\$3,782,563	\$3,708,795	\$7,491,358

The Director of OHHLHC decided which unsolicited proposals would be awarded without obtaining independent evaluations from the GTRs. One clear example of the Director's control pertained to the second grant awarded to the United Parents Against Lead of Michigan (UPAL). The Director instructed the GTR to assign UPAL another grant number because the first grant had expired and could not be amended. Specifically, in August 2002, the grantee requested and was granted a 30-day no cost extension in order to continue work while awaiting the approval of a "new" grant amendment. However, the "new" amendment was never processed. Instead, UPAL was awarded a new

grant effective on September 1, 2002, one day after the first grant had expired.

Upon further examination of the electronic file containing the unsolicited proposal the Director sent to the GTR on August 27, 2002, we determined that the Director created the file used as a basis to award UPAL's second grant. Even though the Director contends that he only edited the proposal, the electronic file showed him as both the author of the document and the last person to save the document.

Although not specifically stated in HUD Handbook 2210.17 REV 2, an unsolicited proposal by nature is a document that the offeror should prepare. Essentially, an unsolicited proposal is the suggestion of the offeror that was not originally thought of by the Department. Therefore, the Director should not have prepared or edited the proposal for UPAL.

Uniqueness and capacity
of grantees

The lack of controls allowed OHHLHC to award nearly \$3.8 million to grantees whose unsolicited proposals were not evaluated. Specifically, OHHLHC did not ascertain whether the proposed objectives were unique and innovative methods to further OHHLHC's mission or whether the grantees had the capacity to timely and effectively accomplish the proposed objectives presented in the unsolicited proposals.

Unique and Innovative Methods. The objectives specified in the unsolicited proposals are summarized below.

- **Tides Center:** To support a grant competition for small grassroots nonprofit organizations and parents groups to conduct locally-based outreach programs.
- **University of Cincinnati Medical Center:** To provide quality control and data management services for the evaluation of the HUD Lead-Based Paint Hazard Control Grant Program in Private Housing.
- **United Parents Against Lead of Michigan (UPAL):** To provide outreach and education services primarily within Michigan, with some activities on the national level. The main focus was the development and coordination of parents groups, schools, nonprofit organizations, and others. The objective of the second grant was to "spread the gospel of lead-safe work

practices to property owners, parents, and remodelers...”

- **Alliance to End Childhood Lead Poisoning:** To identify hazards in about 1800 housing units throughout the nation, through a series of sub-grants to locally-based nonprofits. Personnel of subgrantees would be trained to identify lead and other environmental hazards in housing.

The proposed services or planned approaches outlined by the grantees were not so unique as to warrant a noncompetitive grant. In fact, three of the four grantees (Tides, UPAL, and Alliance) provided the same or similar services as other known organizations.

Capacity. OHHLHC did not evaluate the capacity of the grantees to execute the terms of the grant agreement. As a result, three of the four grantees did not make timely deliverables or provide services at the proposed costs. In addition, one grantee did not have the capacity to manage the financial aspects of the grant agreement. That grantee, UPAL, had a grant for over 5 years, yet did not have a system in place to account for costs charged to the grant. Such a system is critical in this case because UPAL was also a subgrantee on another OHHLHC grant. The Executive Director of UPAL did not have any documentation showing how she or her employees charged their time to the grant. Therefore, the \$385,587 charged for salaries and fringe benefits is unsupported and should be recovered.

OMB Circular A-122 places specific salary recordkeeping requirements on the grantee. The grantee must maintain personnel activity reports that account for the total activity for which an employee is compensated in the fulfillment of his/her obligation to the organization. The reports must reflect an after-the-fact determination of actual activity for each employee. Budget estimates do not qualify as support for charges to the grant. Grantees must also maintain reports reflecting the distribution of activity of each employee (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. The report must be signed by the employee or a responsible official.

