

Audit Report

**Department of Health and Human Services
Lead Hazard Control Program
Recovery Act Compliance Audit**

November 2010



Audit Staff

City Auditor: Laura L. Doud
Assistant City Auditor: Deborah K. Ellis
Deputy City Auditor: Terra Van Andel
Audit Manager: Sotheary Hul
Audit Manager: Patrice Launay

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Executive Summary

Earlier this year, we performed an audit of the Department of Health and Human Services (Department) Lead Hazard Control Program (Program), which is funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). We apologize for the delay in presenting the audit results and recognize it has been several months since the findings were discussed with Department management. As a result, this report will be issued only to the Department's management for review.

In April 2009, the U.S. Department of Housing and Urban Development (HUD) awarded the Department a \$3 million three-year competitive grant to control and prevent childhood lead poisoning by reducing lead hazards in privately owned low-income housing, otherwise known as the Lead Hazard Control Program. Although our audit period was from April 15, 2009 through June 30, 2010, the latest data from the Prime Recipient Report (Recipient Report) dated September 30, 2010 shows that \$1,124,914 (38%) of the amount awarded has been spent and 44% of the required homes have been refurbished. Therefore, the Program appears to be on track to meet HUD-approved milestones.

The Recovery Act places great emphasis on accountability and transparency in the use of taxpayer dollars. Awardees of Recovery Act funds must comply with extensive reporting requirements and specific provisions such as the Davis-Bacon Act, Buy American and Whistleblower protection. Non-compliance with these requirements could result in sanctions from the funding agency, up to and including refunding the grant receipts and suspension and debarment from receiving future Federal funding.

The purpose of our audit was to determine the Program's compliance with the Davis-Bacon Act, Buy American and Whistleblower protection provisions of the Recovery Act and to determine the accuracy of the data reported on the Recipient Report, which is required by the Recovery Act.

During our audit, we found that the Department was not fully compliant with the following Recovery Act provisions:

- The Recipient Report contained inaccurate information such as the number of jobs created and total number and dollar amount of payments to vendors less than \$25,000.
- The Davis-Bacon Act and Whistleblower protection provisions of the Recovery Act were not fully complied with.

It is imperative that the Department take steps to ensure the Program, as well as all other federally funded Programs, operate in compliance with the applicable federal requirements to prevent the serious repercussions discussed above.

It is not necessary for management to provide comments at this time; however, our Office is requesting an update in 90 days on the Department's efforts to address the issues noted in this audit report. We would like to thank the Department of Health and Human Services for the time, information, and full cooperation afforded to us during the audit.

Background

The Recovery Act

In February 2009, President Obama signed the Recovery Act into law to help stimulate the economy and create jobs. The Recovery Act includes 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The \$787 billion stimulus package includes \$288 billion in tax credits, \$275 billion for federal contracts, grants and loans, and \$224 billion in education, health care and entitlement programs. The Recovery Act's stated purposes include the following:

- To preserve and create jobs and promote economic recovery;
- To assist those most impacted by the recession;
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- To invest in transportation, environmental protection and other infrastructure that will provide long-term economic benefits; and
- To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Funds made available to local governments are disbursed by Federal agencies through formula, discretionary and competitive grants. In many cases, funds are distributed through existing Federal programs.

Program Funding & Activities

Since 1994, \$6.1 million of HUD grants have been awarded to the Department to assist with rehabilitation of more than 1,600 lead contaminated housing units in Long Beach through the Program. However, as a result of limited federal resources, HUD ceased its funding and the Program ended in December 2007. In April 2009, through Recovery Act funding, HUD awarded a \$3 million three-year competitive grant to reinstate the Program.

Lead exposure occurs when lead dust or fumes are inhaled, or when lead is ingested via contaminated hands, food, water, cigarettes or clothing. Exposure to lead may result in serious health risks, particularly in young children. The most common sources of lead exposure for children are chips and particles of old lead paint.

The Department's Environmental Health Bureau identifies lead hazard homes within the City through community outreach and education programs, referrals from the State of California Public Health's Childhood Lead Poisoning Prevention Program, and visual inspections conducted by Program personnel. Once a property has been identified as a potential lead-hazard home, Program personnel send out certified lead inspectors to assess the presence of lead through visual inspections and x-ray fluorescence analyzers. Paint samples are collected from the exterior and interior areas of the home for further lab testing.

