
AUDIT REPORT



STATE OF OHIO
COMMUNITY HOUSING IMPROVEMENT PROGRAM

COLUMBUS, OHIO

00-CH-255-1003

JUNE 15, 2000

OFFICE OF AUDIT, MIDWEST
CHICAGO, ILLINOIS



Issue Date	June 15, 2000
Audit Case Number	00-CH-255-1003

TO: Lana J. Vacha, Director of Community Planning and Development,
Ohio State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: State of Ohio
Community Housing Improvement Program
Columbus, Ohio

We completed an audit of the State of Ohio's Community Housing Improvement Program. The audit was conducted as a result of our review of the Community Housing Improvement Program for Fairfield County, a State subrecipient. The audit objectives were to determine whether the State had adequate controls for monitoring its Program subrecipients and whether HUD's rules and regulations were properly followed.

The State did not have adequate controls over its Community Housing Improvement Program. The State's subrecipients we reviewed inappropriately used \$463,904 of HUD funds to provide housing rehabilitation assistance that was not in accordance with HUD's regulations, the State's requirements, and/or the subrecipients' Policies and Guidelines for the Program. The inappropriate disbursements included: \$290,555 for housing rehabilitation work that was improperly performed or not provided; \$172,181 for rehabilitation work that exceeded our estimates of reasonable costs; and \$1,168 to correct items that did not meet the State's Residential Rehabilitation Standards after HUD funds were used to pay for the deficient housing rehabilitation work.

We also found that the State's subrecipients: (1) did not include \$1,534 of needed housing rehabilitation work in the specifications for three contracts; (2) incorrectly certified that the housing rehabilitation services provided to 42 houses met the State's Residential Rehabilitation Standards when they did not; (3) did not take action to repair items identified by the State that did not meet the State's Standards; (4) failed to follow HUD's regulations or the State's requirements for full and open competition regarding

the procurement of housing rehabilitation and consulting services; and (5) did not ensure its contracting policies met HUD's requirements for the award of fixed-price or cost-reimbursement type contracts.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312)353-7832.

Executive Summary

We completed an audit of the State of Ohio's Community Housing Improvement Program. The audit was conducted as a result of our review of the Community Housing Improvement Program for Fairfield County, a State subrecipient. The audit objectives were to determine whether the State had adequate controls for monitoring its Program subrecipients and whether HUD's rules and regulations were properly followed.

The State did not have adequate controls over its Community Housing Improvement Program. The State's subrecipients we reviewed inappropriately used \$463,904 of HUD funds to provide housing rehabilitation assistance that was not in accordance with HUD's regulations, the State's requirements, and/or the subrecipients' Policies and Guidelines for the Program. The inappropriate disbursements included: \$290,555 for housing rehabilitation work that was improperly performed or not provided; \$172,181 for rehabilitation work that exceeded our estimates of reasonable costs; and \$1,168 to correct items that did not meet the State's Residential Rehabilitation Standards after HUD funds were used to pay for the deficient housing rehabilitation work.

We also found that the State's subrecipients: (1) did not include \$1,534 of needed housing rehabilitation work in the specifications for three contracts; (2) incorrectly certified that the housing rehabilitation services provided to 42 houses met the State's Residential Rehabilitation Standards when they did not; (3) did not take action to repair items identified by the State that did not meet the State's Standards; (4) failed to follow HUD's regulations or the State's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services; and (5) did not ensure its contracting policies met HUD's requirements for the award of fixed-price or cost-reimbursement type contracts.

The State Did Not Ensure That Units Met Its Standards After Housing Assistance

The State did not ensure that its subrecipients followed HUD's regulations, the State's requirements, and their guidelines to ensure assisted houses met the State's Residential Rehabilitation Standards. The State's subrecipients inappropriately used \$290,555 of HUD funds (HOME and Community Development Block Grant funds) to pay for rehabilitation work that was improperly performed or that was not provided to 43 houses. One of the State's subrecipients also did not include \$1,534 of needed housing rehabilitation work in specifications for three contracts. The Housing Inspectors for the State's subrecipients incorrectly certified that the housing rehabilitation services provided to 42 of the 43 houses met the State's Residential Rehabilitation Standards when they did not. The problems occurred because the State did not have adequate procedures and controls over the Program to ensure houses met the State's Standards after they received housing rehabilitation assistance.

The State's Controls Over Its Subrecipients' Contracting Processes Need To Be Improved

The State did not maintain an effective system of controls over its subrecipients' contracting processes. The State did not ensure its subrecipients adequately segregated the duties of the personnel responsible for awarding housing rehabilitation contracts. The State failed to ensure its subrecipients followed HUD's regulations and the State's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services. The contracting policies for the State's subrecipients did not meet HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The problems occurred because the State did not ensure its subrecipients' top management exercised their responsibilities to implement effective contracting controls.

The State Lacked Adequate Controls To Ensure Corrective Action Was Taken

The State did not adequately ensure its subrecipients took action to repair items that did not meet the State's Residential Rehabilitation Standards and which were identified during the State's monitoring reviews. The State also permitted a subrecipient to inappropriately use \$1,168 in HUD funds to correct items that did not meet the State's Standards after HUD funds were used to pay for the deficient housing rehabilitation work. The problems occurred because the State did not have adequate controls to ensure its subrecipients took appropriate corrective action regarding deficient housing rehabilitation work.

Recommendations

On September 15, 1999, we issued a report on the Fairfield County Community Housing Improvement Program (Report # 99-CH-255-1803). That report included recommendations to address Fairfield County's failure to ensure that the housing rehabilitation work was performed correctly or included in the housing contract specifications and deficiencies in its procurement process. Consequently, we are not including recommendations in this report specifically related to the weaknesses in Fairfield County's Program.

We recommend that the Director of Community Planning and Development, Ohio State Office, assures that the State of Ohio: implements controls to correct the weaknesses cited in this report; ensures the housing rehabilitation work that was improperly performed or that was not provided is completed correctly; and reimburses its Community Housing Improvement Program from non-Federal funds for rehabilitation work that exceeded our estimates of reasonable costs and for the

inappropriate use of HUD funds to correct items that did not meet the State's Residential Rehabilitation Standards.

We presented our draft findings to the Manager of the State's Office of Housing and Community Partnerships and HUD's staff during the audit. We held an exit conference with the State on February 28, 2000. The State indicated that it would provide a detailed response for the housing rehabilitation that was improperly performed or that was not provided once the final audit report was issued. The State disagreed that its controls over its subrecipients contracting processes needed to be improved. The State agreed that it needed to improve its controls to ensure corrective action was taken by its subrecipients regarding deficient housing rehabilitation work.

We included excerpts of the comments with each finding (see Findings 1, 2, and 3). The complete text of the comments are in Appendix B with the exception of 13 attachments that were not necessary for understanding the State's comments. A complete copy of the State's comments with the attachments were provided to HUD's Director of Community Planning and Development, Ohio State Office.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Table Of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1	The State Did Not Ensure That Units Met The Residential Rehabilitation Standards After Housing Assistance	3
---	---	---

2	The State's Controls Over Its Subrecipients Contracting Processes Need To Be Improved	17
---	---	----

3	The State Lacked Adequate Controls To Ensure Corrective Action Was Taken	35
---	--	----

Management Controls	45
---------------------	----

Follow Up On Prior Audits	47
---------------------------	----

Appendices

A	Schedule Of Ineligible Costs	49
---	------------------------------	----

B	Auditee Comments	51
---	------------------	----

C	Distribution	67
---	--------------	----

(THIS PAGE LEFT BLANK INTENTIONALLY)

Introduction

The State of Ohio established the Community Housing Improvement Program in 1992 to provide housing rehabilitation assistance to low and moderate income individuals. The State competitively awards grants to subrecipients interested in providing housing rehabilitation services. The State's subrecipients are local governments that do not receive funds directly from HUD. The subrecipients provide housing rehabilitation assistance to correct items that do not meet the State's Residential Rehabilitation Standards.

The State uses HOME and Community Development Block Grant monies from HUD to fund the Community Housing Improvement Program. HUD awarded the State \$24,619,000 in HOME funds and \$56,514,000 in Block Grant funds for Fiscal Year 1997. The State awarded \$29,413,200 in HUD funds to 51 subrecipients for the Fiscal Year 1997 Community Housing Improvement Program. The Fiscal Year 1997 Program covers the period between August 1, 1997 and July 31, 1999.

The Ohio Department of Development administers the State's Community Housing Improvement Program. Within the Department of Development, the Office of Housing and Community Partnerships handles the day-to-day operations of the Program. Bob Taft is the Governor of the State of Ohio. C. Lee Johnson is the Director of the State's Department of Development and William J. Graves is the Manager of the Office of Housing and Community Partnerships.

The State maintains its Community Housing Improvement Program records at the Office of Housing and Community Partnerships. The Office is located at 77 South High Street, Columbus, Ohio.

Audit Objectives

Our audit objectives were to determine whether the State had adequate controls for monitoring its Community Housing Improvement Program subrecipients and whether HUD's rules and regulations were properly followed.

Audit Scope And Methodology

We conducted the audit at HUD's Ohio State Office, the State's Office of Housing and Community Partnerships, and nine of the State's subrecipients. The nine subrecipients were the Cities of Kenton, Newark, Shelby, and Wellston, and the Counties of Champaign, Clinton, Fairfield, Knox, and Pickaway. We performed our on-site audit work between May 1999 and December 1999.

To determine whether the State had adequate controls for monitoring its Program subrecipients and whether HUD's rules and regulations were properly followed, we reviewed the State's: Fiscal Year 1997 Grant Agreements with its subrecipients; Fiscal Years 1996 and 1997 monitoring and

technical assistance reports; and the Fiscal Years 1997 and 1998 audited financial statements. We also reviewed the subrecipients': Fiscal Years 1997 and 1998 audited financial statements; Program Policies and Guidelines; Program consulting services contracts; and the Fiscal Year 1997 Program participants files. We interviewed: HUD's staff; the State's officials; the subrecipients' officials, employees, and their consultants' staff; and the Program participants.

The audit covered the period August 1, 1997 to July 31, 1999. We extended our audit period as necessary. We conducted our audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Manager for the State's Office of Housing and Community Partnerships.

The State Did Not Ensure That Units Met The Residential Rehabilitation Standards After Housing Assistance

The State of Ohio did not ensure that its subrecipients followed HUD's regulation, the State's requirements, and the subrecipients' guidelines to ensure assisted houses met the State's Residential Rehabilitation Standards. The State's subrecipients inappropriately used \$290,555 of HUD funds (HOME and Community Development Block Grant) to pay for rehabilitation work that was improperly performed or that was not provided to 43 houses. One of the State's subrecipients also did not include \$1,534 of needed housing rehabilitation work in specifications for three contracts. The Housing Inspectors for the State's subrecipients incorrectly certified that the housing rehabilitation services provided to 42 of the 43 houses met the State's Residential Rehabilitation Standards when they did not. The problems occurred because the State did not have adequate procedures and controls over the Program to ensure houses met the State's Standards after they received housing rehabilitation assistance. As a result, HUD funds were not efficiently and effectively used. HUD also lacks assurance that houses met the State's Standards after receiving housing rehabilitation assistance.

HUD's Regulations

24 CFR, Subpart F, Part 92.251 requires that housing rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

24 CFR Part 504(a) says the State is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of recipients, subrecipients, or contractors does not relieve the State of this responsibility.

24 CFR Part 24 allows HUD to take administrative action against housing inspectors who violate HUD's requirements.

State's Requirements

Page 6 of the State of Ohio's Home Investment Partnerships Program Grant Agreements requires its subrecipients to ensure that all projects and units assisted with HOME funds meet the requirements set forth in 24 CFR Part 92 Subpart F. Page 3 of Attachment B of the Grant Agreements requires all rehabilitation

work paid for with HOME funds to meet or exceed the State's Residential Rehabilitation Standards.

The State's Non-Participating Jurisdiction Housing Handbook, page 29, requires its subrecipients to ensure all rehabilitation work is done in accordance with the State's Residential Rehabilitation Standards.

Subrecipients' Policies And Guidelines

The Community Housing Improvement Programs' Policies and Guidelines for the Counties of Champaign, Fairfield, Pickaway, and Clinton and the Cities of Kenton and Wellston say housing units assisted under the Private Rehabilitation Program with Community Development Block Grant funds or HOME funds must meet the State of Ohio's Residential Rehabilitation Standards after rehabilitation. The City of Kenton and Fairfield County's Policies and Guidelines require only the item(s) being repaired in housing units assisted under the Home Repair Program be brought up to the State's Residential Rehabilitation Standards.

Sample Selection And Inspection Results

We selected a sample of 47 of the 121 houses that received housing rehabilitation funds through the Community Housing Improvement Programs for the Cities of Kenton and Wellston, and Champaign, Clinton, Fairfield, and Pickaway Counties. We selected the 47 houses to determine whether the State's subrecipients appropriately paid for housing rehabilitation work. The State's six subrecipients executed 59 housing rehabilitation contracts for the 47 houses between August 1997 and August 1999.

Twenty-nine of the 47 homeowners indicated in their responses to our questionnaire or through interviews we conducted that their housing rehabilitation work was performed incorrectly or was not provided. Seventeen of the remaining 18 homeowners were selected based upon their availability for an inspection. We also inspected the house of a complainant who requested an audit of Fairfield County. The 47 houses were inspected by our Inspectors between February 12, 1999 and September 2, 1999.

