



# The City of Chicago's Department of Public Health, Chicago, IL

## Lead Hazard Reduction Demonstration Program

**Office of Audit, Region 5  
Chicago, IL**

**Audit Report Number: 2018-CH-1010  
September 30, 2018**





**To:** Matthew Ammon, Director of Lead Hazard Control and Healthy Homes, L

*//signed//*

**From:** Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

**Subject:** The City of Chicago's Department of Public Health, Chicago, IL, Did Not Administer Its Lead Hazard Reduction Demonstration Grant Program in Accordance With HUD's and Its Own Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Chicago Department of Public Health's 2014 Lead Hazard Reduction Demonstration Grant Program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.



**Audit Report Number: 2018-CH-1010**

**Date: September 30, 2018**

**The City of Chicago's Department of Public Health, Chicago, IL, Did Not Administer Its Lead Hazard Reduction Demonstration Grant Program in Accordance With HUD's and Its Own Requirements**

## Highlights

---

### What We Audited and Why

---

We audited the City of Chicago's Department of Public Health's (Department) Lead Hazard Reduction Demonstration Grant Program based on our analysis of the U.S. Department of Housing and Urban Development's (HUD) Office of Lead Hazard Control and Healthy Homes' grantees in Region 5's jurisdiction.<sup>1</sup> Our audit objective was to determine whether the Department administered the Program in accordance with HUD's and its own requirements.

### What We Found

---

The Department did not administer the Program in accordance with HUD's and its own requirements. Specifically, it did not (1) properly procure its subcontractor, (2) make appropriate reimbursements to the subcontractor for Program activities, (3) ensure that income was properly calculated for households residing in assisted units, (4) ensure that landlords gave preference in renting assisted units to targeted families, (5) properly document its lead inspection results to support that Program activities were necessary, (6) ensure that Program funds were adequately protected, and (7) ensure that it accurately report the number of assisted units to HUD. As a result, the Department lacked support that more than \$512,000 in Program funds was used in accordance with HUD's requirements and did not have more than \$122,000 in Program funds available for eligible activities. In addition, HUD and the Department lacked assurance that more than \$386,000 in Program funds was protected and available for program use.

### What We Recommend

---

We recommend that the Director of HUD's Office of Lead Hazard Control and Healthy Homes require the Department to support that the contract for grant administration services was cost reasonable or reimburse the program, reimburse its programs for duplicate reimbursements and for four units that had been sold within 3 years, support the eligibility of households residing in assisted units and that landlords gave preference in renting units or reimburse the program, and implement adequate procedures and controls to address the findings cited in this audit report.

---

<sup>1</sup> The region contains six States: Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

# Table of Contents

---

<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>4</b>
<b>Finding: The Department Did Not Administer Its Program in Accordance With HUD's and Its Own Requirements.....</b>	<b>4</b>
<b>Scope and Methodology.....</b>	<b>12</b>
<b>Internal Controls.....</b>	<b>15</b>
<b>Appendixes.....</b>	<b>17</b>
<b>A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....</b>	<b>17</b>
<b>B. Auditee Comments and OIG's Evaluation.....</b>	<b>19</b>

# Background and Objective

---

The Lead Hazard Reduction Demonstration Grant Program is authorized by Section 1011 of the Residential Lead-Based Paint Hazard Reduction Act of 1992. The purpose of the Program, administered by the U.S. Department of Housing and Urban Development's (HUD) Office of Lead Hazard Control and Healthy Homes, is to assist States, cities, counties-parishes, Native American tribes, or other units of local government in identifying and controlling lead-based paint hazards in eligible privately owned rental or owner-occupied housing. The Healthy Homes Supplemental Funding is authorized under Section 502 of the Housing and Urban Development Act of 1970. The Healthy Homes Supplemental Funding is being offered to assist those units eligible for lead funds in using the Healthy Homes Rating System for remediating other health and safety issues.

The City of Chicago's Department of Public Health (Department) was founded in 1834. The Department's mission is to promote and improve health by engaging residents, communities, and partners in establishing and implementing services that prioritize residents with the greatest need. One of the Department's tasks involves detecting and addressing exposure to lead hazards. The Department administers the Program on behalf of the City.

In December 2014, the City was awarded \$3.9 million in Program funds<sup>2</sup> under grant number ILLHD0270-14. As of July 2018, the Department had spent nearly \$3.5 million in Program funds, including nearly \$2.8 million to address lead-based paint and other health hazards in 225 units.

The objective of our audit was to determine whether the Department administered its program in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Department (1) properly procured its subcontractor to assist in administering its Program, (2) made appropriate reimbursements to its subcontractor for lead-based paint and other health hazard control activities, (3) ensured that income was properly calculated for households residing in assisted units, (4) ensured that landlords gave preference in renting vacant assisted units to families with a child under the age of 6 years, (5) properly documented its lead inspection results to support that lead-based paint hazard control activities were necessary, (6) adequately protected Program funds if assisted units were sold within 3 years, and (7) accurately reported the number of assisted units to HUD.

---

<sup>2</sup> The \$3.9 million in Program funds consisted of \$3.5 million in Lead Hazard Reduction Demonstration Grant funds and \$400,000 in Healthy Homes Supplemental Funding.

# Results of Audit

---

## **Finding: The Department Did Not Administer Its Program in Accordance With HUD's and Its Own Requirements**

---

The Department did not administer its Program in accordance with HUD's and its own requirements. Specifically, it did not (1) properly procure its subcontractor to assist in administering its Program, (2) make appropriate reimbursements to the subcontractor for lead-based paint and other health hazard control activities, (3) ensure that income was properly calculated for households residing in assisted units, (4) ensure that property landlords gave preference in renting assisted vacant units to families with a child under 6 years of age, (5) properly document its lead inspection results to support that lead-based paint hazard control activities were necessary, (6) ensure that Program funds were adequately protected, and (7) ensure that it accurately reported the number of assisted units to HUD. This condition occurred because the Department lacked adequate procedures and controls to ensure that it complied with HUD's and its own requirements. As a result, the Department lacked support that more than \$512,000 in Program funds was used in accordance with HUD's requirements and did not have more than \$122,000 in Program funds available for eligible activities. In addition, HUD and the Department lacked assurance that more than \$386,000 in Program funds was protected and available for program use. HUD also did not have complete and accurate information regarding the number of assisted units.

