Issue Date	
December 7, 2005	
Audit Report Number	
2006-PH-0001	

TO: Michael F. Hill, Acting Director, Office of Healthy Homes and Lead Hazard Control, L

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The U.S. Department of Housing and Urban Development Did Not Properly Award Fiscal Year 2004 Healthy Homes and Lead Hazard Control Grants

HIGHLIGHTS

What We Audited and Why

In response to a number of congressional inquiries and complaints, we audited the process the U.S. Department of Housing and Urban Development (HUD) used to award its fiscal year 2004 Healthy Homes and Lead Hazard Control grants. Our audit objective was to determine whether HUD's Office of Healthy Homes and Lead Hazard Control (Office of Healthy Homes) properly awarded its fiscal year 2004 Healthy Homes and Lead Hazard Control grants. We provided interim results of this audit in Audit Memorandum 2005-PH-0002, dated May 16, 2005.

What We Found

HUD's Office of Healthy Homes did not properly award the majority of its fiscal year 2004 Healthy Homes and Lead Hazard Control grants. Our audit of the 72 successful applications showed that HUD did not properly evaluate, or could not demonstrate that it properly evaluated 34 of the 72 applications, representing $92.7 million of the $168 million (55 percent) awarded during the fiscal year

2004 grant cycle. Our detailed review of these 34 applications showed HUD improperly[1] awarded eight grants for $20.5 million. We could not determine the propriety of the remaining 26 grant applications[2] receiving $72.3 million because the documents needed to support HUD's award decisions could not be provided. In addition, HUD files pertaining to 54 of 55 applications (98 percent) reviewed for applicants that did not receive funding did not support the decision to reject the grant applications. Of these 54 applicants, we found that HUD denied one applicant $365,736 in grant funds that it was eligible to receive. These problems occurred during the 2004 grant award process because the Office of Healthy Homes did not have adequate internal controls in place to ensure the grant award process was fair and equitable.

In response to our interim report, the Office of Healthy Homes changed its management and is no longer using a contractor to assist in the awarding process for the fiscal year 2005 Healthy Homes and Lead Hazard Control grants. In addition, the Office of Healthy Homes updated its policies and procedures for the processing of the fiscal year 2005 awards. Since the audit focused on the awarding of the fiscal year 2004 grants, we did not review the process used for the awarding of the fiscal year 2005 grants.

What We Recommend

We recommend that HUD's Office of Healthy Homes implement controls to ensure it properly evaluates the grant applications and supports all awards. In addition, we recommend that the office continue efforts to recover or obtain a legal opinion to determine if the department can pursue recovery of the $20.5 million in improperly awarded grants it provided to eight applicants. Depending on the legal opinion, we further recommend that the office obtain the necessary documentation to support the award decisions relating to 26 other applicants receiving $72.3 million in grant funds and recover the amounts it determines were improperly awarded. Lastly, we recommend that the office review the remaining 135 applications that did not receive awards to ensure these applicants were not denied awards they should have received.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

[1] For purposes of this report, "improper" means that HUD did not follow the applicable notice of funding availability requirements when it awarded these grants.

[2] For purposes of this report, we categorized these grant award decisions as "unsupported." In this regard, HUD could not provide the proper supporting documentation during the audit to demonstrate that HUD followed the applicable notice of funding availability when it awarded the grants.

Auditee's Response

We provided our draft report to the Office of Healthy Homes on October 6, 2005. We discussed the findings and recommendations with the Office of Healthy Homes representatives on October 14, 2005. Based upon comments received at the meeting, we revised our report and presented a revised draft to the Office of Healthy Homes on October 18, 2005. Formal written comments to our draft report were received on November 2, 2005. Although the program office agrees the notice of funding availability process needs improvement and has initiated corrective action, it does not agree with our findings as they relate to a number of grant awards. We evaluated these comments and revised the report where appropriate. The complete text of the Office of Healthy Homes' response and the OIG evaluation of that response can be found in appendix C of this report.

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BACKGROUND AND OBJECTIVES

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, which allowed state and local governments to obtain funding 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 (Office of Healthy Homes) to bring together health and housing professionals in a concerted effort to eliminate lead-based paint hazards.

Funding under the Office of Healthy Homes grant program is provided on a competitive basis. An agency may submit an application for any one of seven different grant programs under the notice of funding availability published in the *Federal Register*. To be competitive, an agency must demonstrate, among other things, that the funds will be used effectively to implement the objectives of the Office of Healthy Homes' lead-based grants.

Prior to the fiscal year 2004 competition, the application review process for Office of Healthy Homes grants was managed entirely by departmental staff appointed by the director of the Office of Healthy Homes. However, after processing approximately 235 applications in fiscal year 2003, the department concluded that it did not have adequate staff resources in house to manage the entire application process. After assessing several alternatives, including contacting the Centers for Disease Control and Prevention and the Environmental Protection Agency, it decided to seek contractor assistance in managing the application review process.

To obtain the contract, the Office of Healthy Homes used HUD's accelerated contracting process. Under this process, the General Services Administration schedule is used to search for a minimum of five contract holders, one of which must be a disadvantaged business or 8(a) business and one a women-owned small business if such businesses are on the applicable federal supply schedule. Our review of the Office of Healthy Homes' procuring of the contractor was discussed in the interim report, Audit Memorandum 2005-PH-0002, issued May 16, 2005.

During fiscal year 2004, the Office of Healthy Homes received 262 applications from applicants applying for $168 million in funding. Seventy-two lead-based grants were awarded. The overall objective of our audit was to determine whether the Office of Healthy Homes properly awarded its Healthy Homes and Lead Hazard Control grants under the applicable fiscal year 2004 notice of funding availability.

RESULTS OF AUDIT

HUD Did Not Properly Award Fiscal Year 2004 Healthy Homes and Lead Hazard Control Grants

HUD's Office of Healthy Homes did not properly award, or could not demonstrate that it properly awarded the majority of its fiscal year 2004 Healthy Homes and Lead Hazard Control grants. It improperly evaluated and awarded 34 of the 72 successful applicants, representing $92.7 million of the $168 million (55 percent) awarded. The office

- Improperly awarded eight grants for $20.5 million.[3]
- Could not support the award decisions relating to 26 grants totaling $72.3 million.[4]

Additionally, the office could not demonstrate that it properly evaluated 54 of the 55 applications reviewed (98 percent) for applicants to which it denied funding. Of these 54 applicants, we found that HUD denied one applicant $365,736 in grant funds that it should have received. These problems occurred during the 2004 grant award process because the Office of Healthy Homes did not have adequate internal controls in place to ensure its grant award process was fair and equitable. By implementing needed controls, in future grant award cycles, HUD will be able to prevent improper awards and demonstrate that its award decisions are appropriate and in accordance with the applicable notice of funding availability.

HUD's Fiscal Year 2004 Award Process Was Seriously Flawed

HUD improperly awarded eight grants totaling $20.5 million and could not support the eligibility of 26 other grants receiving $72.3 million due to the inadequacy of its internal controls and its contractor's reviews. We found

- Two applicants received $3.5 million due to mathematically incorrect scores, which when corrected, would have precluded the awards.
- One applicant received funding in fiscal year 2003 and was again awarded $3 million in fiscal year 2004, in violation of the notice of funding availability.

[3] See Footnote 1.
[4] See Footnote 2.

- Four applicants with non-correctable deficiencies on their applications received $12 million. According to the notice of funding, the "application must contain all of the required information noted in this Program Section and the General Section of the SuperNOFA. …The "Checklist and Submission Table of Contents"…includes a listing of the required items needed for submitting a completed application and receiving consideration for funding." During our review, we noted that the specific items required by the notice of funding availability were not included for these four grants and thus the applications were not complete and should not have been considered for funding.