We provided the inspection results to HUD's Ohio State Office Director of Community Planning and Development and the

Manager for the State's Office of Housing and Community Partnerships.

HUD Funds Were Used To Pay For Rehabilitation Work That Was Improperly Performed Or Not Provided

The State's subrecipients used \$290,555 of HUD funds to pay for housing rehabilitation work that was improperly performed (\$205,706) or that was not provided (\$84,849). The improper work or the work that was not provided occurred at 43 of the 47 houses that were inspected by our Inspectors. The State's subrecipients provided \$837,133 in housing rehabilitation assistance to the 47 houses.

The 47 houses included 42 that were assisted under the Private Rehabilitation Program for the State's six subrecipients and five that were assisted under the subrecipients' Home Repair Program. The improperly performed work and work not provided was 35 percent of the total HUD funding for the 47 houses. The State's subrecipients recorded property liens against 40 of the 43 houses for the housing rehabilitation that was improperly performed or not provided.

The following table shows the amount of work that was improperly performed or not provided for the 43 houses.

Finding 1

<i>Address of House</i>	<i>City</i>	<i>Work Improperly Performed</i>	<i>Work Not Provided</i>
11139 Rosedale Road	Mechanicsburg	\$19,730	\$ 0
115 Walnut Street	Mechanicsburg	10,090	950
5035 Millerstown Iris Road	Mechanicsburg	6,350	350
107 West Race Street	Mechanicsburg	3,200	0
31 Willow Street	Mechanicsburg	8,780	150
164 Morgan Street	Sabina	2,545	0
165 South College Street	Sabina	11,430	0
38 East Washington Street	Sabina	6,070	0
67 Morgan Street	Sabina	11,900	1,425
277 Washington Street	Sabina	0	4,500
144 Morgan Street	Sabina	3,340	0
205 West Mound Street	Sabina	0	4,000
171 North South Street	New Vienna	4,156	740
544 North Ida Street	Kenton	2,200	0
799 Riverside Avenue	Kenton	1,063	0
218 Gilbert Street	Kenton	480	0
819 Kohler Street	Kenton	4,620	6,690
121 North Cherry Street	Kenton	22,000	0
403 West North Street	Kenton	4,000	13,450
511 North Leighton	Kenton	4,200	3,550
941 West Kohler Street	Kenton	11,100	3,347
810 Kohler Street	Kenton	0	3,349
3365 State Route 752	Ashville	1,113	3,365
19501 Ringold Southern Road	Circleville	350	3,055
386 Ludwig Drive	Circleville	2,380	3,700
1920 Chippewa Drive	Circleville	1,580	325
18140 US 23 North	Circleville	3,105	2,704
103 Driving Park Road	Wellston	12,850	8,400
1266 South Vermont Avenue	Wellston	0	7,200
2001 Livingston Avenue	Wellston	20,000	0
203 West Broadway Avenue	Wellston	3,342	165
922 South Vermont Avenue	Wellston	1,600	5,100
25 East Tenth Street	Wellston	0	770
401 West D Street	Wellston	7,900	430
203 North Park Avenue	Wellston	6,450	4,715
5310 Blacklick-Eastern Road	Thornville	2,610	1,725
240 North Company Street	Baltimore	2,856	0
720 North Main Street	Baltimore	341	80
8585 Lancaster-Thornville Road	Pleasantville	675	100
2135 Carroll-Eastern Road	Pleasantville	453	430
2170 Pleasantville Road	Pleasantville	47	0
12108 Sixth Street	Millersport	800	0
3360 Lakeside Drive	Millersport	0	84
Totals		\$205,706	\$84,849

The State established its Community Housing Improvement Program to provide housing rehabilitation assistance to low and moderate income individuals. The housing assistance was intended to correct items that did not meet the State of Ohio's

Residential Rehabilitation Standards. The Housing Inspectors for the State's subrecipients were responsible for assuring that the housing rehabilitation work was provided in accordance with the housing rehabilitation contract and that it met the State's Standards.

Our Inspectors determined that the Housing Inspectors for the State's subrecipients did not assure that the housing rehabilitation work was performed correctly or, in some cases, even provided. The housing work that was performed incorrectly or that was not provided related to such items as electrical outlets not secured, electrical wiring with open grounds, new roofing installed over sagging sheathing, and windows improperly installed. There were also three houses that should not have received rehabilitation assistance because the amount of needed repairs exceeded the State's maximum amount of assistance and the houses did not meet the State's Standards after rehabilitation. The three houses were located at: 11139 Rosedale Road, Mechanicsburg; 121 North Cherry, Kenton; and 2001 North Livingston Avenue, Wellston. The following pictures show examples of housing rehabilitation work that was improperly performed or not provided.

The house at 2001 Livingston Avenue, Wellston had a crack in the foundation that was not addressed during the housing rehabilitation work. The amount of needed repairs for this house exceeded the State's maximum assistance allowance.

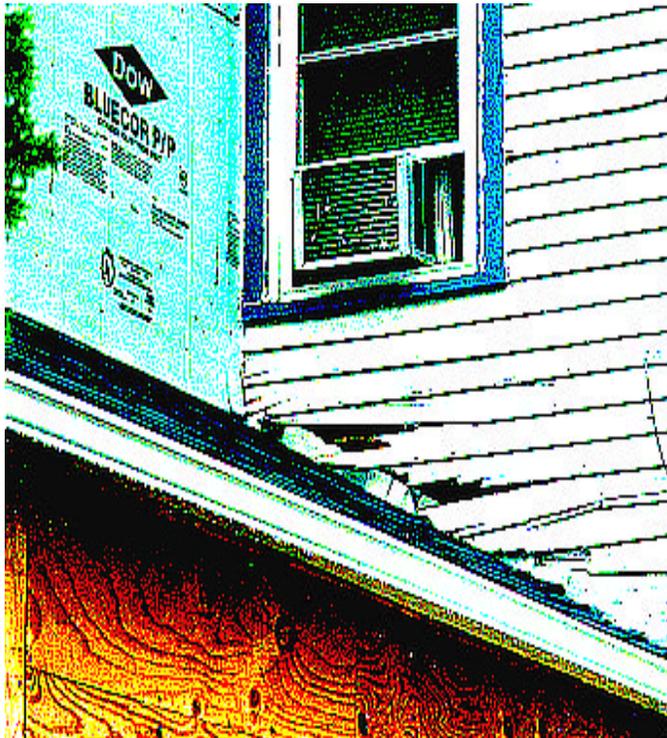


Finding 1

The house at 2135 Carroll-Eastern Road, Pleasantville was missing an electrical outlet cover plate, the outlet was not secured to the wall, and the wiring was not replaced as required by the housing rehabilitation contract.



The house at 121 North Cherry Street, Kenton had rotted siding that did not meet the State's Standards. The house needed structural repairs that were not included in the housing rehabilitation assistance. The necessary repairs exceeded the State's maximum rehabilitation assistance allowance.



The State of Ohio's Office of Housing and Community Partnerships is required to ensure that its subrecipients provide housing rehabilitation assistance through the Community Housing Improvement Program that meets the State's Residential Rehabilitation Standards. To accomplish this objective, the State conducts monitoring visits prior to the close out of its subrecipients' Grant. The State required its staff to

prepare a Technical Assistance/Monitoring File Review Tool when they sampled households assisted under the Program; however, this was not always done. The State samples approximately 15 percent of the households assisted by its subrecipients to ensure the housing rehabilitation work was performed properly. The State's staff also performs on-site technical assistance visits of subrecipients to ensure timely and effective Program administration.

During their technical assistance visits, the State's staff conducted inspections of three houses that were also inspected by one of our Inspectors. The three houses were located at: 203 North Park Avenue, Wellston; 799 Riverside Avenue, Kenton; and 218 Gilbert Street, Kenton. The State's inspection reports for the three houses showed that the rehabilitation work was performed correctly. However, our Inspector determined that some of the housing rehabilitation work was improperly performed or not provided. The rehabilitation work that was improperly performed or not provided for the three houses totaled \$11,165, \$1,063, and \$480, respectively.

The problems occurred because the State did not ensure that its staff adequately monitored the State's subrecipients to ensure the rehabilitation work was performed correctly. The State's Program Manager said he performed supervisory reviews to ensure his staff's inspections were performed correctly; however, he did not document his reviews. As a result, HUD funds were not efficiently and effectively used.

The State Did Not Ensure That Housing Rehabilitation Work Was Included In Contracts' Specifications

The State did not ensure that one of its subrecipients included \$1,534 of needed housing rehabilitation work in specifications for three contracts. The rehabilitation work was needed to correct deficiencies and to ensure the three houses met the State's Residential Rehabilitation Standards. The three houses were assisted under Fairfield County's Private Rehabilitation Program. The houses were located at: 720 North Main Street, Baltimore; 8585 Lancaster-Thornville Road, Pleasantville; and 240 North Company Street, Baltimore. One of our Inspectors determined the housing rehabilitation work that was not included in the three contracts' specifications totaled \$1,464, \$35, and \$35, respectively. The needed rehabilitation work not in the contracts' specifications included such items as a

Finding 1

foundation that needed to be sealed, and a chimney that needed tuck pointing. The following picture shows an example of the housing rehabilitation work that was not included in the contract specifications.

The contract specifications for the house located at 720 North Main Street, Baltimore did not include the sealing of the foundation.



The Housing Inspector for the State's subrecipient said he must have missed the needed housing rehabilitation work when he was preparing the deficiency list for the three houses.

The Subrecipients' Housing Inspectors Certified That Rehabilitation Work Met The State's Standards When It Did Not

The Housing Inspectors for the State's subrecipients incorrectly certified that the housing rehabilitation services provided to 42 of the 43 houses listed in the table shown on page 6 met the State's Residential Rehabilitation Standards when they did not. The house located at 5310 Blacklick-Eastern Road in Thornville was not certified as meeting the State's Standards.

The Housing Inspector for the City of Wellston, who was also the Housing Inspector for Fairfield County, said he has the contractors perform as much housing rehabilitation work on the assisted houses as possible even though he knows the houses will not meet the State's Standards after the work is completed. HUD's regulation, the State's requirements, and the subrecipients' Policies and Guidelines require that houses assisted under the State's Community Housing Improvement Program must meet the State's Residential Rehabilitation Standards at project completion. The Housing Inspector's explanation shows a disregard for the Community Housing Improvement Program's requirements. The Housing Inspector

was aware of HUD's regulation, the State's requirements, and the subrecipients' Policies and Guidelines for the Program.

The Housing Inspectors for the City of Kenton and the Counties of Champaign and Clinton said it was an oversight that they did not identify housing rehabilitation work which was improperly performed or not provided. This occurred because the State lacked adequate controls over its subrecipients to ensure that housing inspectors performed their duties correctly. The State's Program Manager said the State relies on its subrecipients to obtain adequate housing inspectors.

The State did not adequately ensure its subrecipients took action to repair items that did not meet the State's Standards and which were identified during the State's monitoring reviews (see Finding 3). The State performs monitoring visits of its subrecipients to ensure the housing rehabilitation work is performed correctly. If problems are identified, the State requires its subrecipients to ensure the housing rehabilitation is corrected according to the State's Standards. The State lacked procedures to ensure housing inspectors who failed to identify problems that were revealed during the State's monitoring visits were removed from the Program. As a result, HUD lacks assurance that the houses met the State's Residential Rehabilitation Standards after receiving housing rehabilitation assistance.

Auditee Comments

[Excerpts from the Manager's comments on our draft finding follow. Appendix B, pages 51 to 53, contains the complete text of the comments.]

The audit report lists \$10,201 in work improperly performed and work not provided that were included in the Fairfield County audit. These issues were addressed and the County is currently working with the Office of Housing and Community Partnerships to fulfill the plan of action outlined in the audit response. The Office requests that the final audit report include only issues that are specific to this review and are not included in other audits undertaken by HUD's Office of Inspector General for Audit. The duplication of the audit material inflates the dollar figures reflected in the audit and provides an unfair representation of the scale of the items in question.

OIG Evaluation Of
Auditee Comments

Our previous audit of the Community Housing Improvement Program for Fairfield County, a State subrecipient, disclosed that the County did not ensure assisted houses met the State's Residential Rehabilitation Standards. We made specific recommendations in the Fairfield County audit report to correct the problems identified in that report. The report did not include recommendations to improve the State's oversight of the Program.

The problems at Fairfield County were compounded because the State lacked adequate controls to ensure assisted houses meet the State's Standards. The State should establish the necessary controls to ensure assisted houses meet the State's Standards after receiving housing rehabilitation assistance. The recommendations cited in this report do not duplicate the recommendations made in the Fairfield County audit report.

Auditee Comments

The draft finding listed work identified as improperly performed or work not provided for 35 properties in six communities. A detailed response for each property will be completed once the final audit is issued. The Office of Housing and Community Partnerships will inspect each of the properties identified, review the audit citations, and propose an appropriate response for each property. It is important to note that the properties inspected were households that received assistance from the Fiscal Year 1997 Community Housing Improvement Program.

The Office of Housing and Community Partnerships monitors all grants for compliance with State and Federal requirements, including compliance with the Office's Residential Rehabilitation Standards, prior to the close-out of the grant. At the time the audit inspections were completed, the Office had just begun the process of monitoring the Fiscal Year 1997 grants.