### **The Department Did Not Properly Procure Its Subcontractor**

The Department executed a noncompetitive contract with a subcontractor to assist in administering its 2014 Program grant funds. However, it did not provide support showing that procuring the contract under other procurement methods was infeasible in accordance with 24 CFR (Code of Federal Regulations) 85.36(d)(4)(i). It also did not conduct a cost analysis for services provided under the contract as required by 24 CFR 85.36(d)(4)(ii). The Department had previously procured this subcontractor to assist in administering its 2011 Program grant and a 2013 county-funded lead-based paint hazard control program by issuing two separate requests for proposals on December 2012 and June 2013, respectively. The subcontractor was the only entity that responded to both of the requests for proposals.

The Department believed that since only the subcontractor responded to its previous two requests for proposals, it was the sole entity qualified to provide the 2014 Program grant administration services. Therefore, to expedite the procurement process, it executed the noncompetitive contract with a beginning term of June 2015. However, since approximately 2-2 ½ years had passed from the date on which the requests for proposals had been issued to the beginning of the contract term date for the noncompetitive contract, the Department's belief that the subcontractor

was the only entity qualified to provide grant administration services in June 2015 was not supported. As a result, HUD and the Department lacked assurance that \$387,443 in program funds paid to the subcontractor for grant administration services was cost reasonable.

### **The Department Did Not Make Appropriate Reimbursements to Its Subcontractor**

The Department did not make appropriate reimbursements to its subcontractor for lead-based paint and other health hazard control activities.<sup>3</sup> Specifically, it (1) paid its subcontractor \$102,069 in duplicate payments for lead-based paint and other health hazard control activities associated with 12 units, (2) did not ensure that it reimbursed the subcontractor \$77,597 for lead-based paint and other health hazard control activities associated with 5 units, and (3) did not fully reimburse the subcontractor for lead-based paint and other health hazard control activities associated with 7 units totaling \$10,661.

The subcontractor submitted two invoices for the same lead-based paint and other health hazard control activities associated with 12 units, resulting in the duplicate payments. For five units, the subcontractor did not submit invoices seeking reimbursement and for 7 units, the Department did not fully reimburse the subcontractor because the subcontractor did not include the Department's approved change order costs on the invoices submitted for reimbursement. The Department's building construction inspectors develop the work specifications and change orders, which detail the costs. In addition, the Department's building construction supervisor developed a spreadsheet which summarize the costs for the assisted units and indicates when lead activities have been completed.

According to the Department's former program director, the former program manager should have compared the unit costs requested by the subcontractor for reimbursement to the unit costs in the building construction supervisor manager's records to determine if the subcontractor requested the appropriate amounts for reimbursement. Also, the program manager should have noticed that the subcontractor double billed the Department for the same unit costs and in other cases did not bill the Department for any unit costs.

### **The Department Did Not Ensure That Income for Households Residing in Assisted Units Was Properly Calculated**

We reviewed 23 households that resided in a Program-assisted unit to determine whether the Department's subcontractor appropriately calculated income.<sup>4</sup> Of the 23 households, the subcontractor did not properly calculate income for 4 households that it considered to be low

---

<sup>3</sup> Under the Department's contract with the subcontractor, the subcontractor was responsible for paying the lead abatement contractors performing the lead-based paint and other health hazard control activities.

<sup>4</sup> Under the Department's contract with the subcontractor, the subcontractor was responsible for determining whether households residing in assisted units were income eligible.

income. Two households resided in rental units, and two resided in owner-occupied units. According to Federal requirements, assisted rental units must be made available or occupied by a low-income household.<sup>5</sup> Additionally, assisted owner-occupied units must be the principal residence of a low-income household.<sup>6</sup> For the four households,<sup>7</sup> the subcontractor did not:

- include overtime pay in the income calculation for three households,<sup>8</sup>
- verify the beginning date of employment for two households before using year-to-date earnings from the households' most current paystubs, and
- include disability benefits in the income calculation for one household.<sup>9</sup>

If the gross earnings on the paystubs and disability benefits had been used to calculate household income, the household income for each of the 4 households would have exceeded the low income threshold.

The Department lacked adequate oversight of its subcontractor. Specifically, it did not monitor the subcontractor to ensure that household income was properly calculated. Instead, it relied on the subcontractor to correctly calculate household income. As a result, the Department lacked assurance that \$59,883 in Program funds spent on the four assisted units was for households that were income eligible.

#### **The Department Did Not Ensure That Vacant Rental Units Were Prioritized for Families With a Child Under 6 Years of Age**

The Department did not ensure that property landlords gave preference in renting six vacant assisted units to families with a child under 6 years of age. According to HUD's Office of Lead Hazard Control and Healthy Homes' Policy Guidance 2014-01, grantees are advised to establish policies to ensure that assisted units are prioritized for families with children under 6 years of age, such as but not limited to registering assisted units in a publicly accessible lead-safe housing registry and following up with owners at least annually and documenting in the unit file that owner has attempted to comply.

The Department stated that it was aware that property landlords had to give preference to families with a child under 6 years of age. However, it was uncertain what policies and procedures it could implement to ensure that the requirement was met. Therefore, the

---

<sup>5</sup> See the Residential Lead-Based Paint Hazard Reduction Act of 1992, as amended, section 1011(a)(1).

<sup>6</sup> See the Residential Lead-Based Paint Hazard Reduction Act of 1992, as amended, section 1011(a)(2).

<sup>7</sup> The households had 1 or more calculation errors.

<sup>8</sup> 24 (Code of Federal Regulations) 5.609.

<sup>9</sup> Ibid.

Department did not monitor the property landlords that had lead abatement activities completed in their vacant units to ensure that the preference requirement was being met. As a result, the Department lacked assurance that \$41,240 in Program funds used to assist six vacant units was prioritized for families with a child under 6 years of age.