- HUD awarded one applicant a grant totaling $2 million without considering the applicant's past record of poor performance. Further, we found that within the last year HUD was compelled to recover $2.25 million from this grantee due to its poor performance on prior grants. The notice of funding availability requires HUD to take into account an applicant's past performance in managing funds, including, but not limited to, the ability to account for funds appropriately and use the funds timely. In evaluating past performance, HUD may elect to deduct points from the rating score. Nevertheless, HUD awarded this applicant a grant for $2 million despite the applicant's well-documented record of poor performance, and despite the fact that it was compelled to recover $2.25 million from this grantee due to its poor performance on prior grants.

- HUD could not demonstrate that, for 26 applicants receiving $72.3 million, it had complied with the requirements set forth in the applicable notice of funding availability at the time it awarded the grants. For these 26 awards, HUD's decisions to award the grants were not fully supported by the proper documentation. Specifically, the available documentation did not substantiate whether the grantee satisfied deficiencies, or the individual performing the reviews did not address all required items in the checklist.

HUD Did Not Properly Evaluate Applicants It Denied Grant Funds

Our audit of 55 of the 190 applications of applicants that did not receive funding showed that 54 applications were not properly evaluated. Of these 54 applicants, HUD denied one applicant $365,736 in grant funds that it should have received. We found the following problems with these 54 applications:

- The Office of Healthy Homes did not have the proper support to ensure that 39 applications were submitted by the application deadline.

- The contractor did not complete an accurate initial review on 28 applications.

- The Office of Healthy Homes did not ensure that scores for 19 applications were accurate and properly supported.

- The Office of Healthy Homes did not perform or could not provide documentation to support, that quality assurance reviews were performed on 44 applications.

As reported in our interim memorandum, we found that the contractor made a mathematical error in scoring one application, resulting in the applicant being improperly denied funding. During the audit, the Office of Healthy Homes took immediate action to correct this mistake, and it is now planning to award this entity funds totaling $365,736 (or the negotiated grant amount) from fiscal year 2005 appropriations.

HUD Did Not Implement Adequate Internal Controls to Properly Evaluate Applicants

The problems we found during our audit occurred because the Office of Healthy Homes did not have adequate internal controls in place to ensure its grant award process was fair and equitable. HUD and its contractor did not perform adequate reviews to ensure it awarded only eligible applicants fiscal year 2004 funds. We found reviewers did not always sign and date review checklists or answer all of the items on the checklist, such as determining whether the grantee was a prior or current grantee. They also failed to document that deficiencies were corrected, ensure budgeted amounts agreed with the application, and document non-correctable deficiencies.

The contractor informed us that it was instructed by the Office of Healthy Homes not to answer certain items on the review checklist and to score all applications whether they had correctable or non-correctable deficiencies. The Office of Healthy Homes staff acknowledged it provided these incorrect instructions. However, it also explained that before the grants were awarded, it performed an analysis to determine whether the stated deficiency would affect the applicant's final score. However, it could not provide documentation showing it had performed this analysis.

The Office of Healthy Homes also had an inadequate quality assurance review process. Of the 262 applications submitted in fiscal year 2004, the office performed quality assurance reviews on only 58 applications. Further, the quality assurance reviews were deficient in that they only provided oversight of the scores, not the initial reviews performed or intake of the applications. The Office

of Healthy Homes also did not ensure that the contractor's staff was adequately trained. We found that 14 of the contractor's 30 reviewers did not meet the requirements established by the Office of Healthy Homes.

HUD Is Taking Corrective Action

On May 16, 2005, we issued our interim report, Audit Memorandum 2005-PH-0002, which reported that the complainants' allegations had merit. At that time, we identified the following errors in the award process for all seven grant applications we reviewed:

- The office's effort to meet departmental goals adversely affected its 2004 lead grant award process,
- The office's method used to procure a contractor restricted the pool of qualified bidders,
- The office could not demonstrate it provided the necessary training to all of the contractor's staff,
- The office did not maintain a proper log to track when applications were received,
- The contractor did not complete an accurate initial review of the grant applications to determine the applicants' eligibility,
- The office did not provide adequate quality assurance reviews and oversight of the contractor's work, and
- The office conducted negotiations with applicants after the grants were awarded.

In response to our interim report, the Office of Healthy Homes has changed its management and is no longer using a contractor to assist in the awarding of the fiscal year 2005 Healthy Homes and Lead Hazard Control grants. Instead, it has chosen to use staff from its office, supplemented by other departmental staff. The office is also planning to implement needed controls to ensure it properly evaluates applicants and supports all awards. Most of the Office of Healthy Homes staff members conducting the reviews are or have been government technical representatives or government technical monitors for the Office of Healthy Homes grants and understand the notice of funding availability goals, methods, and review criteria. In addition, the Office of Healthy Homes has stated it will conduct a review of all unsuccessful fiscal year 2004 applicants in an effort to ensure equity in the fiscal year 2004 grant award process.

By implementing the needed internal controls to ensure it properly evaluates applicants and supports all awards, HUD will annually put approximately $20 million[5] in fiscal year 2005 and subsequent years' funds to better use.

Other Matters

A complainant alleged that the contractor was improperly performing inherently governmental functions in carrying out its role in the fiscal year 2004 award process. We determined that the allegation was without merit. An inherently governmental function includes activities that require the making of value judgments in making decisions for the federal government, including judgments relating to monetary transactions and entitlements. As discussed extensively in our interim report, Audit Memorandum 2005-PH-0002, the Office of Healthy Homes opted to hire a contractor to assist in the fiscal year 2004 grant process. One of the major aspects of the contractor's job was to gather the applications and review them to determine the grantee's eligibility and whether the information within the application was accurate. As noted in the Federal Activities Inventory Reform Act of 1998, section 5(2)(C)(i), gathering information for a government official is not an inherently governmental function, and thus a contractor may perform these duties.

The contractor's role was to score all eligible applications based upon guidance provided within the notice of funding availability. The Office of Healthy Homes staff was then to review the contractor's work and determine which applicants were to obtain an award. This information was then forwarded to the deputy director, who acted as the approving official and, therefore, ultimately made the final award decisions. We found no evidence that the contractor dictated which applicants should have received grants. Since the contractor merely collected the information and the deputy director could have declined to follow recommendations based upon that information, the Office of Healthy Homes did not delegate its decision-making authority to the contractor.

Recommendations

We recommend that HUD's Office of Healthy Homes

1A. Implement needed controls to ensure it properly evaluates applicants and supports all awards, thereby putting $20,496,000 of fiscal year 2005 and future funds to better use. At a minimum, controls should ensure

[5] "Funds to be put to better use" is calculated by taking the percentage of fiscal year 2004 funds that were improperly awarded (12.20 percent) and multiplying it against fiscal year 2005 funding of $168 million ($168,000,000 x 12.20% = $20,496,000).

- Applications meet the application deadline dates stated in the notice of funding availability;

- Applications meet the initial (threshold) review requirements before being rated, ranked, and awarded funds;

- Scores used to determine whether awards will be made are accurate and supported; and

- Notices of funding availability are designed to better address prior performance deficiencies.

1B. Continue action to recover $3 million in ineligible grant funds relating to the grant that the Office of Healthy Homes agreed was awarded to an ineligible applicant.

1C. Obtain a legal opinion to determine whether the department can pursue recovery from the remaining seven grantees with respect to the remaining $17.5 million that our audit determined was not awarded in accordance with the applicable notice of funding availability.