OIG Evaluation Of
Auditee Comments

The State's subrecipients inappropriately used HUD funds to pay for rehabilitation work that was improperly performed or that was not provided to 43 houses. The actions proposed by the State to inspect each property should assist in ensuring the housing rehabilitation work cited in this finding is corrected. The State should ensure the rehabilitation work is completed as required by HUD's regulation, the State's requirements, and the

subrecipients' Policies and Guidelines. If the State is unable to ensure the rehabilitation work is completed, then the State should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses and ensure that the applicable liens against the properties are released.

We inspected 43 houses assisted under the State's Community Housing Improvement Program. The State's staff conducted inspections of three of the 43 houses prior to our inspection to determine whether the housing rehabilitation work was performed correctly. However, those three inspections did not identify the rehabilitation work that was performed incorrectly or was not done as required. Our Inspector determined that the housing rehabilitation work improperly performed or not provided for the three houses totaled \$11,165, \$1,063, and \$480. The State should establish adequate controls to ensure assisted houses meet the State's Standards after receiving housing rehabilitation assistance.

Auditee Comments

The Office of Housing and Community Partnerships established a rehabilitation training series aimed at raising the expertise and performance level of housing inspectors currently working in the Community Housing Improvement Program. The Office requires that all staff and Program inspectors attend the entire training series. The Office will track course attendance. Grantees or potential grantees who fail to ensure staff attendance and completion of the series will not be approved for future Program funding.

The Office of Housing and Community Partnerships monitors all grants for compliance with State and Federal requirements, including compliance with the Office's Residential Rehabilitation Standards. Monitoring findings are used as part of future funding reviews to evaluate a subrecipient's ability to comply with all applicable requirements. Subrecipients' funding applications are evaluated for the qualifications of the staff proposed to implement the Program, if funded.

The Community Housing Improvement Program funding process is extremely competitive. Any loss of points based on

past performance or qualifications of the proposed staff would dramatically affect a subrecipient's ability to receive future Program funding.

The Office of Housing and Community Partnerships is evaluating additional ways of determining the current level of a housing inspector's performance with the intent of preventing future participation in the Program should improvement not occur. The Office is considering the development of a policy for placing Program staff in a probationary status, closely evaluating their job performance for a set time period, and then taking action to remove an inspector from participating in the Program, if their job performance does not improve.

OIG Evaluation Of Auditee Comments

The actions proposed by the State, if fully implemented, should ensure that housing inspectors who do not perform correctly are removed from participating in the Community Housing Improvement Program.

Recommendations

On September 15, 1999, we issued a report on the Fairfield County Community Housing Improvement Program (Report # 99-CH-255-1803). That report included recommendations to address Fairfield County's failure to ensure that \$10,201 of housing rehabilitation work was performed correctly and that \$1,534 of necessary work was not included in the housing contract specifications. Consequently, we are not including recommendations in this report specifically related to the weaknesses in Fairfield County's Program.

We recommend that the Director of Community Planning and Development, Ohio State Office, assures that the State of Ohio:

- 1A. Ensures that \$280,354 (\$290,555 less \$10,201 from Fairfield County) of housing rehabilitation work cited in this finding is completed correctly. If the State is unable to ensure the rehabilitation work is completed, then the State should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses and ensure that the applicable liens against the properties are released.

- 1B. Establishes adequate controls to ensure assisted houses meet the State's Residential Rehabilitation Standards after receiving housing rehabilitation assistance as required by HUD's regulation, the State's requirements, and the subrecipients' Policies and Guidelines.

- 1C. Establishes procedures and controls to ensure that housing inspectors who do not perform correctly are properly monitored to ensure their performance improves. If a housing inspector's performance does not improve, then the State should take action to remove the inspector from participating in the Program.

We also recommend that the Director of Community Planning and Development, Ohio State Office:

- 1D. Takes administrative action against the Housing Inspectors for the City of Kenton and the Counties of Champaign and Clinton, if within six months their performance does not show significant improvement.

- 1E. Initiates debarment proceedings against the Housing Inspector for the City of Wellston and Fairfield County based upon his disregard for the Program's requirements.

(THIS PAGE LEFT BLANK INTENTIONALLY)

The State's Controls Over Its Subrecipients' Contracting Processes Need To Be Improved

The State of Ohio did not maintain an effective system of controls over its subrecipients' contracting processes. The State did not ensure its subrecipients adequately segregated the duties of the personnel responsible for awarding housing rehabilitation contracts. The State failed to ensure its subrecipients followed HUD's regulations and the State's requirements for full and open competition regarding the procurement of housing rehabilitation and consulting services. The contracting policies for the State's subrecipients did not meet HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The problems occurred because the State did not ensure its subrecipients' top management exercised their responsibilities to implement effective contracting controls. As a result, HUD funds were not used efficiently and effectively, and the procurement transactions by the State's subrecipients were not subject to full and open competition.

HUD's Regulations

24 CFR Part 504(a) says the State is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of recipients, subrecipients, or contractors does not relieve the State of this responsibility.

24 CFR Part 85.36(b)(9) requires grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires all procurement transactions to be conducted in a manner providing full and open competition.

24 CFR Part 85.36(d)(2) states that procurement by sealed bids will be publicly solicited and a firm-fixed-price contract awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest price. The sealed bid method is the preferred method for procuring construction services.

24 CFR Part 85.36(d)(3) also says the technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. If this method is used:

State's Requirements

(i) requests for proposals will be publicized; (ii) proposals will be solicited from an adequate number of qualified sources; and (iv) awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

As of June 30, 1997, Section 307.86 of the Ohio Revised Code requires that anything to be reconstructed by a county at a cost in excess of \$15,000 will be obtained through competitive bidding. Prior to June 30, 1997, the State required county contracts in excess of \$10,000 to be awarded through competitive bidding. Section 307.87(A) of the Code says when competitive bidding is required by Section 307.86, notice shall be published once a week, for not less than two consecutive weeks preceding the day of the opening of bids, in a newspaper of general circulation within the county.

As of March 30, 1999, Section 731.14 of the Ohio Revised Code requires that anything to be reconstructed by a city at a cost in excess of \$15,000 will be obtained through competitive bidding. Prior to March 30, 1999, the State required city contracts in excess of \$10,000 to be awarded through competitive bidding. Section 731.14 of the Code says when competitive bidding is required, notice shall be published for not less than two consecutive weeks in a newspaper of general circulation within the city. The bids will be opened and read publicly by the city's clerk at the time, date, and place specified in the advertisement to bidders or specifications.

The State of Ohio's Home Investment Partnerships Program Grant Agreements, page 1 of Attachment D, require subrecipients to comply with 24 CFR Part 85.

The State's Non-Participating Jurisdiction Housing Handbook, page 4, requires that subrecipients request and obtain at least three bids or cost estimates on all rehabilitation work. In limited instances, acceptance of a single bid is permitted, if it is determined that the bid is reasonable (within 10 percent of the staff's cost estimate).

The Duties For The Award Of Rehabilitation Contracts Were Not Adequately Segregated

The State did not ensure that the six subrecipients we reviewed properly segregated the duties of their staff concerning the award of housing rehabilitation contracts. The State is responsible for managing the day-to-day operations of its Community Housing Improvement Program funded with HOME funds. The use of recipients, subrecipients, or contractors does not relieve the State of this responsibility.

The Housing Inspectors for the State's subrecipients performed various activities in awarding housing rehabilitation contracts without adequate internal checks and balances. No one person should have complete control over all phases of any significant transaction. However, the Housing Inspectors for the State's subrecipients effectively had complete control over the award of housing rehabilitation contracts.

The Housing Inspectors for the State's subrecipients performed an initial inspection of a house to determine the repairs needed under the Community Housing Improvement Program. If the household was eligible for housing rehabilitation assistance, the Housing Inspectors prepared a Deficiency List and Contractor Proposal for prospective contractors. The Housing Inspectors then held a bid meeting with the prospective contractors at the house to be rehabilitated.

After the bid meeting, contractors were requested to submit their bids to the Community Housing Improvement Program office for the State's subrecipients. The Housing Inspectors and a representative of the State's subrecipients were to open the bids received and award the contract to the lowest bidder. However, the State's subrecipients did not have any documentation to show that their representative or prospective contractors attended the bid openings. Therefore, the State's subrecipients unnecessarily increased their susceptibility to Program abuses. The State's subrecipients had an adequate number of employees to segregate duties so that no one individual needed to have complete control of a transaction.

The Award Of Housing Rehabilitation Contracts Was Not Subject To Full And Open Competition

The State did not ensure that the six subrecipients we reviewed followed HUD's regulations or the State's requirements regarding the procurement of housing rehabilitation services. The six subrecipients awarded 139 rehabilitation contracts for 121 households between April 1997 and August 1999. Of the

139 contracts, the State's subrecipients used \$1,978,665 in HUD funds (HOME and Community Development Block Grant) for 138 contracts and terminated one contract prior to any funds being disbursed. The State's requirements and HUD's regulations required the subrecipients to award the rehabilitation contracts through full and open competition. However, the contract awards were not subject to full and open competition.

The Policies and Guidelines for the State's subrecipients required that homeowners be provided with a listing of the subrecipients' approved contractors. For contractors to be placed on the approved listings, they were required to provide proof of insurance and business references to the State's subrecipients. The homeowners were then to select three contractors to bid on their rehabilitation work and provide their selection to the subrecipients' Housing Inspectors. However, this was not being done.

The Housing Inspectors for the State's subrecipients either suggested to the homeowners which contractors to select, or actually selected the contractors to bid on the rehabilitation work. Contract awards were made by the Housing Inspectors for the State's subrecipients. The Training and Technical Assistance Supervisor for the State's Office of Housing and Community Partnerships said if the State's subrecipients had followed the contracting procedures requiring homeowners to select three contractors to provide bid proposals, then the subrecipients would not be required to follow HUD's or the State's procurement requirements. However, she said since the State's subrecipients carried out the procurement of the rehabilitation services, the subrecipients were required to publicly advertise the rehabilitation contracts for the purpose of soliciting bids.

The State's Subrecipients Did Not Follow State Law Regarding The Award Of Housing Rehabilitation Contracts

The six subrecipients did not publicly advertise 84 of the 139 (60 percent) housing rehabilitation contracts as required by the State's Revised Code. Fairfield County was required by State law to publicly advertise three contracts awarded before June 30, 1997 that exceeded \$10,000. After June 1997, State law required Champaign, Clinton, Fairfield, and Pickaway Counties to publicly advertise 48 contracts that exceeded \$15,000.

The Cities of Kenton and Wellston were required by State law to publicly advertise 25 contracts awarded before March 30, 1999 that exceeded \$10,000. After March 1999, State law required the Cities of Kenton and Wellston to publicly advertise eight contracts that exceeded \$15,000. However, the State's subrecipients did not publicly advertise the contracts.

The State Did Not Ensure HUD's Regulations And Its Handbook Were Followed

The State did not ensure that its six subrecipients followed HUD's and the State's requirements regarding the award of housing rehabilitation contracts. The State's Program Manager said while his staff randomly reviews subrecipients' files to ensure that three bids are solicited for rehabilitation work, his Office does not verify whether the subrecipients followed HUD's regulations to publicly advertise the housing rehabilitation contracts.

The State's Non-Participating Jurisdiction Housing Handbook required its subrecipients to obtain bids from at least three contractors. However, the State's subrecipients did not receive three bids for 113 of the 139 (81 percent) contracts awarded. To determine how contractors were selected to submit bid proposals, we sent a questionnaire to or interviewed 104 of the 121 households who participated in the subrecipients' Programs. We did not receive a questionnaire from or were unable to interview 18 households. Of the 104 households, 53 (51 percent) informed us that the Housing Inspectors for the State's subrecipients either selected the contractor, suggested the contractors to obtain bids from, or requested the contractors to bid on the housing contract.

The Housing Inspector for Fairfield County and the City of Wellston said good contractors were hard to find to participate in the Program. Fairfield County awarded 24 of the 26 rehabilitation contracts to only three contractors. The City of Wellston awarded 10 of the 21 contracts to only one contractor. Clinton County's Housing Inspector awarded 10 of the 18 rehabilitation contracts to only one contractor.

In order to determine whether the amounts paid to the contractors were reasonable, we had two Inspectors evaluate the services received for 59 of the 139 contracts. We selected the 59 contracts based upon the homeowners' responses to our questionnaire or through interviews we conducted to determine

whether their rehabilitation work was performed correctly. The 59 contracts were awarded for rehabilitation services on 47 houses. Of the 47, our Inspectors determined that the contract amount was excessive for 34 houses.

Our Inspectors determined that the State's subrecipients paid \$172,181 in unreasonable costs for rehabilitation services on the 34 houses. The State's subrecipients paid \$604,846 from HUD funds for the rehabilitation services; however, our Inspectors estimated the services should have cost \$432,665. As a result, HUD funds were not efficiently and effectively used.

The following table shows the amount of excessive rehabilitation costs paid for each house.