### **The Department Did Not Always Properly Record Its Lead Inspection Results**

Of the 25 assisted units selected for review, the Department did not properly document its lead inspection results to support that lead-based paint hazard control activities were necessary for 13 units. According to HUD's requirements, only those lead-based paint hazards identified and clearly documented in the lead inspection report were eligible for reimbursement.<sup>10</sup> The unsupported lead-based paint hazard control activities consisted of window and door replacements, paint stabilizing wall surfaces, ceilings, decks, and adding drywall. The main issue dealt with the replacement of 45 windows in 10 assisted units. According to HUD's requirements, if the lead inspection or risk assessment required that more than five windows be replaced in a property with the cost charged to grant funds, grantees were required to document each window being replaced with either a X-ray fluorescence (XRF) reading from each window or a photo.<sup>11</sup> For the 45 windows, the Department's inspection reports did not contain an XRF reading or a photo showing the condition of the old windows. According to the Department's supervising building construction inspector, there may have been conditions that prevented the inspectors from taking an XRF reading of the windows, such as windows being sealed shut or extreme weather conditions. As a result, the Department paid \$28,606 in Program funds for the unsupported lead-based paint hazard control activities completed in the 13 assisted units. In addition, for 2 of the 13 units, the Department paid \$2,900 for seven windows that were not installed. This issue occurred because the Department's supervising building construction inspector did not always thoroughly review the lead inspection reports to ensure that the lead-based paint hazard control activities listed in the work specifications were properly supported.

### **The Department Did Not Adequately Protect Program Funds Used for Assisted Units**

We reviewed 59 assisted units<sup>12</sup> to determine whether the Department executed property owner agreements in accordance with its work plan. The Department did not execute property owner agreements listing its recapture policy for 23 of the 59 assisted units. According to the Department's work plan, property owners were required to sign an agreement affirming that they would not sell the assisted property within the next 3 years and if they did, the amount granted to them would be subject to be recaptured by the Department at the time of sale. During our audit period, the Department did not recapture Program funds for four assisted units that had been sold

---

<sup>10</sup> See HUD's Office of Lead Hazard Control and Healthy Homes' Policy Guidance 2013-01, section 4.

<sup>11</sup> See HUD's Office of Lead Hazard Control and Healthy Homes' Policy Guidance 2013-01, section 2.

<sup>12</sup> See Scope and Methodology section.

by the properties' owners within 3 years of the date of the program applications seeking assistance.<sup>13</sup>

The Department also did not have a mechanism, such as a lien, to secure the repayment of Program funds if an assisted unit was sold. These issues occurred because the Department was unaware of how to enforce its recapture policy. In addition, the Department had removed the property owner agreement to shorten the application. Therefore, the property owner agreements were not executed for all assisted units. As a result, the Department did not recapture \$17,507 in Program funds that could have been used for additional Program activities, and it did not adequately protect \$297,924 in Program funds spent on the 23 assisted units<sup>14</sup> for which a property owner agreement had not been executed.

### **The Department Did Not Ensure That It Accurately Reported Assisted Units to HUD**

The Department did not accurately report the number of assisted units to HUD's Office of Lead Hazard Control and Healthy Homes. As of April 2018, the Department reported to HUD that 244 units had been assisted with Program funds. According to the Department's supporting documentation for drawdowns from HUD's Line of Credit Control System (LOCCS),<sup>15</sup> 225 units had been assisted with Program funds. However, the Department's records showed that 253 units had been assisted. Therefore, it appeared that Program funds were not drawn down and paid to the subcontractor for 28 units (253 - 225). This issue occurred because the Department reported assisted units to HUD before receiving confirmation that Program funds had been drawn down for those units. As a result, HUD did not always have complete and reliable information.

### **Conclusion**

The Department lacked adequate procedures and controls to ensure that it complied with HUD's and its own requirements. As a result, the Department lacked support that more than \$512,000 in Program funds was used in accordance with HUD's requirements and did not have more than \$122,000 in Program funds available for eligible activities. In addition, HUD and the Department lacked assurance that more than \$386,000 in Program funds was protected and available for program use. HUD also did not have complete and accurate information regarding the number of assisted units.

---

<sup>13</sup> We conducted Lexis-Nexis® - Accurint® searches on the 225 assisted units and concluded that 4 had been resold.

<sup>14</sup> For the 23 units, we excluded any Program funds that were questioned under another section of our audit review.

<sup>15</sup> HUD's Line of Credit Control System (LOCCS) is the primary grant disbursement system, which handles disbursements for the majority of HUD programs.

## Recommendations

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

- 1A. Support that grant administration services paid were cost reasonable or reimburse its Program \$387,443 from non-Federal funds.
- 1B. Reimburse its Program \$102,069 from non-Federal funds for the duplicate payments made to its subcontractor for lead-based paint and other health hazard control activities.
- 1C. Coordinate with HUD's Office of Lead Hazard Control and Healthy Homes to determine whether \$88,258 in Program funds (\$77,597 + \$10,661) may be drawn down and used to reimburse its subcontractor if the lead-based paint and other health hazard control activities are determined to be eligible.
- 1D. Determine whether the subcontractor is owed payment for 21 units,<sup>16</sup> which the Department's records showed were assisted under the Program but were not identified as assisted units according to documentation maintained by the Department to support its drawdowns from HUD's LOCCS. If the Department determines that the subcontractor is owed payment for the lead-based paint and other health hazard control activities, it should provide support that the lead-based paint and other health hazard control activities were eligible and that the subcontractor was not reimbursed for these activities from non-Program funds. If these conditions have been met, the Department should reimburse the subcontractor from Program funds.
- 1E. Determine whether appropriate reimbursements were made to the subcontractor for the remaining 166 assisted units<sup>17</sup> that were not a part of our review. If the Department determines that appropriate reimbursements were not made, it should provide support that the lead-based paint and other health hazard control activities are Program eligible and the subcontractor was not reimbursed for these activities from non-Program funds. If these conditions have been met, the Department should reimburse the subcontractor from Program funds.

---

<sup>16</sup> Of the 28 Program-assisted units that differed between the Department's records and support for its drawdowns from LOCCS, we reviewed 7 during the audit. Therefore, 21 units remain.

<sup>17</sup> During the audit, we reviewed 59 of the 225 units reported in LOCCS. Therefore 166 units remain.