1D. Depending on the legal opinion obtained in response to recommendation 1C, obtain the documentation needed to support the grants awarded to 26 other applicants receiving $72.3 million and as appropriate, recover funds provided to recipients determined to be ineligible.

1E. Complete a review of the remaining 135 applications not receiving awards to determine whether the applicants were improperly denied an award and if appropriate, take action to award them grants.

SCOPE AND METHODOLOGY

To accomplish the audit objectives, we

- Reviewed applicable HUD regulations, including the notice of funding availability, relating to the administration of the Office of Healthy Homes grant program.

- Conducted interviews with Office of Healthy Homes employees and the contractor to determine each of their responsibilities concerning the awarding of the grant funds.

- Obtained an understanding of the office's Healthy Homes and Lead Hazard Control grant program.

- Examined 127 applications submitted under the 2004 notice of funding availability.

    - We reviewed all 72 applications that received fiscal year 2004 awards totaling $168 million.

    - We performed a random selection of 55 of the 190 applications that did not receive grants during fiscal year 2004.

- Reviewed the contractor's staff resumes and interviewed the reviewers to obtain information pertaining to training.

We performed the majority of our fieldwork from January through August 2005 at the Office of Healthy Homes, located at 451 7th Street SW, Washington, DC. The audit generally covered the period July to September 2004 but was expanded when necessary.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Compliance with applicable laws and regulations - Policies and procedures that management has in place to ensure that adequate reviews are performed to ensure that notice of funding and availability funds are properly awarded.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Office of Healthy Homes did not ensure that all procedures governing the fiscal year 2004 notice of funding availability were followed.

- The Office of Healthy Homes did not provide adequate oversight over the contractor's work.

FOLLOW-UP ON PRIOR AUDITS

Award and Administration of Lead-Based Paint Hazard Reduction Grants, 2004-AO-0001

The Office of Inspector General (OIG) conducted an audit of the Office of Healthy Homes in 2003, audit report number 2004-AO-0001. The audit report contained three findings with 10 recommendations. All recommendations are closed except for one. The one recommendation that remains open relates to evaluating the costs claimed under the United Parents Against Lead grant program.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A		$20,496,000
1B	$3,000,000	

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.

2/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures, at a later time, for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings. The amount was calculated based on the percentage of fiscal year 2004 grant funds that were awarded contrary to the requirements of the applicable notice of funding availability. In this regard, 12.20 percent of the 2004 awards were deemed "improper." Based on the fiscal year 2005 total funding of $168 million, HUD will be able to annually avoid making future awards of $20 million that violate applicable requirements. While these estimated savings could be greater, this calculation does not include amounts associated with the $72.3 million in "unsupported" grant award decisions, because the dollar value of inappropriately awarded funds is not known due to the lack of documentation.

Appendix B

SCHEDULE OF IMPROPER AND UNSUPPORTED GRANTS

				Deficiencies Noted						
No.	Grant no.	Improper Award amount	Un-supported amount	Did not meet initial review process requirements	Non-correctable deficiency	Received grant in prior year	Award based upon incorrect score	Initial review was not complete	Correctable deficiencies were not satisfied	Scoring Deficiency
1	NYLHD0024-04		$ 4,000,000					X	X	
2	FLLHB0269-04	$ 3,000,000			X					
3	NYLHB0282-04	$ 3,000,000				X				
4	WILHB0272-04	$ 3,000,000			X					
5	TXLHB0274-04	$2,000,000		X						
6	GALHH0124-04	$ 468,890					X		X	
7	ALLHB0285-04	$ 2,998,957					X		X	
8	VALHT0101-04		$ 404,714					X		
9	TXLHD0031-04		$3,000,000					X		
10	MILHD0035-04		$4,000,000					X	X	
11	MALHD0029-04		$4,000,000					X	X	
12	PALHD0026-04		$4,000,000					X		
13	MDLHD0021-04		$4,000,000					X	X	X
14	MOLHD0022-04		$4,000,000					X		
15	ILLHD0034-04		$ 782,654					X	X	
16	NJLHD0028-04		$4,000,000					X		
17	NYLHD0023-04		$4,000,000					X	X	
18	WILHD0027-04		$4,000,000					X	X	
19	RILHD0033-04		$3,927,152					X	X	
20	UTLHD0030-04		$2,000,000					X	X	
21	NYLHD0032-04		$1,495,884					X	X	
22	NYLHD0025-04		$2,499,310					X	X	
23	WILHB0267-04		$3,000,000						X	
24	ILLHB0280-04	$ 4,000,000			X				X	X
25	DELHB0271-04		$2,961,903						X	
26	ORLHB0192-04		$3,000,000					X		
27	PALHB0281-04		$2,951,644						X	
28	MILHB0278-04		$3,000,000						X	
29	OHLHB0265-04		$3,000,000					X		
30	CTLHO0015-04		$1,720,000						X	
31	VALHO0018-04	$ 2,000,000			X					X
32	ILLHH0125-04		$ 576,896						X	
33	TXHH126-04		$ 957,906							X
34	PALHH0129-04		$1,000,000							X
Totals		**$20,467,847**	**$72,278,063**							

Appendix C

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

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

OFFICE OF HEALTHY HOMES AND LEAD HAZARD CONTROL

NOV 1 2005

MEMORANDUM FOR: John P. Buck, Regional Inspector General for Audit, Mid-Atlantic Region, 3AGA

FROM: Michael F. Hill, Acting Director, Office of Healthy Homes and Lead Hazard Control, L

SUBJECT: Comments on your October 18, 2005 Draft Memorandum Report (2005-PH-XXXX) on the Office of Healthy Homes and Lead Hazard Control's Issuance of Its Fiscal Year 2004 Grants, Washington, DC

Thank you for the opportunity to comment on your October 18, 2005, draft findings regarding the Office of Healthy Homes and Lead Hazard Control's (the OHHLHC's) grant issuance process for Fiscal Year (FY) 2004. These Notices of Funding Availability (NOFAs) were published on May 14, 2004, at 69 *Federal Register* 26942-27330.

The OHHLHC acknowledges weaknesses in the 2004 Notice of Funding Availability (NOFA) review process and, further, agrees that errors were due to inadequate managerial oversight and internal quality control procedures. As you have previously been informed, the OHHLHC FY 2005 NOFA review process corrected these deficiencies and was conducted in a manner that meets all of the performance recommendations identified in the report. Further, our existing procedures meet the NOFA and the Department's established grant processing procedures. We provided our FY 2005 grant review protocol including an extensive quality assurance (QA) element to you in our August 15, 2005, comment on your May 16, 2005, "Interim Memorandum Report," 2005-PH-0002.

With regard to the Inspector General's draft conclusions, this narrative response addresses each item in the Audit Results in order, with additional detail provided for each specific award in attachment 1. In preparation for this response, the OHHLHC staff performed a quality assurance check of all grant awards cited by the Office of Inspector General (OIG), as well as a quality assurance check of approximately 100 unsuccessful FY 2004 applications.

"Finding 1: HUD Did Not Properly Award Fiscal Year 2004 Healthy Homes and Lead Hazard Control Grants"

Comment 1

The OHHLHC disagrees that the office did not properly award the majority of its Fiscal Year 2004 Healthy Homes and Lead Hazard Control grants. Based on our quality assurance check of files provided to the OIG, only three of 72 successful applicants were improperly evaluated (4 percent). The total amount of the one ineligible and two unsupported awards was approximately $5.5 million of $167 million, or 3 percent of total awarded funds. Based on the OHHLHC's review, only one of the Fiscal Year 2004 grants was ineligible and two are unsupported by available documentation; the remaining 32 are supported by the data available in the application review file.