When the presence of lead is confirmed, an analysis report is sent to the property owner informing them of the results and requesting permission to initiate the lead abatement process. When approved, Program personnel relocate the property residents for approximately one week while the lead abatement work is in progress.

Audit Objectives, Scope, and Methodology

The objectives of our audit was to determine the Program's compliance with the Davis-Bacon Act, Buy American and Whistleblower protection provisions of the Recovery Act and to determine the accuracy of the data reported on the Prime Recipient Report, which is required by the Recovery Act. The scope of the audit was limited to a review of the Department's Lead Hazard Control Program for the period April 15, 2009 through June 30, 2010. In order to achieve our objective, we performed the following procedures:

- Obtained and reviewed the American Recovery and Reinvestment Act of 2009 and the applicable Office of Management and Budget (OMB) Recovery Act Memorandums;
- Reviewed the City's Recovery Act website, as well as the HUD and Federal Recovery Act websites;
- Obtained and reviewed the HUD Lead Hazard Control Program grant agreement and the related compliance requirements;
- Interviewed Program personnel and obtained an understanding of the Program's internal controls that address the provisions of the Recovery Act, as summarized below:
 - Quarterly reporting, including collection, input and submission of data; and
 - Other general provisions of the Recovery Act, such as:
 - Davis-Bacon Act;
 - Buy American Provision; and
 - Whistleblower Protection;
- Obtained and reviewed the Recipient Reports for the quarters ending December 31, 2009, March 31, 2010 and June 30, 2010;
- Obtained and reviewed documentation to support the information reported on the Recipient Reports;

- Calculated the number of full-time equivalents created by the Recovery Act for the quarters ending December 31, 2009, March 31, 2010 and June 30, 2010;

We conducted this performance audit in accordance with Generally Accepted Government Auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Issues and Recommendations

ISSUE # 1: Non-compliance with Recovery Act Requirements Risks Current and/or Future Funding

Section 1512 of the Recovery Act requires each recipient that receives Recovery Act funds to submit Recipient Reports no later than 10 days after the end of each calendar quarter. Critical information reported on the Recipient Report includes the amount of recovery funds received and expended, the number of jobs created, and the number of units completed.

In addition, there are many specific requirements that are unique to the Recovery Act such as the Davis-Bacon Act, Buy American provisions and Whistleblower protections. Non-compliance with these requirements could result in sanctions from the funding agency, up to and including refunding the grant receipts and suspension and debarment from receiving future federal funding.

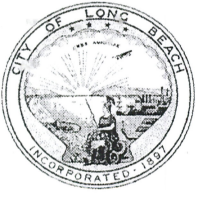
During our audit, we found areas of non-compliance regarding the Recipient Report and specific Recovery Act requirements. Table 1, on the following page, illustrates these requirements and areas of non-compliance.

Table 1
Recovery Act Requirements and Areas of Non-Compliance

Recipient Report and Recovery Act Requirements	Reported Inaccuracies and Current Practice
Recipient Report Requirement - Number of Jobs Created (reported in FTE's)	The reported number of jobs created was understated by .44 FTE's at March 31, 2010 and overstated by 1.60 FTE's (19%) at June 30, 2010. More importantly, the methodology used by the Department to calculate the FTE's was inconsistent with the Recovery Act requirement and OMB Guidance.
Recipient Report Requirement - Total Number of Payments to Vendors Less Than \$25,000	The reported number of payments to vendors less than \$25,000 was overstated by 4 (3%).
Recipient Report Requirement - Total Amount of Payments to Vendors Less Than \$25,000	The reported total amount of payments to vendors less than \$25,000 was understated by \$25,015 (11%).
Davis Bacon Act (DBA)- Contractors performing on federally assisted contracts in excess of \$2,000 are required to pay employees prevailing wages. Contractors must submit weekly certified payroll records to the contracting agency and post the DBA poster and applicable wage determination at the job sites. (Recovery Act)	The Department did not collect weekly certified payroll records from contractors and the DBA poster and applicable wage determinations were not posted at the job sites.
Whistleblower Protection - Signage of specific Recovery Act Whistleblower protections must be posted at all Recovery Act job sites. (Recovery Act)	The Whistleblower Rights poster was not posted at job sites.