- 1F. Support that the four households residing in assisted units were income eligible or reimburse its Program \$59,883 from non-Federal funds for the lead-based paint and other health hazard control activities completed in the assisted units.
- 1G. Support that landlords gave preference in renting six vacant units to families with children under 6 years of age or reimburse its Program \$41,240 from non-Federal funds for the lead-based paint and other health hazard control activities completed at these assisted units.
- 1H. Support that lead-based paint hazard control activities were necessary at 13 assisted units or reimburse its Program \$23,857<sup>18</sup> from non-Federal funds for the unsupported lead-based paint hazard control activities completed at these assisted units.
- 1I. Reimburse its Program \$2,900 from non-Federal funds for the two units in which the seven windows were not installed.
- 1J. Transfer \$17,507 in non-Federal funds to its Childhood Lead Poisoning Prevention Program and use the funds in accordance with the program grant requirements since these funds were not recaptured after the four assisted units were sold within 3 years.
- 1K. Execute agreements with owners of the assisted units detailing the Department's recapture policy and determine whether liens should be filed with the appropriate government office to ensure that Program funds used to assist the units are properly protected and able to be recaptured if assisted units are resold within 3 years. These protections should ensure that \$297,924 in Program funds is adequately protected.
- 1L. Implement adequate procedures and controls to ensure that (1) contracts are properly procured in accordance with HUD's requirements, (2) annual income is properly calculated for households residing in assisted units, (3) the appropriate reimbursement payments are made to the subcontractor for lead-based paint and other health hazard control activities, (4) lead inspection results properly support lead-based paint hazard control activities, (5) it complies with its work plan regarding executing agreements with property owners and determining whether other mechanisms are needed to enforce the agreements. This measure would ensure that future Program funds are protected, and (6) accurate and complete information regarding assisted units is reported to HUD.

---

<sup>18</sup> The actual unsupported amount was \$28,606. However, the amount was reduced by \$4,749, which was included in the unsupported costs associated with recommendation 1F. Therefore, the amount associated with this recommendation was \$23,857.

- 1M. Develop and implement adequate procedures and controls to ensure that assisted rental units are prioritized for families with children under 6 years of age.

# Scope and Methodology

---

We performed our onsite audit work between January and August 2018 at the Department's office located at 2133 West Lexington Street, Chicago, IL. The audit covered the period December 15, 2014, through June 15, 2018.

To accomplish our audit objective, we interviewed staff from HUD's Office of Lead Hazard Control and Healthy Homes and the Department's employees. In addition, we obtained and reviewed the following:

- Residential Lead-Based Paint Hazard Reduction Act of 1992, as amended; Federal regulations at 2 CFR Part 225; HUD's regulations at 24 CFR Parts 5 and 85; HUD Office of Lead Hazard Control and Healthy Homes' notices; the Program's notice of funding availability; Program grant terms and conditions; HUD's Guidelines for the Evaluation and Control of Lead-Based Paint Hazards in Housing.
- The Department's accounting records, annual audited financial statements, agreements with its subcontractor, policies and procedures, work plan, files for assisted units, and procurement files.

## Reimbursement Review

The Department's supporting documentation for its drawdowns from HUD's Line of Credit Control System identified 225 units that had been assisted with Program funds during our audit period. We selected 59 assisted units consisting of (1) 25 units reviewed for lead inspection, (2) the 14 additional units reviewed for household income calculations, (3) 4 units that were resold within 3 years, (4) 5 units reviewed for monitoring of vacant units, and (5) 11 units reviewed for duplicate payments. One vacant unit and one duplicate payment unit were excluded from the count since the two units were a part of the 25 units reviewed for lead inspection (see the samples selected for the other reviews below).

## Duplicate Payments Review

We conducted a 100 percent review of the 225 assisted units to determine whether duplicate payments were made by comparing the Program funds drawn down per unit according to the Department's LOCCS supporting documentation to the unit costs according to the Department's records. We identified 12 payments as potential duplicates; therefore, we reviewed the supporting documentation such as invoices to determine whether the payments were duplicated. Since we performed a 100 percent review of the potential duplicate payments, no projection was warranted.

### Income and Lead Inspections Reviews

From the Department's records of 253 units assisted under the Program, we sorted the units into 6 different cost strata and selected 2 from each stratum for review in the survey phase. The six cost strata were based on the unit cost according to the Department's records - \$0 to \$5,000; \$5,001 to \$10,000; \$10,001 to \$15,000; \$15,001 to \$20,000; \$20,001 to \$25,000; and \$25,001 and greater.<sup>19</sup>

For the survey, we reviewed 10 units to determine whether each unit's lead inspection results supported the lead-based hazard control activities and 9 units to determine whether household income was properly calculated.<sup>20</sup>

Based on the survey results, we selected an additional 14 units to review for the accuracy of household income calculations to support income eligibility. These additional units were selected based on the highest income households according to the subcontractor's records. Therefore, we reviewed a total of 23 units for the household income review. We also selected an additional 15 units to review the lead inspections. We selected two units per each of the four Department inspectors who conducted the lead inspections, two units that most recently underwent a lead inspection, and five units for which the lead inspections were conducted by the Department inspector who appeared to have the most significant lead inspection deficiencies. Therefore, we selected a total of 25 units for the lead inspection review. Since we used a nonstatistical method, our results were not projected to the universe.

### Vacant Unit Review

Using the Department's records, we determined that six vacant units had been assisted using program funds. We reviewed all six assisted units to determine whether the Department had assurance that property landlords gave preference in renting assisted units to families with a child under 6 years of age. Since we did 100 percent sampling, our results cannot be projected to the universe.

### Sold Unit Review

We performed Lexis-Nexis - Accurint searches on all 225 assisted units, according to the Department's LOCCS supporting documentation, to determine whether any had been resold within 3 years of the date of the program application for assistance. This review identified that four units had been resold. We reviewed all four units to determine whether the Department

---

<sup>19</sup> We excluded two units during the survey phase because the subcontractor did not receive reimbursement for the units.

<sup>20</sup> One of ten units reviewed in the survey phase was vacant at the time the lead-based paint hazard control activities were completed. Therefore, it was not possible to calculate household income.

recouped Program funds used for the units. Since we did 100 percent sampling, our results cannot be projected to the universe.

Executed Agreements Review

We reviewed the same 59 assisted units reviewed as part of the reimbursement review. Since this was a targeted selection, we did not project to the universe.

We did not rely on computer-generated data to support our audit conclusions. Our audit conclusions are based on source documentation maintained by the Department.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

---

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

### **Significant Deficiency**

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

- The Department lacked adequate procedures and controls to ensure that it (1) complied with HUD's procurement requirements, (2) reimbursed its subcontractor for lead-based paint and other health hazard control activities, and (3) appropriately calculated household income. It also lacked adequate procedures and controls to ensure that (1) preference in renting assisted vacant units was provided to families with a child under 6 years of age, (2) lead inspections appropriately identified the lead-based paint hazard control activities, (3) Program funds were protected, and (4) it accurately reported assisted units to HUD (finding).