Address of Household	Contract(s)) Amount	OIG Inspectors' Estimate	Amount Excessivel y Paid
107 West Race Street, Mechanicsburg	\$9,778	\$7,525	\$2,253
115 Walnut Street, Mechanicsburg	15,995	8,366	7,629
31 Willow Street, Mechanicsburg	23,820	20,513	3,307
5035 Millerstown-Iris Road, Urbana	17,325	12,420	4,905
38 East Washington Street, Sabina	21,450	14,397	7,053
165 South College Street, Sabina	19,500	11,173	8,327
67 Morgan Street, Sabina	22,000	15,020	6,980
144 Morgan Street, Sabina	22,000	17,543	4,457
164 Morgan Street, Sabina	17,844	15,543	2,301
277 West Washington Street, Sabina	19,625	13,966	5,659
80 Sherman Street, Sabina	19,160	12,914	6,246
205 West Mound Street, Sabina	18,630	11,861	6,769
171 North South Street, New Vienna	14,629	11,074	3,555
103 Driving Park Road, Wellston	21,900	9,857	12,043
922 South Vermont Avenue, Wellston	22,000	14,075	7,925
1266 South Vermont Avenue, Wellston	19,545	10,466	9,079
203 West Broadway Avenue, Wellston	16,800	10,547	6,253
25 East Tenth Street, Wellston	20,000	14,851	5,149
401 West D Street, Wellston	20,000	13,573	6,427
203 North Park Avenue, Wellston	19,450	11,816	7,634
1920 Chippewa Drive, Circleville	4,405	3,600	805
19501 Ringgold Southern Road, Circleville	24,662	18,731	5,931
386 Ludwig Drive, Circleville	25,020	17,930	7,090
18140 US Route 23 North, Circleville	24,218	18,556	5,662
3365 State Route 752, Ashville	21,083	15,772	5,311
465 Poplar Street, Ashville	12,500	10,814	1,686
403 West North Street, Kenton	23,000	20,839	2,161
799 Riverside Avenue, Kenton	5,000	4,278	722
218 Gilbert Street, Kenton	4,880	4,114	766
941 West Kohler Street, Kenton	23,000	15,994	7,006
544 North Ida Street, Kenton	9,981	8,747	1,234
819 West Kohler Street, Kenton	19,701	15,468	4,233
511 North Leighton Street, Kenton	20,945	18,038	2,907
3360 Lakeside Drive, Millersport	5,000	2,284	2,716
Totals	<u>\$604,846</u>	<u>\$432,665</u>	<u>\$172,181</u>

We also determined that the State's subrecipients used an additional \$1,091,037 in HUD funds for 75 rehabilitation contracts that were not competitively procured as required. The 75 contracts were awarded for rehabilitation services on 70 houses. As a result, the procurement transactions by the State's subrecipients were not subject to full and open competition.

Consulting Services
Contracts Were Not
Properly Procured

The State did not ensure that the six subrecipients we reviewed properly procured their contracts for housing rehabilitation consulting services. Between October 1996 and October 1997, the Cities of Kenton and Wellston, and Champaign, Clinton, and Fairfield Counties signed two year contracts with Community Development Consultants of Ohio to provide housing rehabilitation consulting services to individuals participating in their Community Housing Improvement Programs. Pickaway County signed a two year contract in December 1997 with Poggemeyer Design Group to provide similar consulting services to individuals participating in its Program. The six consulting contracts ranged between \$98,100 and \$117,000. The State's subrecipients awarded the six consulting contracts without full and open competition.

The State's subrecipients publicly solicited Requests for Qualifications between July 1995 and March 1997 from consulting firms to evaluate their qualifications to administer their Community Housing Improvement Programs. The subrecipients received only one or two qualified responses, one of which was from Community Development Consultants or Poggemeyer Design Group. However, the State's subrecipients did not solicit or publicize a Request for Proposal for their Programs' consulting services as required by HUD's regulation and the State's Grant Agreements.

The State's subrecipients should have requested qualified contractors to provide proposals. A Request for Proposal is used to obtain cost estimates from contractors while a Request for Qualifications is used to determine whether a contractor has the necessary skills to provide the required services. The subrecipients also did not maintain records to detail the significant history of the procurement process, such as the rationale for the method of procurement or the basis for the contract price.

In order to determine whether the contracts' prices were reasonable, we compared their prices to cost proposals we obtained from two vendors. The vendors provided us cost proposals ranging from \$111,500 to \$120,000. The costs charged by Community Development Consultants and Poggemeyer Design Group appear within an acceptable range when compared to the vendors' quotes.

Although the price paid to Community Development Consultants and Poggemeyer Design Group appears reasonable based upon the two vendors' quotes we obtained, the State's subrecipients denied other qualified firms equal opportunity to bid on the consulting services since the subrecipients did not issue a Request for Proposal. The State's Manager for the Community Housing Improvement Program said his Office does not review the subrecipients' procurement of consulting services to ensure that Requests for Proposals are issued.

Contracting Policies Did Not Meet HUD's Requirements

The State did not ensure that the contracting policies for five of the six subrecipients we reviewed met HUD's requirements for the award of fixed-price or cost-reimbursement type contracts. The Fiscal Year 1997 Community Housing Improvement Programs' Policies and Guidelines for the Cities of Kenton and Wellston, and Clinton and Champaign Counties did not require them to issue Requests for Proposals. Fairfield County's Fiscal Year 1996 Program's Policies and Guidelines also did not require the County to issue Requests for Proposals regarding professional services. The five subrecipients' Policies and Guidelines required them to issue either a Request for Proposal or a Request for Qualifications. However, HUD's regulation requires that Requests for Proposals be solicited from an adequate number of qualified sources for either a fixed-price or cost-reimbursement contract. The Cities of Kenton and Wellston, and Champaign, Clinton, and Fairfield Counties awarded Community Development Consultants fixed-price contracts for their Programs.

Auditee Comments

[Excerpts from the Manager's comments on our draft finding follow. Appendix B, pages 54 to 61, contains the complete text of the comments.]

The Office of Housing and Community Partnerships' subrecipients are following the process outlined in HUD's CPD Notice 85-2. The Notice establishes when Office of Management and Budget Circular A-102, Attachment O, applies to Community Development Block Grant assisted rehabilitation activities. HUD encourages local grantees to maximize the participation of property owners in the rehabilitation process.

The Notice clarifies that if the property owner is the procuring party, then Attachment O does not apply. The Community Housing Improvement Program is designed to allow the property owner first-line control over the procurement of rehabilitation services while the Program staff provides technical assistance. The assistance includes performing a property inspection, developing a deficiency list and work specifications, providing the property owner with a list of approved contractors, and collecting and summarizing bids as outlined in Notice 85-2.

The Office of Housing and Community Partnerships requested a ruling from HUD's Ohio State Office whether the guidance provided in the Notice was still applicable. HUD provided an opinion that the guidance provided in CPD Notice 85-2 remains applicable.

OIG Evaluation Of Auditee Comments

We agree that CPD Notice 85-2 is applicable. Page 2 of the Notice says if the property owner carries out the housing rehabilitation procurement transaction, then Office of Management and Budget Circular A-102, Attachment O, does not apply. If the property owner does not carry out the procurement transaction, then Circular A-102 does apply. 24 CFR Part 85 replaced Circular A-102. Part 85 requires procurement transactions be conducted in a manner providing full and open competition.

The Housing Inspectors for the State's subrecipients performed an initial inspection of a house to determine the deficiencies that needed to be corrected under the Community Housing Improvement Program. The Inspectors also prepared a Deficiency List and Contractor Proposal for prospective contractors, suggested which contractors to obtain bids from or brought the contractors to the bid meeting, opened the bids received from the prospective contractors, and awarded the housing rehabilitation contract. The Housing Inspectors effectively had complete control over the scope and award of housing rehabilitation contracts. As a result, the Housing Inspectors, not the property owner, carried out the procurement transaction. Therefore, the contract awards were not subject to full and open competition.

Auditee Comments

The comments of the State's Training and Technical Assistance Supervisor are incorrectly summarized. The State's Supervisor attempted to convey to the Inspector General's auditor that if the housing rehabilitation services were not procured according to Office of Management and Budget Circular A-102, Attachment O, and CPD Notice 85-2, then the procurement transaction would not qualify for exemption from Attachment O or the Ohio Revised Code.

To protect the public's interest, the State required: (1) at least three contractors who are likely to bid must be contacted; (2) the homeowner must accept the lowest and best bid; and (3) if only one bid is received, then the bid must be within 10 percent of the estimate, accounting for all addenda to the bid package.

The draft finding references the State's failure to comply with Sections 307.86 and 731.14 of the Ohio Revised Code. The report also references the State's failure to verify whether the subrecipients followed the Revised Code's requirement to publicly advertise the rehabilitation contracts. The Ohio Revised Code references apply to public procurement and do not apply to rehabilitation contracts awarded by homeowners.

It is clear the subrecipients' procurement Policies and Guidelines were set up to comply with HUD's procurement requirements. It appears the Inspector General's staff concluded that public procurement was required based on a misunderstanding of the comments by the State's Training and Technical Assistance Supervisor, and the interpretation of the survey and interview responses from the Program participants. In all cases, the subrecipients were not a signatory on any of the rehabilitation contracts.

OIG Evaluation Of Auditee Comments

We do not believe we misunderstood the State's Training and Technical Assistance Supervisor. She said if the State's subrecipients had followed the contracting procedures requiring homeowners to select three contractors to provide bid proposals, then the subrecipients would not be required to follow HUD's or the State's procurement requirements. However, she said since the State's subrecipients carried out the procurement of the rehabilitation services, the subrecipients

were required to publicly advertise the rehabilitation contracts for the purpose of soliciting bids.

Page 4 of the State's Non-Participating Jurisdiction Housing Handbook requires that subrecipients request and obtain at least three bids or cost estimates on all rehabilitation work. In limited instances, acceptance of a single bid is permitted, if it is determined that the bid is reasonable (within 10 percent of the staff's cost estimate). However, the State's subrecipients did not receive three bids for 113 of the 139 contracts awarded.

As previously mentioned, the subrecipients' Housing Inspectors, not the property owners, carried out the award of the housing rehabilitation contracts. In over half the cases we reviewed, the Housing Inspectors determined or influenced the homeowners in determining which contractors were to be solicited. Thus, the State's subrecipients were required to follow the public procurement requirements of the Ohio Revised Code. The State's subrecipients did not publicly advertise 84 of the 139 housing rehabilitation contracts as required by the State's Revised Code. As a result, the procurement of the housing rehabilitation services were not subject to full and open competition as required by HUD's regulations and State law.

Auditee Comments

The Office of Housing and Community Partnerships will review the current policies of its subrecipients in an effort to encourage the attendance of contractors at bid openings, and a representative of the subrecipient and the homeowner. The Office will recommend that each subrecipient maintains a record of all persons who attend the bid opening.

HUD's procurement guidelines allow subrecipients to perform such technical assistance as providing a list of contractors to homeowners, collecting and summarizing contractors' bids, and advising the homeowner on how to evaluate a contractor's proposal or providing information on past work of specific contractors. In an effort to eliminate the possibility that the housing inspector might have an undue influence on contract awards, the Office will recommend that subrecipients develop policies and guidelines to provide additional checks and balances.

OIG Evaluation Of Auditee Comments

The Policies and Guidelines for the State’s subrecipients already require housing inspectors to provide homeowners with a listing of approved contractors, collect and summarize the bids, advise the homeowner on how to evaluate a contractor’s proposal, and award the contract in the presence of the subrecipients’ representative. However, the subrecipients’ Housing Inspectors that we reviewed also suggested or determined which contractors to obtain bids from, brought the contractors to the bid meeting, and awarded the contracts without the subrecipients’ representative being present. The State should ensure that the subrecipients segregate the duties of the personnel responsible for awarding housing rehabilitation contracts. The duties should be segregated to provide checks and balances on all work.

Auditee Comments

The Office of Housing and Community Partnerships monitors all grants to ensure compliance with Federal, State, and local requirements. The Office’s monitoring tracks the number of bids solicited, received, and the bid amounts. The Office looks for documentation of a competitive bidding process. Additionally, we provide a Financial Management Handbook to each of our subrecipients and will continue to offer financial management training.

The Office’s Non-Participating Jurisdiction Housing Handbook allows subrecipients that receive less than three bids to award the contract to the lowest and best bidder, if that bid is within 10 percent of the housing inspector’s cost estimate. The Handbook cautions that this should be done on a limited basis. Subrecipients that are having difficulty getting three bids are required to take steps, such as recruiting of contractors, soliciting more bids for each contract, and contacting other regional Programs to identify additional contractors. If no bids are received within 10 percent of the cost estimate, the subrecipient is required to rebid the contract. In recent years, the State has experienced difficulty in attracting contractors to bid on Program contracts.

OIG Evaluation Of Auditee Comments

The State did not ensure that its subrecipients’ housing rehabilitation contracts were subject to full and open competition. The State’s subrecipients did not publicly advertise the housing rehabilitation contracts as required by

HUD's regulations and State law. The State's subrecipients also did not obtain three bids as required by the State's Non-Participating Jurisdiction Housing Handbook. While the Handbook allows the State's subrecipients to award contracts in limited instances when less than three bids are received and one bid was within 10 percent of the inspector's cost estimate, the State's subrecipients awarded 113 of the 139 contracts without receiving three bids.

The State should establish controls over its subrecipients contracting processes to ensure that Community Housing Improvement Program contracts are awarded in a manner providing full and open competition.

Auditee Comments

It is not the policy of the Office of Housing and Community Partnerships or its subrecipients to recommend or select contractors to receive housing rehabilitation contracts. The audit report states that the subrecipients' Housing Inspectors either suggested or selected the contractors to bid on the rehabilitation contracts. This appears to be based on questionnaires sent and interviews conducted by the Inspector General's auditors. The Office's staff expressed concerns to the auditors prior to the questionnaire completion that it might lead to unclear responses from the Program participants.