Comment 2

The OHHLHC agrees that one grant of the nine identified by the OIG as "ineligible" is, in fact, ineligible. This applicant was not eligible for funding under the OHHLHC's Lead Hazard Control grant program because the applicant received an award in Fiscal Year 2003. Based on legal opinion, the OHHLHC initiated recovery of the remaining balance on the ineligible grant, *i.e.*, approximately $2 million, on September 30, 2005. A copy of this letter was provided to you on October 14, 2005.

Comment 3

The OHHLHC determined that the remaining eight grant awards reported by the OIG as ineligible were, in fact, eligible. The OHHLHC acknowledges that two of these applications were mis-scored in such a way that their actual scores would have taken them below the Fiscal Year 2004 funded score range for that program, although still within the funding eligibility range (i.e., 75 points or above). Thus, while these applicants were eligible to apply for the Lead Hazard Control grant program, the actual funding award was not supported by available scoring documentation.

Comment 4

The OHHLHC strongly disagrees with the OIG's use of the term "ineligible" (in Appendix B) as it applies to grant applicants. The OHHLHC agrees that there was <u>one</u> "ineligible" applicant whose application for an FY 2005 Lead Hazard Control Grant should not have been accepted. As previously indicated, the OHHLHC has taken measures to recover an appropriate amount of funds from that applicant. The remaining 34 applicants listed in Appendix B <u>were eligible</u> to apply for an FY 2004 OHHLHC grant, and the awards to all but two were property supported with acceptable documentation. The OHHLHC also believes that the OIG use of the term "unsupported" is misleading in this context, because it means, in the applicable definition (see below from Christine Begola's of the OIG e-mail to Warren Friedman of the OHHLHC, dated October 18, 2005), only that the OIG has not determined eligibility, *i.e.*, the status is correctly characterized as "undetermined." The term "unsupported" indicates that a determination has been made that the costs are ineligible.

Comment 5

Noted below is what we typically include in the questioned cost section of our audit reports for ineligible and unsupported costs.

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 polices or regulations.

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

Of the remaining 32 grant awards, the OHHLHC has determined that all of the awards are supported by available documentation submitted by the applicants. The OHHLHC found that:

Comment 6

- All required eligibility information cited in the May 14, 2004, NOFA under "Threshold Requirements" in the General Section and relevant subsection for the particular grant program was evidenced in the application. The OHHLHC acknowledges that the internal "threshold review checklists" used by the grant application review contractor in the review contained guidance was confusing and, in some cases, exceeded what the NOFA cites as "Threshold Requirements." Further, when the checklists were completed, they did not always accurately represent the application contents. However, all awarded applicants, with the exception of the one award deemed by the OHHLHC as ineligible, met all "Threshold Requirements" of the NOFA.

Comment 6a

- The OHHLHC "threshold review checklist" incorrectly listed items as deficiencies that were not required by the relevant FY 2004 NOFA for the particular grant program; rather, the items were required only for some applicants. These items usually result in a points deduction if the information is not provided elsewhere in the application, but do not necessarily make the applicant ineligible for an award. For example:
  - Form HUD-2990 is only applicable for those applicants in certain jurisdictions. Those applications missing this form were not RC/EZ/EC zones, thus they did not need to certify that the proposed activities were consistent with the Strategic Plan.
  - Form SF-LLL is only required if the applicant engages in lobbying activities or contracts with a lobbying entity to perform these services.
  - Applicants missing HUD 2880 submitted this form later as part of negotiation before the grant agreement was signed. This information was not provided to the OIG.
  - Form HUD-27061 is required for all Lead Outreach grants. It is only required for the Lead and Healthy Homes Technical Studies grant program **if** the applicant expects to collect this information as part of the study.

Comment 7

- Applicants with non-correctable deficiencies can still be eligible for a funding award. Non-correctable deficiencies are designated as such because correcting the error after the application deadline would provide the applicant a chance to increase their score. For example, applicants failing to provide HUD Form 96009 "Benchmark Performance Standards" cannot correct this deficiency because doing so may increase their score. If an applicant fails to provide this information yet otherwise receives a competitive overall score within the funding range, they can be awarded a grant.

Comment 8

- Applicants with correctable deficiencies who do not correct these deficiencies can still be eligible for an award. Correctable deficiencies are designated as such because correcting the missing information does not offer the applicant an opportunity to increase their overall score. If an applicant fails to provide and correct this information later, yet otherwise receives a competitive overall score within the funding range, they can be awarded a grant.

Comment 9

- In several cases, the grant application review contractor did not answer all questions listed on the threshold review checklist, or the threshold review checklist was not in the file, thus leading to the OIG's conclusion that the "initial review was not complete." However:

Comment 9a

  - For the Lead Hazard Demonstration program, questions seven and eight are included on the checklist but are not relevant for threshold review. Previous grant awards are irrelevant to program eligibility for this grant program. Reviewers usually left these items blank.

Comment 9b

  - Several threshold reviewers indicated that budget totals did not match on the SF-424, 424-CB, and 424-CBW. This was not always the case and was an error on the part of the reviewer. Budget errors do not always render an applicant ineligible for an award, and can be corrected before the award if the grant is otherwise competitive. As a matter of practice, the OHHLHC Grant Officers ensure that all required forms are completed prior to award.

Comment 9c

  - As part of the recent quality assurance (QA) check, the OHHLHC verified that all **relevant** items not completed on threshold review checklists were either in the original application, or were corrected later. In at least two cases, this information was not provided to the OIG but located after the OIG finished their audit.

Comment 9d

  - Those applications missing threshold review checklists otherwise met all required "Threshold Requirements" outlined in the General Section of the NOFA and the subsection for the applicable grant program.

"HUD Improperly Evaluated and Awarded $93.7 Million"

Comment 1

The OHHLHC strongly disagrees with the total amount cited by the OIG as improperly awarded. The actual amount, based on the OHHLHC's QA check, is approximately $5.5 million, or three percent of the total funds awarded. Below is a point-by-point response to the bullets in the OIG's comment draft report:

Comment 10

- Two awards, totaling approximately $3.5 million, were awarded as a result of mathematically incorrect scores. These awards were given to eligible applicants that met the threshold score level of 75 points. However, because the corrected scores placed the applicants out of the awarded point range for the respective grant program, the OHHLHC classifies these awards as "unsupported."

Comment 11

- The OHHLHC found that an applicant with past performance issues was an eligible applicant and that the documentation supports its receipt of a grant award. Specifically, the OIG concluded that the grantee's past performance precluded the applicant from receiving a Lead Hazard Control Renewal Grant. This is totally incorrect. Poor past performance does not preclude an applicant from competing under the general Lead Hazard Control grant program with new applicants. To account for poor past performance, the OHHLHC reviewers usually subtract points from Rating Factor 1. A previous grantee may have a maximum of four points subtracted from Rating Factor 1. Even with a full deduction for this sub-factor scoring item for poor past performance, the applicant would have scored high enough in other rating factors to stay within the funding range.

Comment 2

- The OHHLHC is currently recapturing appropriate funds from the applicant that received funding in Fiscal Year 2003 and was awarded again in Fiscal Year 2004. The OHHLHC agrees with the OIG's finding with respect to the classification of this award.

Comment 7

- The four applicants with non-correctable deficiencies were properly reviewed, rated, and ranked according to the requirements of the NOFA. Their non-correctable deficiencies are classified as such because correcting the deficiency could increase the applicants' overall scores. The deficiency did not automatically render an applicant or an award ineligible. The applicants simply did not have the opportunity to provide additional information that might have increased their score.