# Appendixes

---

## Appendix A

---

### Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$387,443	
1B	\$102,069		
1C			\$88,258
1F		59,883	
1G		41,240	
1H		23,857	
1I	2,900		
1J	17,507		
1K			297,924
<b>Total</b>	<b><u>122,476</u></b>	<b><u>512,423</u></b>	<b><u>386,182</u></b>

- 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/ 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 the 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.

- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these instances, if the Department implements our recommendations, it will ensure that Program funds are adequately protected by executing appropriate agreements and appropriately reimbursing its subcontractor for lead-based paint and other health hazard control activities.

# Appendix B

## Ref to OIG Evaluation

## Auditee's Comments and OIG's Evaluation

### Auditee Comments



DEPARTMENT OF PUBLIC HEALTH  
CITY OF CHICAGO

VIA ELECTRONIC MAIL AND FIRST CLASS U.S. MAIL

September 21, 2018

Kornelius Randolph Asst. Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of the Inspector General for Audit 477 Michigan Avenue, Room 1780 Detroit, Michigan 48226	Kelly Anderson Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Inspector General for Audit, Region 5 77 West Jackson Boulevard, Suite 2201 Chicago, Illinois 60804-3507
---	--

Dear Mr. Randolph and Ms. Anderson:

This letter provides the response ("Response") to the Discussion Draft Audit Report ("Draft Report") of the Office of the Inspector General ("OIG") on the OIG's Audit of the City of Chicago ("City") Department of Public Health's ("Department") 2014 Lead Hazard Reduction Demonstration ("LHRD") Grant Program ("Program") - Audit Report Number 2018-CH-100X. The Draft Report was sent to the Department, along with a cover letter dated September 7, 2018 ("September 7<sup>th</sup> Cover Letter").

The Draft Report contains seven findings and 18 related recommendations (1A-1R) to the Department. You informed us that it is a "discussion draft," "is subject to revision, does not necessarily contain final conclusions, and is being made available solely to those having officially related responsibilities for its review and content." September 7<sup>th</sup> Cover Letter at 1. You further indicate that while no response is necessary, any response should indicate whether we agree or disagree with each specific finding and should address each recommendation and state how it will be implemented, why it is not necessary, or present an alternative action and show how the alternative action will correct the recommendation it was designed to fix. *Id.*

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

#### Comment 1

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 2 of 9

We appreciate your agreement to extend the time for this Response, originally due September 19, 2018, until 12:00 p.m. on September 21, 2018. However, two weeks is insufficient time for the Department to provide all of the information requested, and we are disappointed that you refused our request for additional time to provide this Response.

#### **BACKGROUND**

##### **The LHRD Grant Program**

This Program was instituted to assist states, cities, counties-parishes, Native American tribes, or other units of local government in identifying and controlling lead-based paint hazards in eligible privately-owned rental or owner-occupied housing. The Program is authorized by Section 1011 of the Residential Lead-based Paint Hazard Reduction Act of 1992 and administered by the U.S. Department of Housing and Urban Development's ("HUD") Office of Healthy Homes and Lead Hazard Control.

##### **The City's Successful Results in Implementing the Program in Chicago**

The Department was awarded \$3.9 million under the 2014 Program to address lead and other home-based health hazards ("Grant"), of which approximately \$3.5 million has been drawn down. The Grant covered the project period of December 15, 2014 through December 14, 2017. The Department, in partnership with its subcontractor, Neighborhood Housing Services ("NHS"), exceeded the workplan goals for inspections, completing 272, compared to the goal of 234. Further, the final number of units completed and cleared of lead hazards for this period was 250, exceeding the goal of 234 units.

Of the approximate \$3.5 million in Grant funds that has been drawn down, approximately \$2.8M (80%) was used to directly fund lead hazard control measures and address other housing-based health hazards. In addition, 145 community outreach and education sessions were completed in English and Spanish; 1,401 individuals participated in lead safe work practice skills and over 400 children six years of age and younger were protected from further exposure to lead-based paint hazards, due to the Department's efforts in removing and clearing these hazards in the 250 assisted units.

##### **The Draft Report**

The Housing and Urban Development ("HUD") OIG conducted an 8-month on-site audit of the Department's implementation of the \$3.9 million Grant. As of July 2018, the Department has spent \$3.5 million on lead hazard reduction in the City of Chicago, including \$2.8 million to address lead-based paint and other health hazards. The HUD

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

## Auditee Comments and OIG's Evaluation

Ref to OIG  
Evaluation

### Auditee Comments

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 3 of 9

OIG determined that \$122,476 of this \$3.5 million was spent on ineligible costs, which are addressed below. The HUD OIG also questioned the procedures and controls regarding an additional \$512,423 in costs for which the audit did not find sufficient support. While the Department acknowledges that its documentation may have been inadequate in some respects, as addressed more fully below, the Department firmly believes that these costs were allowable costs under the LHRD Program.

#### Exit Conference

Subsequent to receiving the Draft Report, HUD conducted a formal exit conference with the Department. The Department noted that its documentation during some of the audit period was lacking and was already in the process of revising the procedures at issue. Nevertheless, the Department disagrees that these are not legitimate allowable costs. HUD and the Department also generally discussed the monetary amounts referred to in Recommendations 1A, 1D, 1H, 1J, 1L, and 1O. Based upon these discussions, the Department understands that these amounts are subject to further discussions and negotiation with HUD. Therefore, pending resolution of these discussions and negotiations, the Department will consider its agreement or disagreement with these amounts to be outside the scope of this Response.

#### DRAFT AUDIT REPORT FINDING, SUBPARTS, AND RECOMMENDATIONS

##### General Finding - The Department Did Not Administer Its Program in Accordance with HUD's and Its Own Requirements.

The Department generally objects to, and therefore disagrees with, this overly broad conclusion and sweeping generalizations of this finding and its subparts, and believes the general finding and subpart findings are not born out in the factual findings. To the extent that the Department does not explicitly agree with this finding or any of its subparts below, this general disagreement controls. The Department notes also that, with the help of the HUD OIG, it has already identified several areas of improvement to *strengthen* its compliance with HUD and City requirements.

Please see below the Department's written comments to the findings and recommendations. Note that we have inserted the specific recommendations that are relevant to each specific finding.

##### *The Department Did Not Properly Procure Its Subcontractor.*

- 1A. Support that grant administration services paid were cost reasonable or reimburse its Program \$387,443 from non-Federal funds.**

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

Comment 2

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 3

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 4 of 9

**1B. Implement adequate procedures and controls to ensure that contracts are properly procured in accordance with HUD's requirements.**

The Department disagrees with this finding and with Recommendations 1A and 1B.