Recommendations to Issue #1

- 1) Develop and implement a quality control process to ensure that information reported on the quarterly Recipient Report is complete, accurate, and supported.
- 2) Calculate and report the "number of jobs created" in accordance with OMB M-10-08.
- 3) Develop and implement procedures to comply with the Davis-Bacon Act requirements, including obtaining certified weekly payroll records from contractors and ensuring that the Davis-Bacon Act poster along with the applicable wage determination is posted at all job sites.
- 4) Post the required Whistleblower protections sign at all job sites.
- 5) Develop written policies and procedures for reporting fraud and provide training for Program personnel.



City of Long Beach

Working Together to Serve

Memorandum

Date: March 3, 2011

To: Debbie Ellis, Assistant City Auditor

From: Ronald R. Arias, Director of Health & Human Services

Subject: **Lead Hazard Control Program Audit: 90 – Day Update**

Pursuant to your November 18, 2010 memo regarding The Department of Health and Human Services (Health Department) Lead Hazard Control Program Recovery Act Compliance Audit, this memo is intended to provide you with a program update regarding the Health Departments corrective action steps relating to the Auditor's finding, and the five recommended corrective actions included in that report.

Recommendation 1: Develop and implement a quality control process to ensure that information reported on the quarterly Recipient Report is complete, accurate and supported:

Corrective Action Taken: A quality control process has been implemented to ensure information reported to HUD and FederalReporting.gov is complete, accurate and supported. This takes the form of a written procedural guide that includes a review process by the grant manager and program director. This document is available upon request.

Recommendation 2: Calculate and report the "number of jobs created" in accordance with OMB M-10-08.

Corrective Action Taken: OMB M-10-08 (the guiding document for job creation calculation) is adopted in whole as part of the procedural guide.

Recommendation 3: Develop and implement procedures to comply with the Davis-Bacon Act requirements, including obtaining certified weekly payroll records from contractors and ensuring that the Davis-Bacon Act poster along with the applicable wage determination is posted at all job sites.

Corrective Action Taken: Since the programs inception, all contracts and bid documents have cited Davis-Bacon Act compliance as a requirement of successful bidding in this program. The bid cover sheet, which must be signed by the contractor for each property bid, explicitly reaffirms the contractors compliance with Davis-Bacon Act requirements. At the time of the audit, some contractors were providing certified payroll after the Davis-Bacon Act reporting deadline (ten working days after the last day of work). These contractors were advised by phone that they were not in compliance with Davis-Bacon Act reporting requirements. Since notification, contractors have met the reporting deadlines. The program has redoubled efforts to ensure that Davis-Bacon Act posters, along with applicable wage determination notices, are more clearly posted (and visible from the street) at all job sites.

Recommendation 4: Post the required Whistleblower protections sign at all job sites.

Corrective Action Taken: Seven signs on two large posters are posted visibly at each job site. These signs include:

- Prevailing wage notification, which indicates the minimum hourly wage to be earned on the job as required by Davis-Bacon Act
- Employees Rights poster (federal poster WH 1321) and the same poster in Spanish (federal poster WH 1321 SPA)
- ARRA fraud prevention poster titled, "Know Your Rights Under the Recovery Act
- Fraud prevention poster provided by the City Auditor titled, "Fraud and Theft Against the City is a Crime...Report It!"
- A sign that warns against lead-based paint hazards on the site, and
- "Your Federal Recovery Dollars at Work," sign, as required by the City.

City and Federal fraud posters are also posted in two places in the Health Department trailers (as you walk into the office space, and in a place where all official notices are posted), as well as on the Bureau of Environmental Health notice board (in the main health building) and in the Health Department break room (in the main building).

Recommendation 5: Develop written policies and procedures for reporting fraud and provide training for Program personnel.

Corrective Action Taken: Multiple fraud prevention trainings were provided in 2010 to Lead Hazard Control program staff and management, as well as staff and management of the Environmental Health Bureau during an all-hands bureau meeting. A mandatory fraud training refresher was provided to program staff in February, 2011. The fraud policy, procedure, and educational materials are included for reference in the updated procedural guide. This guide has been distributed to all Lead Hazard Control Program staff for their review.

Thank you for your thorough analysis of our ARRA funded Lead Hazard Control Grant. Please feel free to contact me at extension 84016 if you have any questions or need additional information.

cc: Nelson Kerr, Environmental Health Bureau Manager