Comments 12 & 9

- The OIG's contention that one ineligible applicant (for grant #1 in Appendix B of the OIG's October 18, 2005, comment draft report) was awarded $4 million is incorrect. This applicant applied for the Lead-Based Paint Hazard Reduction Demonstration grant program. To be eligible for this program, the NOFA requires that the applicant meet all "Threshold Requirements" of Section III.C of the General Section of the SuperNOFA, and the specific Threshold Requirements detailed in Section III.C.1(a)-(c) of the Lead Hazard Reduction Demonstration NOFA. The deficiencies cited in the initial review checklist were not "Threshold Requirements" as mandated by the NOFA. Regardless, the applicant provided the required information and corrected all other deficiencies. Specifically, the applicant included an extract of a Consolidated Plan that included lead-based paint element and corrected other deficiencies by letter sent August 19, 2004. The August 19, 2004, response information was not in the file provided to the OIG.

Comments 6, 7, 8 and 9

- The OHHLHC had assurance that all remaining 26 applicants receiving $69.2 million were eligible to receive funding. Of these awards, many applicants were asked to correct deficiencies that were not required in the NOFA. In the majority of the cases, the applicants corrected these deficiencies anyway. The OIG also claimed that the individual performing the initial review did not complete the threshold review checklist. Those items not completed were either:
  - (a) not applicable for the particular grant program;
  - (b) were not threshold requirements per the General Section of the NOFA or the program NOFA; or,
  - (c) were included on the checklist in error.

  Those items not completed were checked as part of the QA review, and all applicants were eligible for funding.

"HUD Did Not Properly Evaluate Applicants It Denied Grant Funds"

The OHHLHC acknowledges that it did not properly evaluate at least nine of the 190 applications that did not receive funding. Specifically:

Comment 13

- As a result of the audit, the OHHLHC awarded one applicant funds totaling $365,736. In September 2005, the OHHLHC performed a QA check of 100 unsuccessful applicants to determine if funds should be awarded. As a result of this check, an additional eight applications will be re-scored and may receive future funding, if their revised score is sufficiently high. The OHHLHC will complete its QA check on the remaining unsuccessful applications, in accordance with the October 18, 2005, comment draft report's recommendation 1D to determine if any additional applications should be re-scored and, if appropriate, funded.

Comment 14

- The OHHLHC acknowledges that the office did not maintain adequate documentation to support that applications were postmarked by the application deadline. The OHHLHC staff contend that only applications postmarked by the application deadline were entered into an intake spreadsheet and reviewed. This manual process was changed by the implementation of the E-grants system for the Fiscal Year 2005 review, which automatically tracks this information.

"HUD Did Not Implement Adequate Internal Controls to Properly Evaluate Applicants"

Comment 15

The OHHLHC acknowledges weaknesses in Fiscal Year 2004 NOFA review process, and has worked to overcome them. The OHHLHC has developed and implemented an enhanced process for quality assurance and control. Further, the OHHLHC chose to not use a contractor for application review. The OHHLHC Fiscal Year 2005 NOFA review process was conducted in a manner that meets many of the performance recommendations identified in the report. Further, our existing procedures meet the NOFAs and the Department's established grant processing procedures, and were provided "in full" on August 25, 2005, when the OHHLHC responded to the OIG's May 16, 2005, "Interim Memorandum Report," 2005-PH-0002.

"HUD Taking Corrective Action"

Comment 15

As a result of management changes and an improved internal quality control and review process using government staff to review applicants and award grants, the OHHLHC ensured that $139 million was properly awarded in Fiscal Year 2005. Specifically, in Fiscal Year 2005 the OHHLHC:

- Did not jeopardize the quality of the grant application review and award process to meet departmental goals and internal deadlines;
- Did not select a contractor from a restricted pool of bidders and in fact used only experienced and/or trained department staff to perform reviews;
- Provided all necessary training to: a) refresh experienced staff, and b) train new staff; and, further, paired new staff with senior, experienced reviewers,
- Used the E-grants process to track application receipt dates;
- Completed initial reviews based on the threshold requirements of the NOFA with corrected threshold review checklists;
- Implemented quality assurance procedures and performed quality control checks both during and after the review process; and
- Conducted negotiations with applicants before the grants were officially awarded.

"Other Matters"

The OHHLHC concurs with the response provided by the OIG, that an allegation made to the OIG that the grant application review contractor was improperly performing inherently governmental functions in carrying out its role in the Fiscal Year 2004 award was without merit.

"OHHLHC Response to Recommendations"

Based on the OIG's recommendations, the OHHLHC:

1A. Implemented needed controls to ensure it properly evaluates applicants and supports all awards. These controls ensure all recommendations listed in the OIG audit report are met. We provided our Fiscal Year 2005 grant review protocol, including an extensive quality assurance (QA) element, to you in our August 15, 2005, comment on your May 16, 2005, "Interim Memorandum Report," 2005-PH-0002.

Comment 16

1B. Obtained a legal opinion to determine whether HUD should pursue recovery from the one applicant the OHHLHC agrees is ineligible, and began the process to recover these funds. The OHHLHC does not intend to recover funds from the other eight awards deemed "ineligible" by the OIG because the office found they were eligible, based on a quality check of the NOFA and the application contents. The OHHLHC contends that two awards were made based on an incorrect score,

Comment 17

however, these applicants were otherwise eligible for funding and should be more accurately classified as "unsupported." Thus, the amount of funding considered ineligible by the OHHLHC is approximately $2 million. The OHHLHC will obtain a legal opinion regarding whether the department can pursue recovery from the two applications mis-scored.

1C. Obtained documentation to support grants awarded to 26 other applicants receiving $69.2 million. The OHHLHC's quality assurance review of these applications supports our finding that the applicants met all "Threshold Requirements," and that scoring errors did not result in an applicant being incorrectly ranked within the funded score range for the relevant program.

1D. Will complete a review of the remaining 135 unsuccessful applications (of which the OHHLHC has already reviewed about 102 applications) to determine whether the applicants were improperly denied an award and if appropriate (and if funding is available) take action to award them grants. This action will be complete within 120 days of this response. This review will exclude those applicants that submitted identical grant applications in Fiscal Year 2005.

Attachments:
OHHLHC FY 2004 quality assurance check results on awarded grants
Revised ineligible and unsupported OHHLHC FY 2004 applicants