Corrective action taken

During our review, OHHLHC updated and incorporated unsolicited proposal procedures into the Grants Management Desk Guide. Some of the more significant procedures for receiving and reviewing unsolicited proposals include:

- Receiving and logging proposals;
- Establishing a review team;
- Performing a Comprehensive Evaluation; and
- Documenting the Evaluation and Results.

These procedures, if fully implemented and followed, should correct deficiencies identified in this finding.

Auditee Comments

Overall, the Director of OHHLHC did not make any specific comments relative to the findings in this report; however, he believes by fully implementing the recommendations OHHLHC can strengthen the program even further.

The Director of OHHLHC concurred with the recommendations and provided management decisions describing the actions planned and taken to implement most of the recommendations.

OIG Evaluation of Auditee Comments

We concur with the Director of OHHLHC’s management decision and proposed corrective actions.

Recommendations

We recommend that the Director of OHHLHC:

- 1A. Fully implement the unsolicited proposal policies and procedures outlined in the Grant Management Desk Guide.
- 1B. Periodically assemble a review panel to perform and document preliminary and comprehensive evaluations of all unsolicited proposals considered for grant awards. Specific emphasis should be placed on assessing the grantee’s capacity to perform the specified services, complete the

deliverable within the performance period, and properly account for grant funds.

- 1C. Ensure that all grantees maintain appropriate financial documentation in accordance with OMB Circular A-122 to support costs charged to grants.
- 1D. Evaluate all costs claimed on the UPAL grant and recover all unsupported costs including the \$385,587 claimed for salaries and fringe benefits.
- 1E. Suspend future funding to UPAL until the grantee establishes appropriate financial management controls.

Grant Amendments Made Without Adequate Evaluation

OHHLHC approved grant amendment requests without adequately evaluating the grantees' requests and documenting the evaluations. Specifically, 5 of the 11 grants (in our review that received amendments) were increased to more than 3 times their original grant amounts, and their performance periods were extended significantly beyond the original period. These extensive amendments occurred because OHHLHC did not have adequate management controls for modifying and amending grants. As a result, OHHLHC had no assurance that the additional \$11,134,207 awarded to these grantees was an efficient use of funds.

Criteria

HUD Handbook 2210.17 REV 2, Chapter 5, Section 5 describes the responsibilities of the grant officer and GTR. The grant officer is responsible for negotiating and executing amendments to existing awards; reviewing recipient payment requests and financial, cash management, and performance reports; and taking appropriate action as necessary. The GTR is responsible for monitoring the recipient's performance, including progress against the recipient's work plan, performance schedule, and budget; reviewing the recipient's payment requests and financial reports; maintaining a GTR working file; and recommending modifications to the grant officer.

Section 11 of Chapter 5 contains specific procedures for grant amendments:

“Recipient requests should be directed to the Grant Officer with a copy to the GTR. The proposed change shall be evaluated by the GTR who shall inform the Grant Officer in writing of the merit of the proposal. If the GTR recommends that a change should be made, a request should be prepared and forwarded to the Grant Officer for action. If the GTR does not agree with the recipient's proposed change, the GTR should so inform the Grant Officer.”

OHHLHC memorandum, “Extensions of Period of Performance – ‘High Risk’ Designation,” dated March 20, 2000, states:

“A recommendation to extend the period of performance without assigning a high-risk designation will need to receive the concurrence of the Division Director, with final approval by the Office Director. The GTR should prepare a one-page memo outlining the reason for this recommendation. This memorandum will document the concurrence of the Division Director and the approval of the Office Director.”

Award increases and extensions without adequate evaluation

OHHLHC approved requests for grant amendments (award increases and performance period extensions) without adequately evaluating the grantees' requests and documenting the evaluations. Of the 17 grants we reviewed, 11 grants received amendments. (See Appendix A for grant listing.) The grant officer, as specified in the Handbook, authorized the grant amendments; however, the basis used to support such a decision was not in compliance with the Handbook. More specifically, GTRs should have notified the grant officer in writing of the merits of the proposed amendments and assigned a high-risk designation to grantees recommended for grant extensions. We did not find written documentation in many grant files. Yet, some grantees (5 of 11 in our review) received significant increases and extensions. Those grants were increased to more than 3 times their original grant amounts, and their performance periods extended significantly beyond the original period (see Table 2).