The audit staff tabulated the questionnaire results, and then conducted file and unit inspections to verify the results. The audit report contains no indication that the files failed to document the competitive bidding process as outlined in the subrecipients' Policies and Guidelines. The Office reviewed the file documentation and found it showed that homeowners' selected the contractors to receive a bid packet, collected and tabulated the sealed bids, and awarded the contracts to the lowest and best bidder.

The Office of Housing and Community Partnerships will continue to provide technical assistance and monitoring to ensure that its subrecipients comply with the Program's requirements.

OIG Evaluation Of Auditee Comments

The Housing Inspectors for the State's subrecipients either selected the contractors to obtain bids from, suggested the

contractors to obtain bids from, or requested the contractors to bid on the housing contract for 53 of the 104 households we received a questionnaire from or interviewed. In order to address the Office's concerns regarding our questionnaire, we interviewed 80 of the 104 households to determine how their contractors were selected. Over 50 percent of the homeowners we interviewed informed us that the Housing Inspectors carried out the procurement of their housing rehabilitation services.

The State's planned actions to ensure its subrecipients comply with the Program requirements, if fully implemented, should improve the award of housing rehabilitation contracts. The State should also ensure that its subrecipients stop recommending or selecting which contractors to use.

Auditee Comments

HUD's, the State's, and the subrecipients' requirements were followed during the award of housing rehabilitation contracts. The Office of Housing and Community Partnerships considers the contract awards to be a measure of the cost reasonableness for each of the subrecipients' market.

OIG Evaluation Of Auditee Comments

As detailed in the finding, the State's subrecipients did not follow HUD's regulations and the State's requirements for the award of housing rehabilitation contracts. The subrecipients did not publicly advertise 84 of the 139 contracts as required by HUD's regulations or State law. The State's subrecipients also did not receive three bids for 113 of the 139 contracts as required by the State's Non-Participating Jurisdiction Housing Handbook. The State should establish controls over its subrecipients to ensure that housing rehabilitation contracts are awarded in a manner providing full and open competition.

In order to determine whether the amounts paid to the contractors were reasonable, we had two Inspectors evaluate the services received for 59 of the 139 contracts. Our Inspectors determined that the State's subrecipients paid \$172,181 in unreasonable costs for rehabilitation services on 34 houses. The State should reimburse its Community Housing Improvement Program from non-Federal funds for the costs of the unreasonable housing rehabilitation services.

Auditee Comments

The Office of Housing and Community Partnerships will continue to work with its subrecipients on their procurement responsibilities, provide training and guidance, monitor for compliance, and seek a remedy when a subrecipient is not in compliance. The Office will cite each subrecipient in its subsequent Program monitoring and will require assurance of compliance in the future.

OIG Evaluation Of
Auditee Comments

The proposed actions by the State, if fully implemented, should ensure that its subrecipients revise their Program Policies and Guidelines to ensure they meet HUD's regulation regarding the issuance of a Request for Proposal for fixed-price or cost reimbursement type contracts.

Recommendations

On September 15, 1999, we issued a report on the Fairfield County Community Housing Improvement Program (Report # 99-CH-255-1803). That report included recommendations to address Fairfield County's deficiencies in its procurement process and for the County to reimburse its Program \$2,716 for the costs of the unreasonable housing rehabilitation services. Consequently, we are not including recommendations in this report specifically related to the weaknesses in Fairfield County's Program.

We recommend that the Director of Community Planning and Development, Ohio State Office, assures that the State of Ohio:

- 2A. Ensures that its subrecipients segregate the duties of the personnel responsible for awarding housing rehabilitation contracts. The duties should be segregated to provide checks and balances on all work.
- 2B. Establishes controls over its subrecipients to ensure that Community Housing Improvement Program contracts are awarded in a manner providing full and open competition as required by HUD's regulation and the State's requirements.
- 2C. Ensures that its subrecipients stop the practice of recommending or selecting which contractors to use.

- 2D. Reimburses its Community Housing Improvement Program \$169,465 (\$172,181 less \$2,716 from Fairfield County) from non-Federal funds that were paid for the unreasonable housing rehabilitation services cited in this finding.

- 2E. Ensures that the five subrecipients cited in this finding revise their Community Housing Improvement Programs' Policies and Guidelines to ensure they meet HUD's regulation regarding the issuance of a Request for Proposal for fixed-price or cost-reimbursement type contracts.

(THIS PAGE LEFT BLANK INTENTIONALLY)

The State Lacked Adequate Controls To Ensure Corrective Action Was Taken

The State of Ohio did not adequately ensure its subrecipients took action to repair items that did not meet the State's Residential Rehabilitation Standards and which were identified during the State's monitoring reviews. The State also permitted a subrecipient to inappropriately use \$1,168 in HUD funds to correct items that did not meet the State's Standards after HUD funds were used to pay for the original deficiently performed housing rehabilitation work. The problems occurred because the State did not have adequate controls over the Community Housing Improvement Program to ensure its subrecipients took appropriate corrective action regarding deficient housing rehabilitation work. As a result, HUD lacks assurance that houses met the State's Standards after housing rehabilitation work was performed. HUD funds were also not used efficiently and effectively.

Federal Requirements

24 CFR, Subpart F, Part 92.251 requires that housing rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion.

24 CFR Part 92.504(a) says the State is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of recipients, subrecipients, or contractors does not relieve the State of this responsibility.

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

State's Requirements

Page 6 of the State's Home Investment Partnerships Program Grant Agreements requires its subrecipients to ensure that all projects and units assisted with HOME funds meet the requirements set forth in 24 CFR Part 92 Subpart F. Page 3 of

Attachment B of the Grant Agreements requires all rehabilitation work paid with HOME funds meet or exceed the State's Residential Rehabilitation Standards.

The State's Small Cities Community Development Block Grant Program Grant Agreements, page 4 of Attachment B, require its subrecipients to ensure all rehabilitation work paid for with Block Grant funds meet or exceed the State's Residential Rehabilitation Standards.

The State's Non-Participating Jurisdiction Housing Handbook, page 29, requires its subrecipients to ensure all rehabilitation work is done in accordance with the State's Residential Rehabilitation Standards.

Sample Selection And
Inspection Results

We selected a sample of seven houses that received housing rehabilitation funds through the Community Housing Improvement Programs for the Cities of Newark and Shelby, and Knox County. We selected the seven houses to determine whether the State's subrecipients took corrective action to ensure the houses met the State's Residential Rehabilitation Standards. During its monitoring review of the three subrecipients, the State identified 16 deficiencies at the seven houses that did not meet the State's Standards. The State's monitoring reviews were performed between June 30, 1998 and October 21, 1998.

Our Inspector inspected six of the seven houses between December 27, 1999 and December 29, 1999 to determine whether the State's subrecipients completed the repairs that the State recommended in its monitoring reviews. Our Inspector was unable to inspect one house since the homeowner was not available and the deficiency identified by the State related to an interior item. The house is located at 20 Shelby Avenue, Shelby, Ohio. Our Inspector was only able to inspect the exterior of the house located at 402 7th Avenue, Mt. Vernon, Ohio, since the homeowner was not available for the inspection. There were three interior deficiencies identified by the State at this house for which our Inspector was not able to determine whether corrective action was taken.

We provided the inspection results to HUD's Ohio State Office Director of Community Planning and Development and the

Manager of the State’s Office of Housing and Community Partnerships.

The State Did Not Adequately Ensure Its Subrecipients Made The Required Repairs

The State failed to adequately ensure its subrecipients took action to repair items that did not meet the State’s Residential Rehabilitation Standards. The State identified 15 items at six houses that did not meet the State’s Standards. The State identified the items during its monitoring reviews of three subrecipients. The subrecipients were requested to repair the 15 items to ensure the six houses met the State’s Standards.

The 15 repair items included such items as the lack of a shut-off valve on the bathroom toilet’s water supply, no discharge pipe to the hot water heater, and no handrail on the back porch steps. The following table shows the number of repair items identified by the State, the number of items inspected by our Inspector, and the items not corrected for each of the six houses.

Address of House	Items Identified By The State	Items Inspected By Our Inspector	Items Not Corrected
411 7 th Avenue, Mt. Vernon	1	1	None
206 South Norton Street, Mt. Vernon	3	3	None
402 7 th Avenue, Mt. Vernon	4	1	<ul style="list-style-type: none"> • Handrail on back porch steps was not installed.
112 Homewood Avenue, Newark	4	4	<ul style="list-style-type: none"> • Dead bolt lock was keyed on both sides of the back door. • No shut-off valve was installed to the toilet’s water supply. • Electrical outlets in the garage were not GFI protected. • The wall access to the furnace was open and unfinished.
23 Jeffrey Avenue, Shelby	1	1	None
33 Shelby Avenue, Shelby	<u>2</u>	<u>2</u>	<ul style="list-style-type: none"> • Open spaces still exist in the electrical panel.
Totals	<u>15</u>	<u>12</u>	

Our Inspector determined that six items at three houses were not corrected. While the Cities of Newark and Shelby, and Knox County advised the State that corrective action would be taken or was taken, the State's subrecipients failed to ensure the items were corrected. The State did not verify whether the subrecipients corrected the items identified during the State's monitoring reviews. As a result, HUD lacks assurance that houses met the State's Standards after housing rehabilitation work was performed.

The State Allowed A
Subrecipient To
Inappropriately Use HUD
Funds

The State allowed a subrecipient to inappropriately use \$1,168 in HUD funds to correct items that did not meet the State's Residential Rehabilitation Standards. The State performed a monitoring review of Knox County on August 21, 1998 to determine whether the County administered its Community Housing Improvement Program appropriately. During its review, the State determined that the housing rehabilitation work for two houses did not meet the State's Standards. The two houses are located at 206 South Norton Street, Mt. Vernon, and 402 7th Avenue, Mt. Vernon.

The rehabilitation work performed at 206 South Norton Street included \$6,660 for the installation of a new furnace, hot water heater, and ground fault circuit interruption outlets in the kitchen. The State determined that repair work was needed to correct three items to ensure the house met the State's Standards. Knox County executed a contract amendment on October 12, 1998 for \$482 in HUD funds to correct the three items. The County had already used HUD funds to pay for the completion of the three items in the original rehabilitation contract. Therefore, the County inappropriately used HUD funds to pay for the correction of the deficient housing rehabilitation work that was already paid with HUD funds.

The rehabilitation work performed at 402 7th Avenue included \$3,630 for electrical work and the installation of a new furnace. The State determined that repair work was needed to the electrical work and furnace to ensure the house met the State's Standards. Knox County executed a contract amendment on October 13, 1998 for \$686 in HUD funds to correct the items identified during the State's monitoring review. The County again used HUD funds to pay for the correction of the deficient housing rehabilitation work.

Page 6 of the State's Non-Participating Jurisdiction Housing Handbook states all rehabilitation work must carry at least a one year warranty on materials and labor. Knox County's Rehabilitation Contracts require that the contractors guarantee the rehabilitation work performed for a period of twelve months from the date of final acceptance of the required work. The two houses discussed previously were covered by the contractors' warranties. The County should have required the contractors to make the necessary repairs; however, this was not done.

The State's Program Manager said items identified during a monitoring visit that were not included in the scope of the rehabilitation specifications and that needed to be corrected were eligible for reimbursement from available grant funds. He said if the State identified housing rehabilitation work which was part of the contracted services and was not completed correctly, then the contractor would be responsible for corrective action.

The State is required to follow Office of Management and Budget Circular A-87. Circular A-87 requires that all costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. The use of HUD funds by the State's subrecipient to correct items that were already paid for was not reasonable and necessary.

Since our Office advised the State of the inappropriate use of HUD funds, the State started reviewing the need for a new policy regarding the use of HUD funds to pay for the correction of deficient housing rehabilitation work.

Auditee Comments

[Excerpts from the Manager's comments on our draft finding follow. Appendix B, pages 62 to 66, contains the complete text of the comments.]

The draft finding reports that the State's Program Manager said the State allows its subrecipients to use HUD funds to make repairs to ensure that assisted houses meet the State's Standards as long as HUD funds are available. This is not an accurate quote. The Program Manager said items identified during a monitoring visit which were not included in the scope of

the rehabilitation specifications were eligible for reimbursement from the available grant funds. If the questioned item was part of the contracted work, the contractor should be responsible for the corrective action. All work completed with Program funds would be required to include a one year warranty period.

The Office of Housing and Community Partnerships' staff contacted the City of Shelby regarding the one unresolved finding. The homeowner verified that the work was completed that same day.

The Office contacted the City of Newark regarding the four unresolved findings. The City acknowledged that the items were not corrected and ensured the Office that the contractor would perform the additional work as soon as possible. The Office continues to work with Knox County regarding 206 South Norton Street and 402 7th Avenue in Mt. Vernon.

OIG Evaluation Of Auditee Comments

We adjusted our draft audit finding to reflect the statements made by the State's Program Manager. The actions taken or planned by the State, if fully implemented, should ensure that the items cited in this finding that did not meet the State's Standards are corrected.

Auditee Comments

The audit report stated that the Office of Housing and Community Partnerships did not ensure that its subrecipients completed the corrective actions identified in the State's monitoring process. The process requires that subrecipients respond in writing to each monitoring finding. The Office reviews the subrecipient's response and if the response meets the required action, the finding is closed. If the response does not to meet the required action, the finding remains open and the subrecipient may be required to take additional steps to close the finding.

Since the audit, the Office amended its process to provide additional oversight to ensure the completion of all corrective action. Subrecipients are required to submit a signed inspection form assuring that all cited rehabilitation work was completed. The Office encourages subrecipients to provide a photo of the completed work.