OHHLHC FY 2004 quality assurance check results on awarded grants

			OIG Comment Draft		OHHLHC Quality Assurance Check			Deficiencies Asserted by OIG, as Quality-Assurance Checked by OHHLHC								
No.	Grant No.	Grantee Name	Ineligible Amount	Un-supported Amount	Ineligible Amount	Unsupported Funding	Eligible and Funding Supported	Did Not Meet Initial Review Process Require-ments	Non-Correc-table Deficiency	Received Grant in Prior Year	Award Based Upon Incorrect Score	Initial Review Was Not Complete	Correc-table Deficien-cies Were Not Satisfied	Scoring Error	Award Supported	OHHLHC QA Check Findings
1	NYLHD0024-04	City of Albany	4,000,000				4,000,000	X							X	Threshold review checklist indicated that that the applicant did not include documentation of the HUD-approved Consolidated Plan/abbreviated Consolidation Plan. Applicant included an extract of Consolidated Plan that included lead-based paint element. This is sufficient documentation for threshold review. Other deficiencies cited corrected 8/19/04, information was not in file provided to OIG.
2	FLLHB0229-04	Miami Community Development	3,000,000				3,000,000		X						X	Applicant missing HUD Form 96009 Benchmark Performance Standards and failed to provide all requested materials in Appendix 1. These are non-correctable deficiencies, but do not render an applicant ineligible for funding, merely reducing the potential score.
3	NYLHB0282-04	City of Albany (funds being recaptured)	3,000,000		2,000,000					X						Ineligible applicant. OHHLHC in process of recapturing grant funds.
4	WILHB0272-04	City of Milwaukee Health Department	3,000,000				3,000,000		X						X	Applicant missing HUD Form 96009 Benchmark Performance Standards and failed to provide all requested materials in Appendix 1. These are non-correctable deficiencies, but do not render an applicant ineligible for funding, merely reducing the potential score.
5	TXLHB0274-04	City of San Antonio	2,000,000				2,000,000	X							X	OHHLHC can find no reason why this applicant was considered by the OIG as ineligible for funding. Because of its past performance, the applicant did not qualify for a renewal grant, but it otherwise was eligible to compete for funding under the Lead Hazard Control Grant Program in the general category.
6	GALHH0124-04	Georgia Tech Research Institute	468,890			468,890					X					The score for this application was miscalculated and should have been lower. The applicant was otherwise eligible for funding. Corrected score 83. With the lower score, applicant would not have been competitive.
7	ALLHB0285-04	City of Birmingham	2,998,957			2,998,957					X					The score for this application was miscalculated and should have been lower. The applicant was otherwise eligible for funding. Corrected score 78.75. With the lower score, applicant would not have been competitive.
8	VALHT0101-04	Edenspace Systems Corporation		404,714			404,714					X			X	Threshold review checklist is not part of file but application meets all threshold requirements. Form 2990 not applicable, Form 27061 not required.
9	TXLHD0031-04	Houston Department of Health & Human Services		3,000,000			3,000,000					X			X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility.
10	MILHD0035-04	City of Detroit		4,000,000			4,000,000					X			X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility.
11	MALHD0029-04	City of Boston		4,000,000			4,000,000					X	X		X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility.
12	PALHD0026-04	City of Philadelphia		4,000,000			4,000,000					X			X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility.

Comment 12

Comment 7

Comment 2

Comment 7

Comment 11

Comment 10

Comment 10

Comment 5

Comment 9a

Comment 9a

Comment 9a

Comment 9a

			OIG Comment Draft		OHHLHC Quality Assurance Check			Deficiencies Asserted by OIG, as Quality-Assurance Checked by OHHLHC								
No.	Grant No.	Grantee Name	Ineligible Amount	Un-supported Amount	**Ineligible Amount**	**Unsupported Fundieg**	**Eligible and Funding Supported**	Did Not Meet Initial Review Process Require-ments	Non-Correc-table Deficiency	Received Grant in Prior Year	Award Based Upon Incorrect Score	Initial Review Was Not Complete	Correc-table Deficien-cies Were Not Satisfied	Scoring Error	**Award Supported**	**OHHLHC QA Check Findings**
13	MDLHD0021-04	City of Baltimore		4,000,000			4,000,000							X	X	Individual scoring sheet is handwritten and difficult to interpret. It appears that the application should have received a higher score.
14	MOLHD0022-04	City of St. Louis		4,000,000			4,000,000					X			X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility.
15	ILLHD0034-04	Madison County, IL		782,654			782,654					X	X		X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility. Application incorrectly cited for deficiencies not required in NOFA- Form 27061 not required. Applicant also submitted two separate forms SF 424CBW so numbers on one form do not appear to match but they actually do.
16	NJLHD0028-04	City of Newark		4,000,000			4,000,000					X			X	Threshold reviewer did not complete items # 7,8, and 14. Items 7 and 8 are not applicable for Lead Hazard Demo, item #14 (Form 27300) not required.
17	NYLHD0023-04	City of New York		4,000,000			4,000,000					X	X		X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility. Deficiencies noted were corrected on 8/23/04.
18	WILHD0027-04	City of Milwaukee Health Department		4,000,000			4,000,000					X			X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility.
19	RILHD0033-04	City of Providence, Rhode Island		3,927,152			3,927,152					X	X		X	Threshold review checklist incorrectly identified deficiencies not applicable for this grant program. Form 27061 not required, Consolidated Plan located on page 38 of application. Also, items 7 and 8 are not completed but are not applicable for the Lead Hazard Demo program.
20	UTLHD0030-04	Salt Lake County		2,000,000			2,000,000					X	X		X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility. Deficiencies cited not applicable for program. Applicant corrected errors on 8/24/04. The response was buried in the package and may have been missed in OIG review.
21	NYLHD0032-04	City of Buffalo		1,495,884			1,495,884					X	X		X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility. Deficiencies cited not applicable for program. Applicant corrected errors on 8/24/04.
22	NYLHD0025-04	City of Rochester		2,499,310			2,499,310					X	X		X	Threshold reviewer did not indicate a response for questions 7 and 8 regarding past performance. These questions are not applicable for Lead Hazard Demonstration grant program eligibility. Deficiencies cited not applicable for program. Applicant corrected errors on 8/27/04.
23	WILHB0267-04	Wisconsin State Department of Administration		3,000,000			3,000,000						X		X	Threshold review checklist incorrectly cited deficiency of missing Form 27300 that is not required. Applicant corrected errors on 8/13/04.

Comments 5 & 9
Comment 9a

Comments 6a, 8, & 9a

Comments 9 & 9a

Comments 8 & 9a

Comment 9a

Comments 6a, 8, & 9a

Comments 8 & 9a

Comments 8 & 9a

Comments 8 & 9a

Comment 8

OHHLHC FY 2004 quality assurance check results on awarded grants

			OIG Comment Draft		OHHLHC Quality Assurance Check			Deficiencies Asserted by OIG, as Quality-Assurance Checked by OHHLHC								
No.	Grant No.	Grantee Name	Ineligible Amount	Un-supported Amount	Ineligible Amount	Unsupported Funding	Eligible and Funding Supported	Did Not Meet Initial Review Process Require-ments	Non-Correc-table Deficiency	Received Grant in Prior Year	Award Based Upon Incorrect Score	Initial Review Was Not Complete	Correc-table Deficien-cies Were Not Satisfied	Scoring Error	Award Supported	OHHLHC QA Check Findings
24	ILLHB0280-04	Illinois Department of Health	4,000,000				4,000,000		X					X	X	Scoring errors discovered by OHHLHC would have increased the applicant's score for Factor 1. Item listed as non-correctable deficiency (#20- Appendix 1 Materials) on threshold review checklist does not render application ineligible for funding , merely reducing the potential score.
25	DELHB0271-04	Delaware Health and Social Services		2,961,903			2,961,903						X		X	Threshold review checklist improperly cited a missing form 27300, this form is not required. Also, application cited for amounts on SF Form 424CB & CBW not matching, this was corrected 8/31/04.
26	ORLHB0192-04	City of Portland		3,000,000			3,000,000					X			X	Threshold review checklist not in file. Application meets all threshold review requirements, and was reviewed by HUD staff.
27	PALHB0281-04	City of Pittston		2,951,644			2,951,644						X		X	Threshold review checklist improperly cited application for deficiencies that were not actual deficiencies. SF424 forms were included, however one form had a number that did not appear to match overall total. Total amounts cited for federal request and match were correct and matched. Form 27300 is not required; form 2990 not applicable as applicant is not proposing to do work in an RC/EZ/EC.
28	MILHB0278-04	Saginaw County		3,000,000			3,000,000						X		X	Threshold review checklist improperly cited application for deficiencies that were not actual deficiencies. Form 27300 not required, form 2990 not applicable as applicant is not proposing to do work in an RC/EZ/EC.
29	OHLHB0265-04	Mahoning County		3,000,000			3,000,000					X			X	Threshold review checklist not in file. Application meets all threshold review requirements.
30	CTLHO0015-04	The ACCESS Agency, Inc.		1,720,000			1,720,000						X		X	Application incorrectly cited for deficiencies. Form 27601 not required. Incorrect totals on SF 424 forms not corrected at application phase. This does not render an application unsupported and can be corrected during negotiation phase.
31	VALHO0018-04	United Parents Against Lead	2,000,000				2,000,000		X					X	X	The applicant neglected to include HUD Form 96009 Benchmark Performance Standards. This does not render an applicant ineligible for funding, merely reducing the potential score. Form 27061 not required for grant program. OHHLHC was unable to find a scoring error in this application.
32	ILLHH0125-04	Board of Trustee-University of Illinois at Urbana-Champaign		576,896			576,896						X		X	Form 2880 not in applicant file. This error was caught by the grant officer and the applicant submitted it before grant was awarded.
33	TXLHH126-04	The University of Texas Health Science Center at San Antonio		957,906			957,906							X	X	Correct score should be 84, not 84.5. This places applicant equal to another applicant (#231) that was not awarded. If grant GALHH0124-04 had not been awarded, as per item 6 above, both applications rated 84 would have been awarded partial funding of at least 74% of their requests.
34	VALHH0132-04	Eastern Virginia Medical School		999,663			999,663						X		X	Applicant did not submit for SF-LLL; this form is required only if applicant engages in lobbying or contracts with a lobbying entity.
35	PALHH0129-04	Philadelphia Housing Authority		1,000,000			1,000,000							X	X	No scoring error; score sheets are confusing with regard to initial vs. final points and inclusion of RC/EZ/EC bonus points. Extra points added to Factor 2.
	Totals	80,277,726	24,467,847	69,277,726	2,000,000	3,467,847	80,277,726									