**Table 2: Grants With Extensive Award Increases and Time Extensions
FY 1994 through FY 2002**

Grantee	Original Grant Award	Grant Increase	Rate of Grant Increase	Original Grant Period (in months)	Extension (in months)	Rate of Grant Extension
National Center for Healthy Housing	\$1,750,000	\$7,549,818	431%	48	78	163%
University of Cincinnati Medical Center	300,000	1,554,057	518%	42	60	143%
UPAL (1997)	99,650	495,767	498%	18	47	261%
The Tides Center	334,950	1,658,971	495%	36	40	111%
The Alliance (1995)	753,279	1,750,174	232%	24	71	296%
Total	\$3,237,879	\$13,008,787		168	296	

- National Center for Healthy Housing (NCHH):** OHHLHC approved 9 grant amendments between 1994 and 2002; however, only 7 amendments related to award increases and/or extensions and 2 amendments were for administrative changes. No evaluations were in the grant files for 4 award increases and 2 extensions and the evaluations were not adequate for 1 award increase and 1 extension. The evaluations were inadequate because the GTR's recommendation did not document the basis used in deciding that the request was justified. Only 1 amendment was justified; that amendment was at the direction of Congress – OHHLHC was directed to fund at least \$350,000 for the work NCHH had been performing. (Note: The \$350,000 increase was excluded from Table 2.)
- University of Cincinnati:** The University received 9 amendments between 1995 and 2002. Of the 9 amendments, 7 amendments were for award increases and/or extensions, and 2 amendments were for administrative changes. Four amendments related to both award increases and extensions; 2 related only to award increases; and 1 related only to an extension. One award increase of \$124,406 and 2 extensions had GTR evaluations justifying the amendments.

In addition to not documenting the evaluations of the University's requests, the GTR recommended an extension of the University's grant just 5 days prior to the expiration date of the grant. At that time, the University requested a 15-month grant extension, and the GTR recommended approval on September 25, 2001 (5 days before the September 30, 2001 expiration date). Approving an extension just 5 days before the expiration date is contrary to the March 20, 2000, memorandum which requires that the decision to extend the period of performance be completed 3 months before the end of the period of performance.

- **UPAL:** The UPAL grant had 7 amendments between 1998 and 2002; 5 amendments related to award increases and extensions and 2 amendments were administrative changes. No evaluations were in the grant files for 2 amendments and the documentation on 3 amendments was not adequate. In two instances, the GTR recommended 1-month and 2-month extensions at the request of the Director of OHHLHC. In another instance, the grant officer prepared a negotiation memorandum approving the cost and technical proposal with no exception. However, there was no written documentation in the file showing that the GTR evaluated the proposal for its merits.
- **Tides Center:** The Tides Center grant had 9 amendments between 1999 and 2002. Five amendments were for increases and/or extensions, and 4 amendments were for administrative changes. Two amendments related to both award increases and extensions and 3 related to award increases only. Three amendments had no documentation and the documentation on 2 amendments was not adequate. The extent of the GTR's evaluation was not described. As far as we could determine, the Director of OHHLHC decided to increase the Tides Center grant by \$110,398; therefore, the grant officer merely negotiated the terms of the work statement and the budget. More specifically, the GTR stated that the Director, not the grantee, informed her that the grantee would be requesting additional funds. It was the GTR's understanding that this modification would be funded, since she had been "put on notice" that the request was on the way. The GTR therefore did not evaluate the

requested increase for its merits as required, and did not prepare the memorandum recommending the approval of the increase.

- **Alliance:** The Alliance grant had 11 amendments between 1997 and 2002. Six were for increases and/or extensions. Those amendments had written evaluations and recommendations in the grant file.