**OIG Evaluation Of
Auditee Comments**

The actions taken by the State, if fully implemented, should ensure that its subrecipients make the necessary repairs to meet the State's Residential Rehabilitation Standards cited during the State's reviews.

Auditee Comments

The Office of Housing and Community Partnerships reviewed the file documentation to determine if Federal funds were used as payment for work included in the project work specifications. If the items identified during the Office's monitoring visit were not included in the original scope of the rehabilitation specification, the Office considers these costs to be eligible for reimbursement and not a duplication of payment. If the item in question was a part of the contracted work, the subrecipient and contractor should be responsible for the corrective action and these items would not be eligible for reimbursement from Federal funding.

The Office's monitoring report for Knox County cited three items that did not meet the Office's Residential Rehabilitation Standards for the home at 206 South Norton Street, Mt. Vernon. The subrecipient was required to install a discharge pipe on the hot water heater, a switch for the hall light at the bottom of the stairs, and the required ground fault circuit interruption receptacles in the kitchen. The rehabilitation specifications did not call for installation of a discharge pipe.

The rehabilitation specifications called for the house to be rewired to code. This work would include the installation of ground fault circuit interruption receptacles in the kitchen and making the hall light switchable from both the top and the bottom of the stairs. The failure of the contractor to complete these two requirements can only be construed as a failure to fulfill the requirements of the contract. The cost of the corrective actions are not eligible for reimbursement from Community Development Block Grant funds. The Office will require Knox County to repay the \$482 using non-Federal funds.

The Office's monitoring report cited four items that did not meet the Office's Residential Rehabilitation Standards for the home at 402 Seventh Avenue, Mt. Vernon. The subrecipient was required to install a discharge pipe on the hot water heater,

shut-off valve on the furnace, a sufficient number of outlets in the upstairs bedroom, and a handrail on the back steps. The specifications called for the installation of a new furnace and hot water heater. However, the bid specifications did not specify a shut-off valve for the furnace or a hot water heater discharge valve. The installation of the handrail was not included in the bid specifications. Since these items were not included in the original scope of the rehabilitation specification, they would be eligible for reimbursement. These items were additions to the scope of work and would not represent a duplication of payment.

The electrical specifications required checking the system to be sure it meets code. The bedroom was left with only one receptacle, which did not meet the Office's Residential Rehabilitation Standards. The work was the responsibility of the contractor as a part of the bid he submitted. The Office considers the electrical corrective actions to a duplication of payment and will seek reimbursement from non-Federal funds. The Office will work with the subrecipient to determine what portion of the questioned costs represent the ineligible expenditures and seek the appropriate reimbursement.

OIG Evaluation Of Auditee Comments

The subrecipient's use of HUD funds for the installation of the relief valve and discharge tube on the hot water heater at 402 7th Avenue is a duplication of payment. Thus, the use of HUD funds was not reasonable and necessary. Page 21 of the State's Residential Rehabilitation Standards requires hot water heaters to have a temperature/pressure relief valve with a discharge tube within six inches of the floor. While the bid specifications may not have included the relief valve and discharge tube, the installation of the hot water heater with the valve and tube must occur to meet the State's Standards. Thus, the State should reimburse its Program from non-Federal funds for the inappropriate use of the HUD funds. The State should also ensure the handrail for the house located at 402 7th Avenue is installed to ensure the house meets the State's Standards.

The actions taken by the State, if fully implemented, should ensure that its subrecipients make the necessary repairs to meet the State's Residential Rehabilitation Standards. The State should reimburse its Community Housing Improvement

Program \$1,168 from non-Federal funds for the inappropriate use of HUD funds cited in this finding.

Recommendations

We recommend that the Director of Community Planning and Development, Ohio State Office, assures that the State of Ohio:

- 3A. Ensures that the items cited in this finding that did not meet the State's Residential Rehabilitation Standards are corrected as required by HUD's regulation and the State's requirements.
- 3B. Establishes adequate controls to ensure its subrecipients make the necessary repairs to meet the State's Residential Rehabilitation Standards cited during the State's reviews.
- 3C. Reimburses its Community Housing Improvement Program \$1,168 from non-Federal funds for the inappropriate use of HUD funds cited in this finding.
- 3D. Stops allowing its subrecipients to use HUD funds to correct deficient housing rehabilitation work already paid for with HUD funds.
- 3E. Establishes adequate controls to ensure its subrecipients enforce the terms of their housing rehabilitation contracts, including but not limited to, requiring contractors to repair deficient housing rehabilitation work.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Management Controls

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

Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - 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 Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

Significant Weaknesses

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

- Program Operations.

The State: (1) did not have adequate procedures and controls over the Community Housing Improvement Program to ensure houses met the State's Standards after they received housing rehabilitation assistance; (2) did not ensure its subrecipients' top management exercised their responsibilities to implement effective contracting controls; and (3) did not have adequate controls over the Program to ensure its subrecipients took appropriate corrective action regarding deficient housing rehabilitation work (see Findings 1, 2, and 3).

- Compliance with Laws and Regulations.

The State did not ensure that its subrecipients followed HUD's regulations, Office of Management and Budget Circular A-87, the State's requirements, and their guidelines to ensure that: (1) assisted houses met the State's Residential Rehabilitation Standards; (2) full and open competition existed regarding the procurement of housing rehabilitation and consulting services; and (3) its subrecipients took action to repair items that did not meet the State's Standards (see Findings 1, 2, and 3).

- Safeguarding Resources.

The State permitted its subrecipients to: (1) inappropriately use \$290,555 of HUD funds (HOME and Community Development Block Grant funds) to pay for rehabilitation work that was improperly performed or that was not provided to 43 houses; (2) excessively pay \$172,181 for rehabilitation services on 34 houses, (3) use \$1,091,037 in HUD funds without adequate documentation to support the reasonableness of 75 rehabilitation contracts that were not competitively procured as required; and (4) inappropriately use \$1,168 in HUD funds to correct items that did not meet the State's Standards after HUD funds were used to pay for the deficient housing rehabilitation work (see Findings 1, 2, and 3).

Follow Up On Prior Audits

This is the first audit of the State of Ohio's Community Housing Improvement Program by HUD's Office of Inspector General. The latest single audit for the State covered the fiscal year ended June 30, 1998. The report contained 59 findings. None of the findings related to the Community Housing Improvement Program.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Schedule Of Ineligible Costs

<u>Recommendation</u> <u>Number</u>	<u>Ineligible Costs 1/</u>
1A	\$280,354
2D	169,465
3C	<u>1,168</u>
Total	<u>\$450,987</u>

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

(THIS PAGE LEFT BLANK INTENTIONALLY)

Auditee Comments

February 25, 2000

Heath Wolfe, Assistant District Inspector General
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Subject: Draft Audit Findings, State of Ohio Community Housing Improvement Program

Dear Mr. Wolfe:

This letter is in response to the draft audit findings as outlined in the January 26, 2000 letter issued by the Regional Inspector General for Audit. The Ohio Department of Development's Office of Housing and Community Partnerships (OHCP) administers the Community Housing Improvement Program (CHIP), which was the subject of the audit draft findings. The following response is provided based upon the draft finding as described in the January 26, 2000 letter. OHCP's response may change if the final version of the audit finding differs from its present form.

Audit Draft Finding

The State Did Not Ensure That Units Meet The Residential Rehabilitation Standards After Housing Assistance

The audit report lists \$10,201 in work improperly performed and work not provided that were included in the earlier audit of Fairfield County. These issues were addressed in the earlier audit response and the county is currently working with OHCP to fulfill the plan of action outlined in the audit response. OHCP requests that the final audit report include only audit issues that are specific to this review and have not been included in other audits undertaken by the HUD I.G. Audit. This duplication of audit materials inflates the dollar figures reflected in the audit and provides an unfair representation of the scale of the items in question.

The draft finding recommends the Director of Community Planning and Development, Ohio State Office, assure that the state of Ohio take the following actions:

- A. Ensures the \$280,354 of housing rehabilitation work cited in this finding is completed correctly. If the state is unable to ensure the rehabilitation work is completed, then the state should reimburse its Community Housing Improvement Program from non-Federal funds the total amount of housing rehabilitation assistance that was provided to the applicable houses and ensure that the applicable liens against the properties are released**

The draft finding listed work identified as improperly performed or work not provided for 35 properties in six communities. A detailed response for each of the properties cited will have to be completed once the final audit has been issued and OHCP has had an opportunity to inspect each of the properties identified, review the audit citations, and propose an appropriate response for each property. It is important to note that the properties inspected for the purposes of this audit are households that received assistance from the FY '97 CHIP program. OHCP monitors all grants for compliance with state and federal requirements, including compliance with OHCP's Residential Rehabilitation Standards, prior to the closeout of the grant. At the time the Audit inspections were completed, OHCP had just begun the process of monitoring the FY '97 grants.

The FY '97 grants were for a 24-month period, which included a 22-month time period to complete all work. Some of the FY '97 grants requested and were granted extensions, which would further extend the grant timelines. For example, the city of Kenton, Grant Numbers A-C-97-137-1 and A-C-97-137-2; grants began on August 1, 1997 and ended on July 31, 1999. The city requested and was granted an extension until December 31, 1999. OHCP staff conducted a monitoring visit on November 16 and 17, 1999. Four houses were inspected for compliance with OHCP's Residential Rehabilitation Standards and OHCP required the community to make corrections to two of the properties inspected.

B. Establishes adequate controls to ensure assisted houses meet the State's Residential Rehabilitation Standards after receiving housing rehabilitation assistance as required by HUD's regulations, the State's requirements, and the subrecipient's Policies and Guidelines.

As detailed in the Item A, OHCP monitors all grants prior to the closeout of the grant. At the time the Audit inspections were completed, OHCP had just begun the process of monitoring the FY '97 grants.

C. Establishes procedures and controls to ensure that Housing Inspectors who do not perform correctly are properly monitored to ensure their performance improves. If a Housing Inspector's performance does not improve, then the state needs to take action to remove the Inspector from participating in the Program.

OHCP has established a rehabilitation training series aimed at raising the expertise and performance level of Housing Inspectors currently working in the CHIP program. OHCP is requiring that all CHIP Inspectors and OHCP staff attend the entire training series. OHCP will track course attendance. Grantees or potential grantees who fail to ensure staff attendance and completion of the series will not be approved for future CHIP funding. As noted in the previous sections of the response, OHCP currently monitors all grants for compliance with state and federal requirements, including compliance with OHCP's Residential Rehabilitation Standards. These monitoring findings are used as a part of future funding reviews to evaluate the grantee's ability to comply with all applicable requirements. Grantee funding applications are also evaluated for the qualifications of the staff proposed to implement the application if funded.

This information is also evaluated and is scored as a part of the competitive funding review process. The CHIP funding process is extremely competitive and any loss of points based on past performance or qualifications of the proposed staff would dramatically affect the community's ability to receive future CHIP funding awards.

OHCP is also evaluating additional ways of determining the current level of Housing Inspector performance with the intent of preventing the future participation in the program should improvement not occur. OHCP is considering developing a policy of placing program staff in a probationary status, closely evaluating their job performance for a set time period, and then taking action to remove the Inspector from participating in the program, if job performance does not improve.

D. Take Administrative Action against the Housing Inspectors for the city of Kenton and the counties of Champaign and Clinton, if within six months their performance does not show significant improvement.

This issue relates back to the units identified in Section A of this draft finding. OHCP will not be prepared to respond to this issue until the actions proposed in Section A have been completed to evaluate the scope of the problems identified. If OHCP determines that the Inspectors cited in this report have failed to complete their duties and maintain the required work standards, OHCP will consider implementing the actions proposed in Section C of this response.

E. Initiate debarment proceedings against the Housing Inspector for the city of Wellston and Fairfield County.

As stated in the opening of this response, OHCP believes that all references to actions or issues contained in the Fairfield County Audit are inappropriate for inclusion in the final report issued for the audit of the state of Ohio Community Housing Improvement Program. OHCP will not be prepared to respond to the debarment of the city of Wellston's housing inspector until the actions proposed in Section A have been completed to evaluate the scope of the problems identified. If OHCP determines that the Inspectors cited in this report have failed to complete their duties and maintain the required work standards, OHCP will consider implementing the actions proposed in Section C of this response.

If you have any further questions, please do not hesitate to contact Les Warner, CHIP Supervisor, of my staff, at (614) 466-2285.

Sincerely,

William J. Graves, Manager
Office of Housing and Community Partnerships

WJG/LW/ps

March 16, 2000

Heath Wolfe, Assistant District Inspector General
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Subject: Draft Audit Findings, State of Ohio Community Housing Improvement Program

Dear Mr. Wolfe:

This letter is in response to the draft audit findings as outlined in the February 17, 2000 letter issued by the Regional Inspector General for Audit. The Ohio Department of Development's Office of Housing and Community Partnerships (OHCP) administers the Community Housing Improvement Program (CHIP), which was the subject of the audit draft findings. The following response is provided based upon the draft finding as described in the February 22, 2000 letter. OHCP's response may change if the final version of the audit finding differs from its present form.