OHHLHC

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Data as of 10/24/2005

Comment 7

Comment 8
Comment 5

Comment 8

Comment 8
Comment 5
Comment 8

Comment 7

Comment 8

Comment 5

Comment 8
Comment 5

Revised Ineligible Unsupported OHHLHC FY 2004 Applicants

					Deficiencies Noted								
No.	Grant No.	Grantee Name	**Ineligible Amount**	**Unsupported Funding**	Did Not Meet Initial Review Process Require-ments	Non-Correc-table Deficiency	Received Grant in Prior Year	Award Based Upon Incorrect Score	Initial Review Was Not Complete	Correc-table Deficien-cies Were Not Satisfied	Scoring Error	**Award Supported**	**OHHLHC QA Check Findings**
1	NYLHB0282-04	City of Albany (funds being recaptured)	2,000,000				X						Ineligible applicant. OHHLHC in process of recapturing grant funds.
2	GALHH0124-04	Georgia Tech Research Institute		468,890				X					The score for this application was miscalculated and should have been lower. The applicant was otherwise eligible for funding. Corrected score 83. With the lower score, applicant would not have been competitive.
3	ALLHB0285-04	City of Birmingham		2,998,957				X					The score for this application was miscalculated and should have been lower. The applicant was otherwise eligible for funding. Corrected score 78.75. With the lower score, applicant would not have been competitive.
	Totals		**2,000,000**	**3,467,847**									
	Grand Total	**5,467,847**											

OHHLHC

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Data as of 10/24/2005

Comment 2

Comment 3

Comment 3

OIG Evaluation of Auditee Comments

Comment 1 The audit evidence showed that eight grants should not have been issued based upon the notice of funding availability criteria. The audit evidence further showed that the Office of Healthy Homes could not adequately support 26 other grant applications. We clarified in our report the use of the term "improper" instead of "ineligible" to refer to instances where HUD did not follow the applicable notice of funding availability when it awarded the grant. Because our audit focused on the HUD award process, we are not necessarily making a judgment as to whether the grantee was eligible to receive an award.

Comment 2 We are pleased that the Office of Healthy Homes has taken corrective action on one of the eight award decisions that we concluded was improper based upon our audit. However, in doing so, the department has only agreed to recover a portion of the improperly issued grant. Since the entire grant was improperly awarded, we continue to question the full amount of $3 million and thus we can not agree to the management decision at this time.

Comment 3 The Office of Healthy Homes is correct that two of the grant award decisions that we concluded were improper were done so because of a scoring error. In addition, we agree that the grant applicants were eligible to apply for the grant, however, because of the scoring error noted, the funding should not have been distributed and thus the grant awards were considered improper. The audit further determined the files contained adequate documentation to evaluate whether the grants should have been issued, and thus we did not classify the grant award decision as unsupported.

Comment 4 The use of the term "ineligible" was changed in our final report to the term "improper," when the report refers to a HUD grant award decision that we concluded did not follow the applicable notice of funding availability. The terms "improper" and "unsupported" in our report refer to the grant award decisions and not the applicants. During our audit, we noted deficiencies in the grant application packages; these deficiencies should have caused the Office of Healthy Homes and/or their contractor, to question the eligibility of the application. Based upon the deficiencies the funding should not have been issued, thus the grants are considered improper.

Comment 5 The Office of Healthy Homes is incorrect in its interpretation of the definition of "unsupported." Our report does not state or suggest that because a grant does not have adequate support documentation in the file, that the grant was deemed improper. Rather, our use of this term means that the Office of Healthy Homes did not provide adequate support documentation for us to determine if a grant should have been awarded or not. For example, in two of the files we reviewed a threshold checklist was not present and there was no other documentation noted in the file to suggest the application had been reviewed to determine if the

application met all of the requirements, yet the applicant received funding. We labeled these two grants as unsupported because there was not proper support documentation available for a review.

During the audit, we attempted to obtain further information from the Office of Healthy Homes to clear up the deficiencies we noted during our review, however, to date this information has not been provided.

Comment 6 Per the notice of funding availability, all threshold items must be met in order for the grant application to be rated and ranked. To ensure that these threshold items were met, the Office of Healthy Homes created a "threshold review checklist" for each type of grant in accordance with the desk guide that was applicable during the fiscal year 2004 grant review process. These checklists were clearly labeled and the questions were adjusted, depending on the type of grant that was reviewed. The contractor used these checklists to complete its threshold review to ensure the applicant submitted all of the required items in order to receive consideration for funding.

As noted in our report, we found several instances where questions were not answered, the contract reviewer cited deficiencies but documentation reviewed did not support that these deficiencies were satisfied before the grant was issued, and checklists were missing. However, the Office of Healthy Homes is now stating that the checklists that they created were "…confusing and, in some cases, exceeded what the notice of funding availability cites…" and that the grants *did* meet the eligibility requirements within the notice of funding availability. We find this very troubling, since in order to ensure the grants were reviewed properly, the Office of Healthy Homes created the checklists in the first place. If the Office of Healthy Homes now believes that its own checklists are now invalid or incorrect then the entire grant review process for the $168 million of grants issued could be questioned. Instead, we took a more conservative approach and only questioned the applications relating to specific deficiencies noted during our review.

Comment 6a The general notice of funding availability does include these forms as items that the applicant is required to submit, *unless* the individual notice of funding specifically mentions the item is not required. For several of the grants we questioned, these items were noted on the Office of Healthy Homes' generated checklist as missing from the files, however, with the exception of one grant, that was not the primary reason the grant was being questioned. Thus, even if the Office of Healthy Homes is correct in their assertion that these documents were only required in certain instances, it does not change the overall effect of the grants being questioned. For the one grant that was missing the lobbying Form SF-LLL, we adjusted it out of our questioned costs.