Controls over amendment approvals

OHHLHC did not have adequate management controls in place for evaluating and approving award increases and grant extensions. In some instances the evaluations were not documented because: (1) the Director of OHHLHC directed the approval of the request; (2) the grant officer did not require justification or written recommendations from the GTR before approving the amendment (signing HUD-1044); or (3) the GTRs did not prepare a written assessment and recommendations for each amendment.

Funds increased without consideration of fund balances

OHHLHC did not consider the amount of the unexpended grant funds available to the grantee before increasing the grant award.

- On September 2, 1998, OHHLHC approved a \$545,971 increase for the University of Cincinnati even though the University had disbursed only \$217,739 of its \$740,636 grant award. By September 30, 1999, (nearly a year later), the University had only disbursed \$645,583 of the \$1,286,607 available, yet OHHLHC approved another increase of \$91,044.
- NCHH had an unexpended fund balance of \$1,750,000 at the time OHHLHC approved an increase of \$2,400,000. Less than 7 months later, OHHLHC approved an additional \$3,184,350 even though NCHH had disbursed only \$711,080 of the \$4,150,000 available.

See Appendix B for complete grant increase history.

Summary

Since OHHLHC did not adequately evaluate and document each grantee's request for amendments, the grantees were allowed to prolong the delivery of critical services and significantly increase the costs of the proposed services and products. In addition, OHHLHC had no assurance that the

\$11,134,207³ in grant increases was an efficient use of Lead-Based Abatement and Lead Technical Studies program funds.

Auditee Comments

The Director of OHHLHC concurred with each recommendation and provided a description of the actions taken.

OIG Evaluation of Auditee Comments

We believe the corrective actions taken by OHHLHC should ensure that grant amendments are properly evaluated prior to awarding grant increases and extending performance periods.

Recommendations

We recommend that the Director of OHHLHC:

- 2A. Require GTRs to adhere to the Grants Management Desk Guide on grant monitoring, modifications, and amendments so that grant extensions and award increases are justified and documented prior to approval.
- 2B. Ensure that grant officers properly execute the amendment requests before signing HUD-1044, Assistance Award/Amendment, authorizing increases or extensions to the grant.

³ This amount excludes the Alliance grant and the \$124,406 increase for the University of Cincinnati (from Table 2 totals) because those amendments were evaluated and documented in the grant files.

Timely Expenditure of Grant Funds

OHHLHC did not ensure that grantees timely expended funds. This occurred because OHHLHC did not adequately oversee the grantees' activities. As a result, grantees had approximately \$27 million in unexpended grant funds that OHHLHC could have put to better use.

Background

Between FYs 1992 and 2002 OHHLHC received \$864.7 million in appropriations for lead-based paint hazard reduction programs. Approximately \$753.8 million of the funds were awarded to grantees through the Department's annual Super Notice of Funding Availability (SuperNOFA); \$38.6 million for noncompetitive grants; \$50.7 million for contracts; and \$27.3 million for interagency agreements.⁴

OHHLHC awarded 375 grants to State and local governments as well as nonprofit organizations. Approximately 87 percent (\$753.8 million/\$864.7 million) was competitively awarded to grantees and approximately 4.5 percent (\$38.6 million/\$864.7 million) was noncompetitively awarded based on unsolicited proposals submitted by grantees.

Criteria

HUD Handbook 2210.17 REV 2, Chapter 5, outlines the responsibilities of the GTR pertaining to discretionary grants. The GTR is responsible for monitoring the recipient's work plan, performance schedule, and budget; and reviewing the recipient's payment requests and financial reports.

In OHHLHC, GTRs report directly to the division directors. Thus, the division directors are ultimately responsible for ensuring that the GTRs adequately monitor the grantees.

The SuperNOFAs limited the performance period for the Lead-based Hazard Control Program grants and Healthy Homes Initiatives grants to a maximum of 36 months from the date of the award. Performance periods for some research projects were restricted from 12 to 24 months.