Specific to Recommendation 1A, the Department awarded the 2014 contract to NHS because the Department had previously issued several competitive procurements with the same scope of work, and NHS was the only organization that responded to the RFPs. The HUD OIG acknowledges that the Department submitted documentary support showing that after a publicly-announced competitive bidding process for the 2012 and 2013 Programs, it received one single proposal from a single vendor in response to the RFPs. Accordingly, the Department disagrees with the HUD OIG's finding that this does not meet the requirements set out at 24 CFR 36(d)(4). On the contrary, the documentation clearly demonstrates that "[a]fter solicitation of a number of sources, competition is determined to be inadequate," consistent with 24 CFR 85.36(d)(4)(i)(D).

Comment 4

Specific to Recommendation 1B, in the 2014 LHRD grant proposal, the Department named NHS as the sub-grantee, followed internal procedures pursuant to 24 CFR 85.36(b)(1), and was granted approval to award the contract to NHS.<sup>1</sup> See Memorandum to Commissioner Julie Morita, M.D., dated February 11, 2015, attached hereto as **Exhibit A**; see also Letter from Commissioner Morita to NHS, dated February 25, 2015, attached hereto as **Exhibit B**. The HUD OIG incorrectly determined that because 2-2.5 years had passed between the 2013 contract and the 2015 contract, that the Department did not show inadequate competition after solicitation of a number of sources. First, this 2-2.5 year threshold is arbitrary and not found in the regulation. Second, the lack of competition was further borne out when the Department released an RFP for abatement and mitigation for its Cook County (Torrens) grant in June 2018, and once again NHS was the only organization that submitted a proposal. Third, while Recommendation 1A appears to challenge NHS's administrative costs, 88% of the funds awarded under the contract were used to pay for lead-based paint work performed on the assisted units.

Comment 5

Comment 6

Comment 7

*The Department Did Not Make Appropriate Reimbursements to Its Subcontractor.*

**1C. Reimburse its Program \$102,069 from non-Federal funds for the duplicate payments made to its subcontractor for lead-based paint and other health hazard control activities.**

---

<sup>1</sup> The process at the time that this NHS contract was awarded was that a request for approval of a non-competitive contract was submitted to the head of the Department. More recently, requests for approval of non-competitive contracts are submitted to the Office of Budget and Management ("OBM").

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 5 of 9

- 1D. Coordinate with HUD's Office of Health Homes to determine whether \$88,258 in Program funds (\$77,597 + \$10,661) may be drawn down and used to reimburse its subcontractor if the lead-based paint and other health hazard control activities are determined to be eligible.**
- 1E. Determine whether the subcontractor is owed payment for 21 units, which the Department's records showed were assisted under the Program but were not identified as assisted units according to documentation maintained by the Department to support its drawdowns from HUD's LOCCS. If the Department determines that the subcontractor is owed payment for the lead-based paint and other health hazard control activities, it should provide support that the lead-based paint and other health control activities were eligible and that the subcontractor was not reimbursed for these activities from non-Program funds. If these conditions above been met, the Department should reimburse the subcontractor from Program funds.**
- 1F. Determine whether appropriate reimbursements were made to the subcontractor for the remaining 167 assisted units that were not a part of our review. If the Department determines that appropriate reimbursements were not made, it should provide support that the lead-based paint and other health hazard control activities are Program eligible and the subcontractor was not reimbursed for these activities from non-Program funds. If these conditions have been met, the Department should reimburse the subcontractor from Program funds.**
- 1G. Implement adequate procedures and controls to ensure that appropriate reimbursement payments are made to the subcontractor for lead-based paint and other health hazard control activities.**

To the extent that this subpart relates to the \$102,069 in duplicate payments to its subcontractor referenced in Recommendation 1C, the Department agrees with this finding and Recommendation 1C.

However, the Department disagrees with the sweeping generalization that it did not make appropriate reimbursements to its subcontractor. To the extent that this subpart relates to Program funds that may be drawn down to reimburse the subcontractor and procedures and controls related thereto as referenced in Recommendations 1D, 1E, 1F, and 1G, the Department refers to its statement, above, regarding the exit conference. The Department looks forward to further discussions and negotiations with the HUD OIG over these remaining issues. The Department further notes that it is already in the process of updating its HUD LHRD Policies and Procedures so that the invoice approval section

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

Comment 8

Comment 9

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 6 of 9

will require the Program Director, Program Manager and the Supervising Building Inspector to approve invoices for payment.

*The Department Did Not Ensure That Income for Households Residing in Assisted Unit Was Properly Calculated.*

**1H. Support that the four households residing in assisted units were income eligible or reimburse its Program \$59,883 from non-Federal funds for the lead-based paint and other health hazard control activities completed in the assisted units.**

**1I. Implement adequate procedures and controls to ensure that annual income is properly calculated for households residing in assisted units.**

To the extent that this subpart relates to the four households referenced in Recommendation 1H, the Department refers to its statement, above, regarding the exit conference. Again, the Department looks forward to further discussions and negotiations with the HUD OIG over these remaining issues.

The Department does not agree, however, with the sweeping generalization that "[t]he Department did not ensure that income for households residing in assisted unit was [sic] properly calculated." Indeed, 19 of the 23 units selected by the HUD OIG were calculated correctly. Further, this general statement is belied by the fact that the HUD OIG acknowledged that its use of a non-statistical method to select this set of 23 units could not be projected to the universe of units.

*The Department Did Not Ensure That Vacant Rental Units Were Prioritized for Families With a Child Under 6 Years of Age.*

**1J. Support that landlords gave preference in renting six vacant units to families with children under 6 years of age or reimburse its Program \$41,240 from non-Federal funds for the lead-based paint and other health hazard control activities completed at these assisted units.**

**1K. Develop and implement adequate procedures and controls to ensure that assisted rental units are prioritized for families with children under 6 years of age.**

To the extent that this subpart relates to the money amounts referenced in Recommendation 1J, the Department refers to its statement, above, regarding the exit conference.

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

Comment 8

Comment 10

Comment 8

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 11

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 7 of 9

However, the Department disagrees with the sweeping generalization that it did not ensure that vacant rental units were prioritized for families with a child under 6 years of age. Nonetheless, the Department recognizes that there is room for improvement. The Department has begun updating its HUD LHRD Policies and Procedures and the Program will follow-up with landlords on a quarterly basis until units have been rented and annually thereafter for three years to ensure priority in renting to households with children under 6 years of age. In addition, the Department will post a list of housing units on its website that have been made safe from lead-based hazards following participation in the Lead Abatement Program funded by the HUD's Office of Healthy Homes and Lead Hazard Control and Cook County Department of Public Health.