The draft finding focuses on the state of Ohio's controls over its sub-recipients' contracting process. The report identifies the applicable regulations including both State and Federal requirements. OHCP CHIP grantees are following a process outlined in CPD Notice 85-2, which establishes when OMB Circular A-102, Attachment O (current reference is 24 CFR Part 85 "The Common Rule") applies to Community Development Block Grant (CDBG) assisted rehabilitation activities. HUD has encouraged local grantees to maximize the participation of the property owners in the rehabilitation process. The notice clarifies that if the property owner is the procuring party Attachment O does not apply. The CHIP program is designed to allow the property owner to have first-line control over the procurement of rehabilitation services, while the program staff provides technical assistance. The technical assistance provided includes the inspection of property, the development of a deficiency list and work specifications, providing the property owner with a list of approved contractors, the collection and summary of bids as outlined in CDP Notice 85-2. Attached to this response is a copy of the notice and a letter from OMB to Steven Switzer, Assistant Inspector General for Audit, which states that Attachment O, Grantee Procurement Standards, OMB Circular A-102 applies to units of local government and not individuals.

OHCP requested a ruling from the HUD Ohio State Office to verify that the guidance provided in the "expired" notice was still applicable. Anthony Johnston, Financial Management Division, Office of Block Grant Assistance, HUD provided an opinion that verified that the guidance provided in CPD Notice 85-2 remains applicable. The Housing Handbook and local Policies and Procedures manuals have been designed to implement procurement under this model.

The comments of the State's Training and Technical Assistance Supervisor, which were included on page five, are incorrectly summarized. The state of Ohio obtained its guidance on streamlined procurement (non-Circular A-102) from HUD's 1983 publication Streamlining

Rehabilitation Programs and HUD CPD Notice 85-2: Guidelines for Applying OMB Circular A-102, Attachment O, Procurement Standards. A copy of the Streamlining publication was provided to the audit staff. The notice states:

“Clearly, if the owner, in fact carries out the procurement transactions, Attachment O does not apply. In many instances, however, the owner will require the assistance of the unit of government in retaining a contractor. The grantee may assist the owner by providing technical assistance and preparing or reviewing cost estimates. At the owner's request, the grantee may perform such technical assistance as providing a list of contractors to property owners, collecting, and summarizing contractors bids, advising the owner on how to evaluate a contractor's proposal or providing information on past work of specific contractors. If the owner makes the final contractor selection, and the grantee provides assistance as described above, Attachment O would not apply.”

This is what the Training and Technical Assistance Supervisor attempted to convey to the Inspector General's representative. If <emphasis added> procurement was not substantially conducted in this manner, then the procurement transaction would not qualify for exemption of Attachment O or Ohio Revised Code.

As a means to protect the public's interest, the state of Ohio added the requirements: 1) at least three contractors who are likely to bid must be contacted, 2) the homeowner must take the lowest and best bid, and 3) if only one bid is received, then the bid must be within 10% of the estimate, accounting for all addenda to the bid package. Please note the streamlined process does allow and promote the local government staff or its consultants to participate in the rehabilitation process within some limitations and still meet the definition of streamlined procurement.

The draft Audit finding references the state's failure to comply with Sections 307.80 and Section 731.14 of the Ohio Revised Code. The report also references the state's failure to verify whether the sub-recipients have followed the State's Revised Code's requirement to publicly advertise the rehabilitation contracts. The Ohio Revised Code references apply to public procurement and do not apply to rehabilitation contracts, which are procured by the homeowner.

Based on the evaluation of standard forms, it is clear the sub-recipients' procurement Policies and Guidelines were set up to comply with HUD's definition of streamlined procurement. It appears the IG staff has come to its conclusion that public procurement was required based on a misunderstanding of the Training and Technical Assistance Supervisor's phone comments and its interpretation of survey and interview response from program beneficiaries. In all cases the local government was not a signatory on any of the rehabilitation contracts. OHCP provides guidance on this process in the Housing Rehabilitation Handbook and in all procurement training it has held for its grantees. A sample of CDC of Ohio's forms which demonstrate the intent for local homeowner's involvement are attached.

The draft finding recommends the Director of Community Planning and Development, Ohio State Office, assure that the state of Ohio take the following actions:

A. Ensures that its sub-recipients segregate the duties of the personnel responsible for awarding housing rehabilitation contracts. The duties should be segregated to provide checks and balances on all work.

The role of the CHIP program staff includes the inspection of property, the development of a deficiency list and work specifications, conducting a pre-bid walk through of the unit, and the inspection of work completed that requires a level of expertise specific to the rehabilitation specialist. The concerns expressed in the audit relate to the rehabilitation specialist's role in the awarding of housing rehabilitation contracts. The bid packet provided to contractors to solicit competitive bids include a notice of the date of the bid opening and the fact that all bids will read aloud, to avoid collusion of the contractors or the homeowner and the contractor. The procurement documents signed by the homeowner currently inform them of their role in the procurement process and encourage, although they do not require, the homeowner to attend the bid opening. OHCP will review the current policies of local recipients in an effort to encourage the attendance at bid openings by contractors, a representative of the local grantee, and the homeowner. OHCP will recommend that each grantee maintain a record of all persons who attend the bid opening. HUD's procurement guidelines allow the grantee to perform such technical assistance as providing a list of contractors to property owners, collecting, and summarizing contractors bids, and advising the owner on how to evaluate a contractor's proposal or providing information on past work of specific contractors. In an effort to eliminate the possibility that the rehabilitation inspector might have an undue influence in the award of contracts, OHCP will recommend that grantees develop policies and guidelines to provide additional checks and balances.

B. Establishes controls over its recipients to ensure Community Housing Improvement Program contracts are awarded in a manner providing full and open competition as required by HUD's regulation and the State of Ohio's requirements.

OHCP monitors all grants prior to closeout to ensure compliance with applicable federal, state, and local regulations and guidelines. OHCP's monitoring format tracks the number of bids solicited, received, and the bid amounts. The format looks for documentation of a competitive bidding process. Additionally, OHCP provides a Financial Management Handbook to each of its grantees. The handbook includes a copy of 24 CFR Part 85 - Administrative Requirements for grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments and OMB Circular A- 87 – Cost Principles for State and Local Governments. As stated in item A above, OHCP has offered and will continue to offer training on OMB Circulars and financial management.

OHCP's Housing Handbook allows grantees that receive less than three bids to award the contract to the lowest and best bidder if that bid is within 10% of the staff cost estimate. The Handbook cautions that this should be done on a limited basis. Grantees that are having difficulty getting three bids returned are required to take steps, such as recruiting of contractors, soliciting more bids for each contract, and contacting other regional programs to identify contractors working within the region. If no bids are

received within a 10% range of the cost estimate, the community is required to re-bid the contract. In recent years Ohio has experienced difficulty in attracting contractors to bid on the local CHIP rehabilitation projects. Ohio's healthy economy and the number of new construction starts have made the task of maintaining a more competitive market difficult. OHCP continues to work with local grantees in order to maintain and document an open competition as required.

C. Ensures that its sub-recipients stop the practice of recommending or selecting which contractors to use.

It is not the policy of OHCP or its sub-recipients to recommend or select the contractors to be awarded rehabilitation contracts. It is the role of local grantees to provide a list of approved contractors, provide information of the past performance of specific contractors, and to monitor all contractors to assure their ability to complete the work specifications. The audit report suggests that the housing inspector for the State's sub-recipients either suggested to the homeowner which contractors to select, or actually selected the contractors to bid on the rehabilitation work. These statements appear to be based on an interpretation of the surveys and interviews conducted by the I.G. audit staff. OHCP staff expressed concern to the Audit staff prior to the completion of the survey that the way questions were stated might lead to unclear or ambiguous responses from CHIP clients. For example, Question #6 on the survey asks if the homeowner selected the contractors to bid on the home repair work. This question appears to be clear until you consider that since most homeowners selected contractors off the approved list of contractors, the homeowner may consider this a selection of the program rather than their own. Question # 4 asks if the homeowners were asked if any contractors were recommended/suggest? It would be appropriate for a local staff person to advise the homeowner if contractors on the list were currently working on a number of other CHIP projects and unlikely to be able to complete the work within the specified time period.

The audit staff tabulated the survey results and then conducted file and unit inspections to verify the survey results. The audit report contains no indication that the files failed to document the competitive bidding process as outlined in the local grantee's Policies and Guidelines. OHCP has reviewed the standard file documentation and has found it to have been designed to provide documentation of the client's selection of the contractor's to receive the bid packets, the collection and tabulation of sealed bids, and the awarding of contracts to the lowest and best bid.

Attachment for Item C

The sample forms attached document the process as described in "The Common Rule".
Instructions for Obtaining a Contractor/Assistance Request: This form the procurement process and informs the homeowner that they may implement the process or request the assistance of the local CHIP program staff. The form is signed by the housing inspector and the homeowner.

Homeowner Selection of Bidders: This form documents that the program provided the homeowner with an approved contractor list, that the contractors were selected by the homeowner, and that the homeowner requested the local program staff to assist in sending out the bid packets, conducting the

pre-bid walk-through, and receiving and opening the bids. This notice also invites the homeowner to be present at the bid opening.

Bid Summary: This form documents opened at the public bid opening, the amount of the bid, and also identifies the lowest bidder. CDC of Ohio has revised this form for the FY '99 CHIP program to list the bid opening attendees.

The examples provided are households that were included in the audit file review. Each of these households were also included the audit estimate of over expenditures in the prior section of this finding. The file format provides documentation that the CHIP procurement of rehabilitation services has been conducted in compliance with the applicable requirements. The survey results have not been verified by the program documentation and thus, this finding should be closed.

OHCP will continue to provide technical assistance and monitoring to ensure that its sub-recipients implement the program's policies in compliance with all applicable requirements.

D. Reimburses its Community Housing Improvement Program \$169,465 from non-Federal funds that were excessively paid for the housing rehabilitation services cited in this finding.

The audit finding challenges the contract awards for rehabilitation services as being excessive. The contracts were awarded following the streamlined procurement process (non-Circular A-102) from HUD's 1983 publication Streamlining Rehabilitation Programs and HUD CPD Notice 85-2: guidelines for Applying OMB Circular A-102, Attachment O, Procurement Standards.

The audit staff tabulated the survey results and then conducted file and unit inspections to verify the survey results. The audit report contains no indication that the files failed to document the competitive bidding process as outlined in the local grantee's Policies and Guidelines. The contract amounts reflect the lowest and best bid received. HUD, state of Ohio, and local requirements were followed in the awarding of the listed contracts and OHCP considers the contract awards to be a measure of reasonable cost in each of the local markets.

OHCP's policy requires that a staff cost estimate of cost be completed prior to releasing the bid package. OHCP also requires that no award can be made if the bid exceeds the staff estimate by greater than 10%. With open competitive, an estimate of cost, and a control factor of no award if bid exceeds 10% it appears to OHCP costs paid were not excessive. OHCP will evaluate the reasonableness of the staff estimates.

E. Provides documentation to support the reasonableness of the \$931,599 of housing rehabilitation assistance cited in this finding that was not competitively procured as required by HUD's regulations or the State's requirements. If adequate documentation cannot be provided, then the State should reimburse its Community Housing Improvement Program from non-Federal funds for the appropriate amount.

The contracts were awarded following the streamlined procurement process (non-Circular A-102) from HUD's 1983 publication Streamlining Rehabilitation Programs and HUD CPD Notice 85-2: guidelines for Applying OMB Circular A-102, Attachment O, Procurement Standards.

The contract amounts reflect the lowest and best bid received. HUD, state of Ohio, and local requirements were followed in the awarding of the listed contracts and OHCP considers the contract awards to be a measure of reasonable cost in each of the local markets. The grantee files provide documentation of the implementation of the above referenced procurement process. Sample forms have been provided to demonstrate the local policies put in place to document this process.

F. Ensures that the five sub-recipients cited in this finding revise their Community Housing Improvement Programs' Policies and Guidelines to ensure they meet HUD's regulation regarding the issuance of a Request for Proposal for fixed-price or cost-reimbursement type contracts.

The audit report indicated that all five communities cited in the report did not request a proposal that included price or cost as a factor to be evaluated. Each of these programs is completed or nears completion at this date. However, this audit report also indicated that audit staff have conducted an evaluation of the reasonableness of the costs and have determined the costs in each case to be reasonable.

The state of Ohio will continue to work with grantees on their procurement responsibilities, provide training and guidance, monitor for compliance, and will seek remedy when a community is not in compliance. The CHIP Policies and Guidelines are specific to local CHIP grant programs and outline the implementation of the local housing assistance. The local community's procurement policy for administrative services would not be included in this document. OHCP will cite each community in its subsequent program monitoring and will require assurance of compliance in the future.

In addition to monitoring, OHCP currently provides guidance for the procurement of Rehabilitation Administrative and Implementation Services as follows:

Instructions for procurement of Rehabilitation Administrative and Implementation Services is listed in OHCP Chapter 12; Procurement; Section 12.30 – Use of Outside Consultants; page 1. This section states:

“All professional service contracts including those with architects, auditors, engineers, planners, and program administrators must be competitively procured regardless of dollar value. Procurement of these services shall be in compliance with state law, local procurement policies

and Section 12.10 of this Handbook. Procurement practices should reflect the guidelines in Attachment O of OMB Circular A-102 as revised and good business judgement.”

The handbook advises that the open competitive negotiation method is the most appropriate procedure to follow in the procurement of professional services. The processes for advertisement, definition of services required, method for solicitation of proposals, selection process, evaluation process, and contracting process are also described. Grantees are referred to this handbook for written guidance concerning public procurement by correspondence, grant agreement, and technical assistance.