Unexpended grant balances

OHHLHC did not ensure that grantees timely expended funds. It was generally accepted that grantees would not

⁴ These amounts were derived from commitment logs maintained by OHHLHC and do not reflect amounts subsequently deobligated. As a result, the aggregate of the categories exceeds the total appropriations by \$5.7 million.

“produce” the first year of the award; and on average, it would take them 1 to 2 years just to establish an infrastructure. Because most grantees were not expected to draw down funds during those early years, they were allowed to keep their lead-based paint hazard reduction grant funds for extended periods (see Appendix A).

Inadequate oversight

Even with the slow startup, the GTRs did not provide sufficient oversight to ensure that grantees timely utilized their grant funds. In fact, the Director of Budget stated that grantees often used HUD funds after all other matching funds⁵ were expended because, depending on the year of the award, HUD funding would remain available until expended. The Director of Budget also acknowledged that the unexpended grant balance had always been a known problem; however, OHHLHC did not begin to take corrective action to reduce grantees’ balances until early 2003.

In June 2003, the Director of Budget began using a 5-year disbursement schedule to monitor the drawdown activity of those grantees with unexpended grant balances. The Director of Budget adapted the schedule from a 5-year schedule approved by OMB. However, the schedule approved by OMB should be used for planning purposes, not for determining an acceptable rate of outlays for grantees. Furthermore, since the grant performance periods were initially for a maximum of 3 years we question the usefulness of a 5-year disbursement schedule for monitoring grantee drawdown activity.

Prior to the Director of Budget performing the monthly analyses, no one effectively monitored the rate of the grantees’ drawdown. Each OHHLHC division director reported monitoring the unexpended balances of their respective grantees but only one director could produce evidence of such monitoring. Even so, none of the directors took action to reduce their respective grantees’ unexpended balances when the grantee’s actual period of performance exceeded the period outlined in the grant agreement.

Better use of unexpended grant funds

As a result of inadequate oversight the unexpended grant balance for 171 grants was \$198.1 million as of September 2003. The initial performance period for the grants, as mentioned previously, ranged from 12 months to a maximum

⁵ During some SuperNOFA competitions grantees were required to have a percentage of matching funds.

of 3 years; however, of the \$198.1 million, approximately \$27 million was for 34 grants that were approximately 5 years or older. If any of these grants have not been extended or received extensions without adequate justification,⁶ those unexpended funds should be recaptured so that the unexpired funds can be awarded for other lead-base paint hazard activity. Table 3 shows the cumulative unexpended balances for grants awarded between FYs 1995 and 1999.

Table 3: Grants Awarded Between FY 1995 and FY 1999 with Unexpended Balances as of September 2003

Year of Award	Cumulative Obligations	Cumulative Disbursements	Unexpended Balance	Number of Grants
1995	\$ 352,000	\$ 96,710	\$ 255,290	1
1997	1,081,612	541,029	540,583	2
1999	57,290,919	30,684,803	26,606,116	31
Total	<u>\$58,724,531</u>	<u>\$31,322,542</u>	<u>\$27,401,989</u>	<u>34</u>

Corrective action taken

Subsequent to and during our audit period, OHHLHC implemented various corrective actions to reduce the unexpended grant balance. The Director of the Lead Hazard Control Grants Division established new benchmarks for OHHLHC and the GTRs are now required to prepare quarterly written performance assessments of each grantee. In addition, the GTRs, along with the Director of Budget, are performing monthly evaluations of the unexpended balances. The results of the monitoring activity should provide a basis for deciding whether: (1) the grantee will be able to satisfy the terms of the grant agreement; and (2) the recapture of funds is warranted. Although OHHLHC now has policies and procedures in place, progress needs to be evaluated over a longer period of time in order to determine whether the actions are adequate.

⁶ Finding 2 discusses deficiencies in OHHLHC’s award increase and extension evaluation procedures.