*The Department Did Not Always Properly Record Its Lead Inspection Results.*

- 1L. Support that lead-based paint hazard control activities were necessary at 13 assisted units or reimburse its Program \$23,857 from non-Federal funds for the unsupported lead-based paint hazard control activities completed at these assisted units.**
- 1M. Reimburse its Program for non-Federal funds \$2,900 for the two units in which the seven windows were not installed.**
- 1N. Implement adequate procedures and controls to ensure that lead inspection results properly support lead-based paint hazard control activities.**

To the extent that this subpart relates to the \$2,900 referenced in Recommendation 1M, the Department agrees with this finding.

However, the Department disagrees with the sweeping generalization that it did not properly record its lead inspection results. Nonetheless, the Department recognizes that there is room for improvement in this regard as well. The Department is already updating the HUD LHRD Policies and Procedures to include that all inspection reports will be reviewed and approved by the Supervising Building Inspector to ensure that inspection documentation supports lead-based paint hazards activities. The Department purchased new X-ray Fluorescence (XRF) instruments that will address the missing photo issue. The instruments can hold up to 65,000 readings with picture and spectral information. The Department is scheduled to pilot a new database (APEX) that will assist with the documentation of lead inspection results.

*The Department Did Not Adequately Protect Program Funds Used for Assisted Units.*

- 1O. Reimburse its Program from non-Federal funds \$17,507, which was not recaptured and used to assist the four units that were resold within 3 years.**

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

Comment 8

Comment 12

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 8 of 9

**1P. Execute agreements with owners of the assisted units detailing the Department's recapture policy and determine whether liens should be filed with the appropriate government office to ensure that Program funds used to assist the units are properly protected and able to be recaptured if assisted units are resold within 3 years. These protections should ensure that \$279,924 in Program funds is adequately protected.**

**1Q. Implement adequate procedures and controls to comply with its work plan regarding executing agreement with property owners and determining whether other mechanisms are needed to enforce the agreements. This measure would ensure that future Program funds are protected.**

Comment 13

To the extent that this subpart relates to the four units purportedly resold within 3 years of assistance as referenced in Recommendation 1O, the Department disagrees with this finding and this recommendation, which is overly broad and not supported by the facts. The HUD OIG made no such determination regarding the 221 other assist units it reviewed. Moreover, for the four units it identified, the HUD OIG determined that "the Department did not recapture Program funds for four assisted units that had been sold by the properties' owners 3 years after the date of the program applications seeking assistance." Draft Report at 9 (emphasis added). Further, the Scope and Methodology section inconclusively states that "[t]his review identified that four units had been resold." *Id.* at 15. Therefore, the Department seeks clarification that the sale of these four units 3 years after the date of the program application was outside of the 3 year window at issue in Recommendation 1O.

Comment 14

To the extent that this subpart relates to securing and enforcing agreements with assisted unit owners to protect Program funds as referenced in Recommendations 1P and 1Q, the Department also disagrees. The City's Department of Law is capable of pursuing a lien on properties or similar remedies to recapture Program funds in the event assisted units are sold within 3 years. Notwithstanding its above disagreement with this subpart, the Department is willing to work with NHS to explore the option of placing a lien on assisted units to secure repayment of Program funds if an assisted unit is sold, and update the Department's HUD LHRD Policies and Procedures to reflect such changes.

Comment 8

*The Department Did Not Accurately Report Assisted Units to HUD.*

**1R. Implementing adequate procedures and controls to ensure that accurate and complete information regarding assisted units is reported HUD.**

Comment 15

The Department disagrees with the sweeping generalization that it does not report accurate and complete information regarding assisted units to HUD. Nonetheless, the

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

## Auditee Comments and OIG's Evaluation

Ref to OIG  
Evaluation

### Auditee Comments

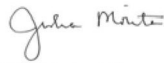
Mr. Kornelius Randolph  
Ms. Kelly Anderson  
September 21, 2018  
Page 9 of 9

Department recognizes that there is room for improvement in this regard as well. The Department states that its HUD LHRD Policies and Procedures are in the process of being updated to include a section regarding how the work of the Program Manager will be reviewed by the Program Director to ensure that 100% of the assisted units are reported to HUD.

#### CONCLUSION

The Department has enjoyed a successful partnership with HUD in administering this Program, furthering the Program's goals of protecting hundreds of residents from lead-based paint hazards. The Department appreciates the opportunity to provide additional comments regarding the Draft Report, and looks forward to working with HUD to resolve any remaining issues identified therein. The Department is committed to improving administrative procedures and enhancing internal controls to ensure the success of future Office of Lead Hazard Control and Healthy Homes funding opportunities.

Sincerely,



Julie Morita, MD  
Commissioner  
Chicago Department of Public Health

333 SOUTH STATE STREET, ROOM 200, CHICAGO, ILLINOIS 60604

## OIG Evaluation of Auditee Comments

Comment 1 The Department believes that two weeks wasn't sufficient time to respond to the audit report.

We periodically updated the Department of the issues cited in the audit report via the following communications. On April 13, 2018, we provided the Department with schedules detailing (1) assisted households for which income was not properly calculated, (2) a vacant rental unit for which the Department did not monitor to ensure that the preference requirement was met, (3) assisted units for which the Department did not properly document its lead inspection results, (4) assisted units for which property owner agreements were not executed, and (5) assisted units that had been sold for which the Department did not recapture Program funds. On May 7, 2018, we conducted a survey results meeting with the Department which included a discussion that the Department did not properly procure its subcontractor. On June 22, 2018, we provided the Department with updated schedules regarding our reviews of (1) household income calculation, (2) vacant rental units, and (3) lead inspection results. On August 3, 2018, we provided the Department with schedules detailing the inappropriate reimbursements made to its subcontractor. We acknowledge that the Department was granted only two weeks to respond to the audit report. However, the Department had more than 2 weeks to provide documentation regarding the issues noted in the finding.

Comment 2 The Department generally disagrees with the finding which it believes was made based on a broad conclusion and sweeping generalizations.

We disagree. The report provides specific details to support the conclusion that Department did not administer its program in accordance with HUD's requirements.

Comment 3 The Department disagrees with our conclusion that it did not properly procure its subcontractor.