Comment 7 According to the threshold review checklists, generated by the Office of Healthy Homes, there were several items that if not provided they would be labeled as a non-correctable deficiency. In many cases on the checklist itself, it would state:

"If not included, this is a non-correctable deficiency and application WILL NOT be reviewed. Return application to HUD." In addition, the notice of funding availability documented items that were required to be submitted in order to be considered for funding. For example, one applicant did not provide the required items in Appendix 1. Specifically the materials required were an organization chart, resumes, letters of commitment and Factor 1, 2, 3 and 4 tables. The reviewer of this application marked "no" on the threshold review checklist, thus indicating that some or all of the items required by the notice of funding availability were not provided. According to the Office of Healthy Homes' created checklist, this was a non-correctable deficiency and the application was to be returned to HUD.

In other words, when the contractor found a non-correctable deficiency, the review of the application was to stop. However, we found in many cases, the review continued and the grant was scored, in spite of the fact that the application was to go back to HUD. This was in violation of the notice of funding availability that states all threshold items must be met in order for the grant application to be rated and ranked. If the applicant did not include all of the required items per the notice of funding availability then it shouldn't have continued in the review process.

Comment 8 We agree that an applicant with a correctable deficiency is eligible for an award, however, this is only if the applicant provides the proper documentation. According to the notice of funding availability if a correctable deficiency is cited, then HUD will notify the applicant of the deficiency and request clarification or corrections to be submitted within 14 days. If the deficiency is not corrected within the time period allowed, then HUD will reject the application as incomplete and it will not be considered for funding. During our review, we found 20 grants worth $56,383,290 had correctable deficiencies, however, the Office of Healthy Homes could not provide the support documentation necessary to show that these deficiencies were corrected. Thus, the application should have been considered incomplete and not have been funded.

Comment 9 The threshold review checklist, generated by the Office of Healthy Homes, is the only form of documentation used to show that a review was conducted on the applications, so if a question is not answered or a checklist is not located for an applicant, then a portion or all of the initial review is not supported with documentation.

Comment 9a We disagree with the Office of Healthy Homes' assessment that questions 7 and 8 were not relevant for the Lead Hazard Reduction Demonstration program. These questions determine if the applicant is a prior or current year grantee or if the applicant is also applying for a grant under the fiscal year 2004 Lead Hazard Control program. According to the application eligibility section of the notice of funding availability, "If you or any member of your consortium also applied for funding under the Fiscal Year 2004 Lead Hazard Control Grant Program …or

received funds under the Fiscal Year 2003 Lead Hazard Reduction Demonstration notice of funding availability, you must discuss how both programs will operate concurrently and how program activities will be combined to achieve maximum benefits." The notice continues; "HUD will evaluate your response to Rating Factor 1- Capacity of the Applicant … and Rating Factor 3- Soundness of Approach… and determine whether you have the ability and capacity to successfully implement both grant programs concurrently." Both Rating Factor 1 and Factor 3 are required information per the notice of funding availability in order for the application to even be considered for funding. Since the items noted within questions 7 and 8 are relevant to determine the applicant's eligibility and are needed to properly respond to Factor 1 and Factor 3 (required information within the notice of funding availability) then the questions generated by the Office of Healthy Homes are relevant to the checklist.

Comment 9b We agree with the Office of Healthy Homes when they state "Budget errors do not always render an applicant ineligible for an award, and can be corrected before the award if the grant is otherwise competitive." In fact, none of the grants that we are questioning as improper are labeled as such because of budget deficiencies. However, the grants that we are questioning as unsupported due to budget deficiencies continue to be questioned because during our review, the Office of Healthy Homes did not provide documented evidence that these deficiencies were corrected before the grant funding was issued. See Comment 8 concerning correctable deficiencies.

Comment 9c Throughout our review we made repeated requests to obtain information relating to correctable deficiencies to determine if the grant application was fully supported. In over 20 cases, the follow-up information was not provided.

Comment 9d The Office of Healthy Homes appears to be stating that applicants that are still missing the threshold review checklists met all requirements outlined within the notice of funding availability. However, with the threshold review checklist still missing, the Office of Healthy Homes does not have the assurance that these applications met the requirements of the notice of funding availability, prior to the funding of the grants. If the Office of Healthy Homes had completed the quality assurance reviews prior to the issuance of the grant funds, then a proper review could have been completed before the grant was funded and not after the audit pointed out these deficiencies.

Comment 10 We disagree with the Office of Healthy Homes' assessment that the two grants that had mathematically incorrect scores should be labeled as unsupported. As noted above, an item is considered to be unsupported if the proper documentation is not available for review, however, in this case the documentation was available. During our review of the documentation, we determined that the scores were mathematically incorrect. Although the recalculated scores were within the qualified range of eligibility (above 75), the grant still should not have been awarded. When the grant scores were recalculated, the applicants received lower

scores than other applicants that did not receive a grant. Had the scores been calculated correctly, other grant applicants would have moved up on the list to receive funding and the two applicants would not have scored high enough to be awarded grants.

Comment 11 Based upon the information provided by the department, we concur with the Office of Healthy Homes' assessment that the applicant's past performance does not preclude the applicant from competing for a new grant. However, this assessment is being offered after the fact. Our rationale for categorizing this grant award as "improper" is based on our conclusion that the department did not follow the applicable notice of funding availability requirements when it originally awarded the grant. In this regard, the department had an obligation to review the applicant's past performance before the grant was awarded. However, based on available information, the grantee's past performance had not been reviewed by the contractor or the department prior to the award. Moreover, the department did not complete the quality assurance review as required before a determination on the grant eligibility was made and the maximum amount of points that could be deducted because of poor past performance was not taken. It wasn't until we raised our concerns with this grant that the department realized the grantee had performance issues with a previous grant. If a review had taken place prior to the award, the department would have noted that within the last year HUD had recaptured over $2.25 million from the entity because of its poor performance under its previous grant. We question the logic behind issuing an additional grant for $2 million to an entity that had just demonstrated that it did not have the capacity to effectively organize and manage its prior grant.

Comment 12 We revised our assessment of the $4 million grant that was originally questioned as improper. However, we continue to question the funding of this grant because the department could not demonstrate that it was properly evaluated.

Comment 13 We are pleased to see the Office of Healthy Homes has started to take corrective action in reviewing the unsuccessful applicants in order to determine their eligibility.

Comment 14 Although the Office of Healthy Homes staff contend that only applications postmarked by the application deadline were reviewed, we found only 16 out of the 72 funded grants had support documentation within the file to show the application was postmarked by the application deadline.

Comment 15 We agree that the Office of Healthy Homes appears to have made significant changes in the way the fiscal year 2005 grants were reviewed and awarded. We commend the office for this change. However, our review centered on the issuance of the fiscal year 2004 grants and not the fiscal year 2005 grants, thus we can not express an opinion on the fiscal year 2005 review process.

Comment 16 We are encouraged that the Office of Healthy Homes obtained a legal opinion on one of the grants the audit determined to be improper and is recovering the

remaining balance of this $2 million grant (see Comment 2). We are also encouraged that the Office of Healthy Homes plans to obtain a legal opinion on two other grants valued at $3.5 million which the audit determined the office awarded based on mathematically incorrect scores. However, it is imperative that the Office of Healthy Homes also obtain a legal opinion to determine whether the department can pursue recovery on the remaining grants since the audit evidence clearly contradicted the Office of Healthy Homes' assertion that these grants were properly awarded.

Comment 17 The audit determined these grants were unsupported based on the notice of funding availability, the Office of Healthy Homes' own review checklist, and the documentation within the department's files. The Office of Healthy Homes' contention that it has now obtained documentation to support all of these grants is questionable because despite repeated requests, it did not provide the documentation during the audit. For example, we made repeated requests to obtain information relating to correctable deficiencies to determine if the grant application was fully supported. In over 20 cases, the follow-up information was not provided.