Auditee Comments

The Director of OHHLHC concurred with the recommendations and has taken action to implement the recommendations.

OIG Evaluation of Auditee Comments

We believe the corrective actions taken by OHHLHC should ensure that grantees' funds are disbursed in accordance with the grant agreement and timely expended.


Recommendations

We recommend that the Director of OHHLHC:

- 3A Ensure that the spend-out schedule used to evaluate the grantees' progress mirrors the time frames outlined in the grantees' respective grant agreements.
- 3B. Review grants that are 5 years or older and recapture unexpended balances.
- 3C. Ensure that GTRs and division directors adequately monitor grantees' performance to allow for timely expenditure of funds.

Management Controls

In planning and performing our audit, we considered the management controls of the OHHLHC in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.



Relevant management controls

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

- Program Operations: Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with 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.

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

Significant weaknesses

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

- Program Operations: OHHLHC awarded grants and approved amendments without adequately evaluating the unsolicited proposals and requests for amendments (Findings 1 and 2). OHHLHC did not ensure that grantees timely expended funds (Finding 3).
- Compliance with Laws and Regulations: OHHLHC did not follow HUD Handbook 2210.17 REV 2 which provides that a preliminary and comprehensive evaluation be conducted on all unsolicited proposals (Finding 1); and specific procedures for approving amendments to grant agreements (Finding 2) and

monitoring the grantees' performance schedule and financial operations (Finding 3).

Grants With Award Increases and/or Extensions¹
FY 1994 through FY 2002

Grantee	Effective Date of Grant	Original Grant Award	Grant Increase	Original Grant Period (in months)	Extensions (in months)	Total Grant Period (in months)
National Center for Healthy Housing	1/4/1993	\$1,750,000	\$7,899,818	48	78	126
Alliance to End Childhood Lead Poisoning	5/1/1995	753,279	1,750,174	24	71	95
University of Cincinnati Medical Center	7/1/1995	300,000	1,554,057	42	60	102
United Parents Against Lead of Michigan	4/1/1997	99,650	495,767	18	47	65
The Tides Center	9/1/1997	334,950	1,658,971	36	40	76
City of Kansas City	7/1/1997	4,994,424	0	36	36	72
City of Dubuque	7/16/1997	3,690,619	0	36	30	66
Duke University	3/1/2002	405,217	333,332	24	19	43
The State of New Hampshire	3/1/1998	2,900,000	0	36	17	53
Maine State Housing Authority	3/1/1999	2,779,160	0	36	15	51
St. Clair County	1/1/2000	2,797,470	0	36	3	39
Total		\$20,804,769	\$13,692,119			

¹ We selected a total of 17 grants for this review; however, only the 11 grants included in this table received award increases and/or extensions.

Grant Increases Awarded to Grantees with Unexpended Balances

National Center for Healthy Housing

Effective Date of Amendment	Ending Grant Period	Unexpended Balance Before Amendment	Grant Increase	Grant Amount After Amendment
1/4/93	12//31/96			\$1,750,000 ¹
7/1/94	3/31/99	\$1,750,000	\$2,400,000	4,150,000
1/20/95	3/31/99	3,438,920	3,184,350	7,334,350
10/3/96	3/31/99	5,046,284	1,718,702	9,053,052
6/1/99	7/1/01	3,365,451	350,000*	9,403,052
2/25/00	7/1/01	3,047,159	13,221	9,416,273
7/1/02	6/30/03	1,846,277	233,545	9,649,818
Total			\$7,899,818	

*Increase directed by Congress (see Finding 2)

University of Cincinnati Medical Center

Effective Date of Amendment	Ending Grant Period	Unexpended Balance Before Amendment	Grant Increase	Grant Amount After Amendment
7/1/95	12//31/98			\$ 300,000 ¹
9/12/95	12/31/99	\$300,000	\$ 100,000	400,000
10/21/96	12/31/00	400,000	340,636	740,636
9/2/98	12/31/00	522,897	545,971	1,286,607
9/30/99	12/31/00	641,024	91,044	1,377,651
8/2/00	12/31/00	544,802	124,406	1,502,057
12/31/02	12/31/03	47,359	352,000	1,854,057
Total			\$1,554,057	

¹Initial grant award.