Also, on January 12, 2000, OHCP issued a memorandum titled "Procurement of Administrative Consultants" (attached) to all eligible Community Housing Improvement Program Jurisdictions. Each of the five sub-recipients mentioned in this report received a copy. The memorandum referred potential grant recipients to Chapter 12, 24 CFR 85.36 (d)(3), and specifically section 12.30 and encouraged them to obtain a copy from OHCP if they could not locate a copy. The memorandum covered six points:

All administrative consulting contracts must be competitively procured and the price or cost must be requested and evaluated.

If CHIP funds will be used to pay for the application preparation, then procurement for the application preparation must be done prior to the services being provided.

A consultant cannot offer to prepare an application for free for favorable consideration of a grant administration contract.

If a community plans to have one consulting firm do both the administrative and engineering or architectural services, then both scopes of services must be listed in the RFP and there must be demonstrative evidence of separation of duties.

Contracts for administrative services which are placed in the application will not be evaluated for compliance with CDBG or HOME requirements nor construed to be acceptable simply because the application is funded. (The process will be discussed and evaluated during a post award meeting.)

All administrative and professional contracts must contain the necessary federal provisions.

If you have any further questions, please do not hesitate to contact Les Warner, CHIP Supervisor, of my staff, at (614) 466-2285.

Sincerely,

William J. Graves, Manager
Office of Housing and Community Partnerships

WJG/LW/ps

cc: John E. Riordan, Deputy Director, CDD
Marlo Tannous, Chief Legal Counsel, ODOD
Doug Garver, Assistant to the Director, ODOD
Lana Vacha, Director, Ohio Office, HUD

March 20, 2000

Heath Wolfe, Assistant District Inspector General
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Subject: Draft Audit Findings, State of Ohio Community Housing Improvement Program

Dear Mr. Wolfe:

This letter is in response to the draft audit findings as outlined in the February 22, 2000 letter issued by the Regional Inspector General for Audit. The Ohio Department of Development's Office of Housing and Community Partnerships (OHCP) administers the Community Housing Improvement Program (CHIP), which was the subject of the draft audit findings. OHCP's response may change if the final version of the audit finding differs from its present form.

Draft Audit Finding

The State Lacked Adequate Controls To Ensure Corrective Action Was Taken

The draft finding states "that the Program Manager said the state allows its sub-recipients to use HUD funds to make repairs to ensure that assisted houses meet the State's Standards as long as HUD funds are available". This is not an accurate quote. The program manager stated that items identified during a monitoring visit which were not included in the scope of the rehabilitation specification were eligible for reimbursement from the available grant funds. If the item in question was a part of the contracted work, the contractor should be responsible for the corrective action. All work completed by the CHIP program would be required to include a one year warranty period. In most cases, a contractor who hopes to continue to work in the local community will be willing to return to the unit to make the needed corrections.

The draft finding recommends the Director of Community Planning and Development, Ohio State Office, assure that the State of Ohio take the following actions:

A. Ensures that the items cited in this finding that did not meet the State's Residential Rehabilitation Standards are corrected as required by HUD's regulation and the State of Ohio's requirements.

OHCP has contacted the communities included in the audit review and has asked for a response to the I.G. inspection findings. OHCP expects to be able to document the completion of all corrective actions as identified in OHCP's monitoring reports by the time the final I.G. audit report is issued.

The following corrective actions have been completed:

- 33 Shelby Ave. - On March 6, OHCP staff contacted the city of Shelby regarding the one unresolved finding. In turn, the city contacted the contractor. The owner has verified that the work had been completed that same day. A copy of the city's correspondence to OHCP on this matter is attached.
- 112 Homewood - On March 6, OHCP contacted the city of Newark regarding the four unresolved findings. The city acknowledged that these items had not been corrected and ensured OHCP that the contractor would perform the additional work as soon as possible. On March 10, OHCP received notice from the city that the contractor had been authorized to complete the work. A copy of that notice is attached. However, due to scheduling problems with the owner, the contractor has not yet completed the work. OHCP will provide documentation after the work is finished.

OHCP continues to work with the local communities regarding the following properties:

- 206 S. Norton Street, Mt. Vernon, Ohio
- 402 7th Avenue, Mt. Vernon, Ohio

B. Establishes adequate controls to ensure its sub-recipients make the necessary repairs to meet the State's Residential Rehabilitation Standards cited during the State's monitoring reviews.

The audit report stated that OHCP's CHIP program did not ensure that its sub-recipients completed the corrective actions identified in the State's monitoring process. OHCP's current monitoring process requires the grantee to respond in writing to each monitoring finding. OHCP staff review the grantee's response and if the response meets the required action, the finding is closed. If the response is found not to meet the required response, the finding remains open and the grantees may be required to take additional steps to close the finding. Since the audit review, OHCP has reviewed the current process and amended the process to provide additional oversight to ensure the completion of all requested corrective actions. Grantees are required to submit an inspection form, signed by the CHIP inspector, ensuring that all rehabilitation work findings have been completed and inspected. We have encouraged grantees to also provide a photo of the completed work. As always, when OHCP accepts a monitoring response and closes a finding, we do reserve the right to re inspect the corrective actions on future monitoring visits. If a grantee's monitoring documented multiple findings of a serious nature, OHCP may choose to inspect the units to verify completion of the additional work and may also choose to inspect additional units completed during the grant period. Each of the local communities included in the draft audit report have been asked to follow up on the items and it is anticipated that all corrective actions will have been completed and documented by the time the final I.G. audit has been issued.

C. Reimburses its Community Housing Improvement Program \$1,168 from non-Federal funds for the inappropriate use of HUD funds cited in this finding.

OHCP has reviewed the file documentation to determine if federal funds were used as payment for work previously included in the project work specifications. If the items identified during OHCP's monitoring visit were not included in the original scope of the rehabilitation specification, OHCP considers these costs to be eligible for reimbursement and not as a duplication of payment. If the item in question was a part of the contracted work, the community and contractor should be responsible for the corrective action and these items would not be eligible for reimbursement from federal funding. OHCP conclusions are as follows:

Parrish Home, 206 S. Norton Street

OHCP's October 16, 1998 monitoring report for the Knox County Chip Grants: B-C-96-039-2 and C-96-039-1 cited three items for corrective action on this unit. The grantee was required to return to the unit and install a discharge pipe on the hot water heater (HWT), install a switch for the hall light at the bottom of the stairs, and install the required GFCI receptacles in the kitchen. Review of the rehab specs revealed that while the HWT was replaced, the specifications did not call for installation of a discharge pipe, so that could reasonably be considered additional work that could be paid for out of the grant. The rehabilitation specifications called for the whole house to be re-wired "to code". Re-wiring to code would include the installation of GFCI receptacles in the kitchen and making the hall light switchable from both the top and the bottom of the stairs. The failure of the contractor to complete these two requirements can only be construed as a failure on the contractor's part to fulfill the requirements of the contract. The cost of the corrective actions are not eligible for reimbursement from CDBG funds. OHCP will require Knox County to repay the \$481.62 using non-federal funds.

Smith Home, 402 Seventh Avenue

OHCP's October 16, 1998 monitoring report for the Knox County Chip Grants: B-C-96-039-2 and C-96-039-1 cited four items for corrective action on this unit. The grantee was required to return to the unit and install a discharge pipe on the HWT, a handrail on the back steps, a gas shut-off on the furnace, and a sufficient number of outlets in the upstairs bedroom. The specifications called for the installation of a new furnace, but did not specify an in-line manual gas shut-off. The bid specifications did not identify the HWT discharge valve in scope of work. The specifications also did not call for the installation of a handrail on the back steps. These items were not included in the original scope of the rehabilitation specification and would be eligible for reimbursement. These items were additions to the scope of work and would not represent a duplication of payment.

The electrical specifications called for "checking the system to be sure it meets code." The bedroom was left with only one receptacle, which did not meet the minimum standards set by the Residential Rehabilitation Standards. The contractor bid on specifications that required code compliance. It would appear that this work was the responsibility of the contractor as a part of the bid he submitted. OHCP considers the electrical corrective actions to a duplication of payment and will seek reimbursement from non-Federal funds. OHCP will work with the community to determine what portion of the questioned costs represent the ineligible expenditures and seek the appropriate reimbursement.

D. Stop allowing its sub-recipients to use HUD funds to correct deficient housing rehabilitation work.

The draft finding states that the Program Manager said the State allows its sub-recipients to use HUD funds to make repairs to ensure that assisted houses meet the State's Standards as long as HUD funds are available. This is not an accurate quote. The Program Manager stated that items identified during a monitoring visit which were not included in the scope of the rehabilitation specification were eligible for reimbursement from the available grant funds. If the item in question was a part of the contracted work, the community and the contractor should be responsible for the corrective action. All work completed by the CHIP program would be required to include a one year warranty period. In most cases, a contractor who hopes to continue to work in the local community will be willing to return to the unit to make the needed repairs.

E. Establishes adequate controls to ensure sub-recipients enforce the terms of their housing rehabilitation contracts, including but not limited to requiring contractors to repair deficient housing rehabilitation work.

OHCP's current monitoring process requires the grantee to respond in writing to each monitoring finding. If the item in question was a part of the contracted work, the community and contractor should be responsible for the corrective action. All work completed by the CHIP program would be required to include a one year warranty period. In most cases, a contractor who hopes to continue to work in the local community will be willing to return to the unit to make the needed corrections.

The audit report stated that OHCP's CHIP program did not ensure that its subrecipients completed the corrective actions identified in the State's monitoring process. OHCP's current monitoring process requires the grantee to respond in writing to each monitoring finding. OHCP staff review the grantee's response and if the response meets the required action, the finding is closed. If the response is found not to meet the required response, the finding remains open and the grantees may be required to take additional steps to close the finding. Since the audit review, OHCP has reviewed the current process and amended the process to provide additional oversight to ensure the completion of all requested corrective actions. Grantees are required to submit an inspection form, signed by the CHIP inspector, ensuring that all rehabilitation work findings have been completed and inspected. We have encouraged grantees to also provide a photo of the completed work. As always, when OHCP accepts a monitoring response and closes a finding, we do reserve the right to re inspect the corrective actions on future monitoring visits. If a grantee's monitoring documented multiple findings of a serious nature, OHCP may chose to inspect the units to verify completion of the additional work and might also chose to inspect additional units completed during the grant period. Each of the local communities included in the draft audit report have been asked to follow up on the items and it is our hope all corrective actions will have been completed and documented by the time the final audit has been issued.

If you have any further questions, please do not hesitate to contact Les Warner, CHIP Supervisor, of my staff, at (614) 466-2285.

Sincerely,

William J. Graves, Manager
Office of Housing and Community Partnerships

WJG/LW/ps

cc: John E. Riordan, Deputy Director, CDD
Marlo Tannous, Chief Legal Counsel, ODOD
Doug Garver, Assistant to the Director, ODOD
Lana Vacha, Director, Ohio Office, HUD

Distribution

Secretary's Representative, Midwest (2)
 Acting Senior Community Builder, Ohio State Office
 Senior Community Builder/State Coordinator, Cincinnati Area Office
 Director of Community Planning and Development, Ohio State Office (2)
 Deputy Secretary, SD (Room 10100)
 Chief of Staff, S (Room 10000)
 Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)
 Assistant Secretary for Administration, A (Room 10110)
 Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)
 Senior Advisor to the Secretary, Office of Public Affairs, W (Room 10132)
 Director of Scheduling and Advance, AL (Room 10158)
 Counselor to the Secretary, S (Room 10218)
 Deputy Chief of Staff, S (Room 10226)
 Deputy Chief of Staff for Operations, S (Room 10226)
 Deputy Chief of Staff for Programs and Policy, S (Room 10226)
 Deputy Assistant Secretary for Public Affairs, W (Room 10222)
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)
 Executive Officer for Administrative Operations and Management, S (Room 10220)
 Senior Advisor to the Secretary for Pine Ridge Project, W (Room 10216)
 General Counsel, C (Room 10214)
 Director of Federal Housing Enterprise Oversight, O (9th Floor Mailroom)
 Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)
 Office of Policy Development and Research, R (Room 8100)
 Assistant Secretary for Community Planning and Development, D (Room 7100)
 Executive Vice President, Government National Mortgage Association, T (Room 6100)
 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)
 Chief Procurement Officer, N (Room 5184)
 Assistant Secretary for Public and Indian Housing, P (Room 4100)
 Chief Information Officer, Q (Room 8206)
 Director of Departmental Operations and Coordination, I (Room 2124)
 Chief Financial Officer, F (Room 2202)
 Deputy Chief Financial Officer for Finance, FF (Room 2202)
 Director of Enforcement Center, V (200 Portals Building)
 Director of Real Estate Assessment Center, V (1280 Maryland Avenue, SW, Suite 800)
 Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
 Director of Budget, FO (Room 3270)
 Internal Control and Audit Resolution Officer, 3AFI (2)
 Special Adviser/Comptroller, D (Room 7228) (2)
 Departmental Audit Liaison Officer, FM (Room 2206) (2)
 Acquisitions Librarian, Library, AS (Room 8141)

Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373 Rayburn House Office Building, Washington DC 20515
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington DC 20510
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, United States House of Representatives, Washington DC 20515
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, United States House of Representatives, Washington DC 20515
Ms. Cindy Foglemen, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington DC 20515
Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, N.W., Room 2474, Washington DC 20548 (Attention: Judy England-Joseph)
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503
Deputy Director of Community Development Division, State of Ohio Department of Development (2)