The Department executed a noncompetitive contract with its subcontractor. According to 24 CFR 85.36 (d)(4)(i), procurement by noncompetitive proposals may only be used when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies: (A) the item is available only from a single source; (B) the public exigency or emergency for the requirement will not permit a delay resulting

from noncompetitive solicitation; (C) the awarding agency authorizes noncompetitive proposals; or (D) after solicitation of a number of sources, competition is determined inadequate. The Department did not provide support that the awarding of the noncompetitive contract was infeasible under other procurement methods and that any of the four conditions cited above had been met when it awarded the noncompetitive contract to its subcontractor. Additionally, a cost analysis for services provided under the contract as required by 24 CFR 85.36(d)(4)(ii) was not conducted. Therefore, we concluded that the Department did not properly procure its subcontractor.

Comment 4 The Department believes it followed internal procedures pursuant to 24 CFR 85.36(b)(1) and was granted approval to award the noncompetitive contract to its subcontractor as evidenced by exhibits A and B.

According to 24 CFR 85.36(b)(1), grantees will use their own procurement procedures provided that the procurements conform to applicable Federal law and the standards identified in this section. Exhibits A and B are documents showing that the Department requested internal approval to award a noncompetitive contract and the awarding of the noncompetitive contract. However, there was no support in the exhibits showing that the Department met HUD's requirements to noncompetitively award the contract. We did not include the Department's exhibits in this report because they were not necessary to understand the Department's position and were addressed in our evaluation. However, the attachments are available upon request.

Comment 5 The Department stated that we incorrectly determined that because 2-2.5 years had passed between the 2013 contract and the 2015 contract, the Department did not show inadequate competition after solicitation of a number of sources. The Department further states that 2-2.5 year threshold is arbitrary and not found in the regulation.

The 2-2.5 years is not a threshold. The range describes the length of time between the dates the requests for proposals had been issued for the competitively procured contracts and the beginning contract term date for the noncompetitive contract, which is cited in this audit report.

Comment 6 The Department stated that it released a request for proposal for its County funded abatement and mitigation grant in June 2018 and its Program subcontractor was the only respondent. It believes this further proves a lack of competition.

However, the Department did not provide supporting documentation regarding the request for proposal.

Comment 7 The Department stated that 88% of the Program funds awarded to its subcontractor were used to pay lead-based paint work performed on the assisted units.

The questioned costs in recommendation 1A were limited to Program funds paid to its subcontractor for grant administration services. In recommendation 1A, we did not question any Program funds used to pay for lead-based paint work performed on assisted units.

Comment 8 The Department should work with HUD's Office of Lead Hazard Control and Healthy Homes for the recommendations in which it agreed that involved repayment of funds and the recommendations in which it disagreed.

Comment 9 The Department disagrees with our conclusion that it did not make appropriate reimbursements to its subcontractor. However, it is in the process of updating its policies and procedures regarding invoice approvals.

In our audit report, we identified that the Department (1) paid its subcontractor duplicate payments for activities associated with 12 units, (2) did not ensure that it reimbursed the subcontractor for activities associated with 5 units, and (3) did not fully reimburse the subcontractor for activities associated with 7 units. Based on the discrepancies noted with these 24 units, the Department did not make appropriate reimbursements to its subcontractor. We acknowledge the Department's assertions that it is in the process of making improvements. It should work with HUD to ensure that the updated policies and procedures fully address the recommendations.

Comment 10 The Department disagrees with our conclusion that it did not ensure that income for households residing in assisted units was properly calculated. It also stated that the household income for 19 of the 23 units selected for review was calculated correctly. The report acknowledged that of the 23 households reviewed, the subcontractor did not properly calculate income for 4 households.

Although we did not select a statistical sample and project to the universe, the Department did not monitor the subcontractor to ensure that household income was properly calculated. Therefore, the Department did not ensure that income for households residing in assisted units was properly calculated.

Comment 11 The Department disagrees with our conclusion that it did not ensure vacant rental units were prioritized for families with a child under 6 years of age. However, the Department acknowledges room for improvement and has begun updating its policies and procedures.

As stated in the audit report, the Department acknowledged that it did not monitor the property landlords that had lead abatement activities completed in their vacant units to ensure that the preference requirement was met. Therefore, the Department did not ensure that vacant rental units were prioritized for families with a child under 6 years of age. We acknowledge the Department's assertions that it has begun updating its policies and procedures regarding the cited deficiency. It should work with HUD to ensure that the updated policies and procedures fully address the recommendations.

Comment 12 The Department disagrees with our conclusion that it did not always properly record its lead inspection results. However, the Department acknowledges room for improvement and has begun updating its policies and procedures.

As stated in the audit report, of the 25 assisted units selected for review, the Department did not properly document its lead inspection results to support that lead based paint hazard control activities were necessary for 13 units. Therefore, the Department did not always properly record its lead inspection results. We acknowledge the Department's assertions that it has begun updating its policies and procedures regarding the cited deficiency. It should work with HUD to ensure that the updated policies and procedures fully address the recommendations.

Comment 13 The Department disagrees with our conclusion that four units were resold within 3 years of assistance. Additionally, the Department stated that we did not make any determination regarding the additional 221 assisted units.

We used Lexis-Nexis –Accurint to determine that only 4 of the 225 assisted units had been sold within 3 years of the date of the program applications seeking assistance. The Department did not provide documentation with its response to show that the 4 units had not been sold.

Comment 14 The Department stated the language in the audit report citing that “the Department did not recapture Program funds for four assisted units that had been sold by the properties’ owners *3 years after* the date of the program applications seeking assistance” was unclear.

We acknowledge that the language was not clear and revised the audit report to state that “the Department did not recapture Program funds for four assisted units that had been sold by the properties’ owners *within 3 years* of the date of the program applications seeking assistance”. This change is consistent with the related recommendation cited in the report.

Comment 15 The Department disagrees with our conclusion that it did not report accurate and complete information regarding assisted units to HUD.

As stated in the audit report, as of April 2018, the Department reported to HUD that 244 units had been assisted with Program funds. According to the Department’s supporting documentation for drawdowns from HUD’s Line of Credit Control System, 225 units had been assisted with Program funds. The Department was unable to reconcile the difference between the number of assisted units reported to HUD and the number of assisted units according to the documentation that supported its LOCCs draw downs. Therefore, the Department did not ensure that it accurately reported assisted units to HUD.