Schedule of Questioned Costs and Funds Put to Better Use

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>		<u>Funds Put to Better Use 2/</u>
	<u>Ineligible</u>	<u>Unsupported 1/</u>	
1D		\$385,587	
3B			\$27,401,989

- 1/ Unsupported costs are costs not supported by adequate documentation and require a future 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.
- 2/ Funds put to better use are those funds that could be used more effectively if OIG recommendations are implemented. The \$27,401,989 represents the unexpended balance as of September 2003 and should be adjusted to reflect expenditures by the grantees as well as the unexpended balances for those grants that have since reached the 5-year period.



OFFICE OF HEALTHY HOMES AND
LEAD HAZARD CONTROL

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

JAN 29 2004

MEMORANDUM FOR: Sandra G. Elion, Headquarters Audit Division, GAH

FROM: *David E. Jacobs*
David E. Jacobs, Director, Office of Healthy Homes and Lead Hazard Control, L

Subject: Response to the January 15, 2004 IG Draft Report -- Award and
Administration of Lead-Based Paint Hazard Reduction Grants

Attached is our response to the subject report. As you know, we have already implemented most of the IG's recommendations. We expect to have implemented all IG recommendations and made associated management decisions by the end of March 2004. Together with our program partners, this will enable the nation to continue to advance toward the goal of eliminating childhood lead poisoning by 2010 by building upon the capacity that now exists. Production of lead safe housing and grant expenditures are both expected to continue to rise, resulting in continued record reductions in the number of children put at risk of lead poisoning and other health problems associated with substandard housing. Evidence of the program's success include the most recent estimates from the Centers for Disease Control and Prevention, which show that childhood lead poisoning was reduced by 50% during the latter part of the 1990s.

While we differ with the IG report on certain factual matters, as we indicated in our December 22, 2003 comments on your draft report of December 9, 2003, we do believe that by fully implementing the IG's recommendations, we can strengthen the program even further. Therefore, the attachment responds to the IG's specific recommendations.

Please feel free to contact me if I may be of further assistance.

Attachment

www.hud.gov

espanol.hud.gov

1--Unsolicited Proposals Funded Without Evaluations**Recommendation**

1A. Fully implement the unsolicited proposal policies and procedures outlined in the Grants Management Desk Guide.

Management Decision – We accept this recommendation. We have fully implemented the unsolicited proposal policies and procedures outlined in the Grants Management Desk Guide. Also, because our 2004 appropriations language requires all our grant funds to be awarded competitively, we will not award grants to entities submitting unsolicited proposals for funding against our 2004 appropriation or any subsequent appropriations where this prohibition exists. Further, should Congress recommend our consideration of grants to a named entity in any future appropriation language, we will consider the merits of such a grant award on the basis of the unsolicited proposal evaluation procedures set forth in our Grants Management Desk Guide.

1B. Periodically assemble a review panel to perform and document preliminary and comprehensive evaluations of all unsolicited proposals considered for grant awards. Specific emphasis should be placed on assessing the grantee's capacity to perform the specified services, complete the deliverable within the performance period, and properly account for grant funds.

Management Decision – We accept this recommendation. We do not anticipate receiving a significant number of unsolicited proposals, if any, in light of our current Appropriations language. As a result, review panels are assembled only when a proposal is received to evaluate and document unsolicited proposals. We have followed, and will continue to follow, the comprehensive evaluation criteria set forth in our Grants Management Desk Guide.

1C. Ensure that all grantees maintain appropriate financial documentation in accordance with OMB Circular A-122 to support costs charged to grants.

Management Decision. We accept this recommendation. GTRs will require that grantees provide supporting financial information; periodically, GTRs will request and review supporting documentation. Provision of this information is a standard requirement of on-site monitoring. We will also add explicit guidance in the Grants Management Desk Guide to address this issue. Grants Management Training was provided to all our GTRs in September 2003, to ensure their basic understanding of grants administration requirements and responsibilities. This training, along with proposed Compliance and Monitoring training to be conducted in March 2004, will give our GTRs and GTMs additional knowledge and skills necessary to review financial systems, documentation and grantee financial control systems during on-site monitoring visits.

1D. Evaluate all costs claimed on the UPAL grant and recover all supported costs including the \$385,587 claimed for salaries and fringe benefits.

3

Management Decision: We accept this recommendation and will present a plan to accomplish this within 30 – 60 days. Further, the Grant Officer will review existing vouchers and supporting documentation for any discrepancies and will take action to recapture all unsupported costs.

1E. Suspend future funding to UPAL until the grantee establishes appropriate financial management controls.

Management Decision: We accept this recommendation. OHHLHC conducted on-site monitoring and remote monitoring of UPAL of Michigan's performance under grant MILTS0089-02. In January 2004, the Office advised the grantee that termination of the grant was being recommended. We will present an action plan within 60 days for implementing the termination, or, if the grantee's response to the letter justifies not terminating the grant, for undertaking other enforcement actions under 24 CFR 84.62, such as temporarily withholding cash payments pending correction of the deficiency.

2--Grant Amendments Made Without Adequate Evaluation

Recommendations

2A. Require GTRs to adhere to the Grants Management Desk Guide on grant monitoring, modifications, and amendments so that grant extensions and award increases are justified and documented prior to approval.

Management Decision. We accept the recommendation. We have fully implemented the requirements of the Grants Management Desk Guide with respect to remote and on-site monitoring, grant amendments and modifications. GTRs assess grantee performance quarterly and provide these assessments to the grantees, along with a letter of explanation. Annual risk analyses are performed at the end of the fourth quarter of the fiscal year. These provide the basis for developing and implementing a risk-based strategy for on-site monitoring. Requests for no-cost period of performance extensions and award increases are evaluated by the responsible GTR and the GTR documents and preserves the analysis and justification. Instructions have been given to staff reinforcing the use of the Desk Guide.

2B. Ensure that grant officers properly execute the amendment requests before signing HUD-1044, Assistance Award/Amendment, authorizing increases or extensions to the grant.

Management Decision: We accept this recommendation. The policies in our Grants Management Desk Guide outline procedures requiring Grant Officers to document their analysis and rationale for approving or disapproving grant extensions prior to execution.

3--Timely Expenditure of Grant Funds

Recommendations

3A. Ensure that the spend-out schedule used to evaluate the grantees' progress mirrors the time frames outlined in the grantees' respective grant agreements.

Management Decision: We accept this recommendation. The OHHLHC Budget Officer has redefined the disbursements report to mirror the period of performance of each grant. The disbursements report will be used on a quarterly basis to assist in GTR assessments of a grantee's performance against its work plan.

3B. Review grants that are 5 years or older and recapture unexpended balances.

Management Decision: We accept this recommendation. The number of grants that are 5 years or older has been greatly reduced. We will review all such grants and recapture unexpended balances if warranted by the review, if funds are unexpended and if the budget obligational authority has not expired. For grants whose obligational authority *has* expired, any remaining funds will be returned to the Treasury.

3C. Ensure that GTRs and division directors adequately monitor grantees' performance to allow for timely expenditure of funds.

Management Decision: We accept this recommendation. Actions to address this recommendation have been fully implemented. The Grants Management Desk Guide sets forth policy and procedures for quarterly GTR assessments of grantee performance, expenditure of funds, annual risk analyses, the resulting risk-based monitoring strategy, and conducting on-site and remote monitoring. Division Directors review GTR quarterly assessments for quality and adherence to established policy, and collaborate with the GTRs to produce quarterly performance assessments and annual risk ratings for all grantees.