



The State of New York, Governor's Office of Storm Recovery

Community Development Block Grant Disaster
Recovery Assistance, Small Business Grants and Loans
Program



To: Marion Mollegan McFadden
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From: //SIGNED//
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Subject: New York State Did Not Always Disburse Community Development Block Grant
Disaster Recovery Funds in Accordance With Federal and State Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of our review of the New York State Governor's Office of Storm Recovery's administration of its Small Business Grants and Loans program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 212-542-7984.



Audit Report Number: 2016-NY-1006
Date: March 29, 2016

New York State Did Not Always Disburse Community Development Block Grant Disaster Recovery Funds in Accordance With Federal and State Regulations

Highlights

What We Audited and Why

We audited the State of New York Governor's Office of Storm Recovery's administration of the Small Business Grants and Loans program funded with Community Development Block Grant Disaster Recovery (CDBG-DR) funds provided by the U.S. Department of Housing and Urban Development (HUD). The objectives of the audit were to determine whether State officials (1) approved and disbursed CDBG-DR funds for the Small Business Grants and Loans program to assist eligible businesses in accordance with the guidelines established under the HUD-approved action plan and amendments and applicable Federal requirements and (2) established and maintained a financial management system that adequately safeguarded the funds and prevented misuse.

What We Found

State officials (1) did not always adequately verify the eligibility of award recipients and their awarded funds and (2) did not recapture preliminary award funds disbursed to ineligible businesses in a timely manner. These deficiencies resulted from weaknesses in the State's administrative controls and State officials' desire to quickly disburse funds to the businesses. As a result, State officials could not assure HUD that CDBG-DR funds were adequately safeguarded and disbursed for eligible, reasonable, and necessary expenses and that the funds assisted qualified businesses in compliance with program requirements.

What We Recommend

We recommend that HUD instruct State officials to (1) reimburse the State's line of credit for the \$272,459 in CDBG-DR funds disbursed to 4 businesses for ineligible costs from non-Federal funds, (2) provide documentation to support the \$152,703 in CDBG-DR funds disbursed to 4 businesses, (3) strengthen controls over program operations to ensure that costs charged to the CDBG-DR program are for eligible activities and supported by all required documentation at the time of the disbursement, (4) strengthen administrative controls to ensure that ineligibility determinations are reviewed and approved and recapture procedures are carried out in a timely manner, (5) incorporate and implement a recapture policy and procedures, and (6) recapture more than \$300,000 in CDBG-DR funds disbursed to 35 businesses.

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Background and Objectives

Congress made available \$16 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) assistance funds through the Disaster Relief Appropriations Act of 2013, Public Law 113-2. This funding was for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in areas most impacted by a major disaster declared under the Robert T. Stafford Disaster Relief and Emergency Assistance Act in calendar years 2011 through 2013.

HUD issued Federal Register Notice 78 FR 14330 (March 5, 2013) announcing the initial allocation of \$5.4 billion in CDBG-DR funds appropriated by the Disaster Relief Appropriations Act of 2013. Before grantees received funding under the Act, the U.S. Department of Housing and Urban Development (HUD) Secretary was required to certify that grantees maintained sufficient financial controls and procurement processes and procedures for ensuring that any duplication of benefits was identified; funds were spent in a timely manner; Web sites were maintained to inform the public of all disaster activities; and waste, fraud, and abuse of funds were prevented and detected. In addition, grantees were required to develop an action plan for public comment and HUD approval, which described (1) how the proposed use of the CDBG-DR funds would address long-term recovery needs; (2) eligible affected areas and the distribution of CDBG-DR funds to those areas; (3) activities for which funds could be used; (4) the citizen participation process used to develop, implement, and access the action plan; and (5) grant administration standards.

On April 3, 2013, New York State submitted its certification of sufficient controls, processes, and procedures to HUD, and on April 25, 2013, HUD approved the State's partial action plan. On May 14, 2013, HUD executed a grant agreement with New York State Homes and Community Renewal, under which its Office of Community Renewal and Housing Trust Fund Corporation (HTFC)¹ would administer the initial award of \$1.7 billion in CDBG-DR funds. In June 2013, the governor established the Governor's Office of Storm Recovery under HTFC to administer the CDBG-DR funds. HUD has since approved 10 amendments to the partial action plan.

State officials established and allocated \$183.5 million to the Small Business Grants and Loans program, also known as New York Rising Small Business Recovery program,² which combined four of six business assistance programs consisting of various grants and loan programs under economic development approved in the initial action plan. However, the loan assistance program was never started. Assistance was made available to businesses that suffered eligible

¹ HTFC is a subsidiary public benefit corporation of the New York State Housing Finance Agency.

² This program is referred to many different titles on the State's Web site and various reports, including the Small Business Grants and Loans program in the State's Funding Portal; Small Business Grant and Loan Program in the State's quarterly reports to HUD; and Small Business Grant Program, Small Business Loan Program, Coastal Fishing Industry Program, and Seasonal Tourism Industry Program in the CDBG-DR action plan.

uncompensated losses as a direct result of Hurricanes Sandy and Irene or Tropical Storm Lee. State officials published the program policy and distributed it to program partners in February 2014. As of July 31, 2015, the program had drawn \$47.9 million.

The audit objectives were to determine whether State officials (1) approved and disbursed CDBG-DR funds for the Small Business Grants and Loans program to assist eligible businesses in accordance with the guidelines established under the HUD-approved action plan and amendments and applicable Federal requirements and (2) established and maintained a financial management system that adequately safeguarded the funds and prevented misuse.

Results of Audit

Finding 1: State Officials Did Not Always Disburse CDBG-DR Funds in Accordance With Federal and State Regulations

State officials disbursed CDBG-DR funds for ineligible and unsupported costs. Specifically, \$272,459 was disbursed for ineligible costs, and \$152,703 was disbursed for unsupported costs for 8 of the 25 files reviewed. We attributed these conditions to weaknesses in controls over verifying the program requirements before disbursing the CDBG-DR funds to recipients, compliance with the State's own program policies and maintenance of adequate documentation. As a result, State officials could not assure HUD that CDBG-DR funds were adequately safeguarded and disbursed for eligible, reasonable, and necessary expenses.

CDBG-DR Funds Disbursed for Ineligible Assistance

State officials approved and disbursed \$272,459 in CDBG-DR funds to four businesses for ineligible costs and contrary to the State's program policy. Specific details are as follows:

Application Number: 103-ED-32248-2013

Questioned Amount: \$97,459

In January 2015, the business owner received \$50,000 for working capital to cover mortgage costs and \$47,459 for construction-related activities. Contrary to Federal regulations and State policies, State officials did not verify whether the applicant had flood insurance coverage and as of October 2015, had not obtained proof of flood insurance coverage. They were aware of the missing documentation and contacted the applicant by phone in June 2015.

Federal Register Notice 78 FR 14345 (March 05, 2013) requires that HUD-assisted property located in a special flood hazard area obtain and maintain insurance in the amount and duration prescribed by the Federal Emergency Management Agency's National Flood Insurance Program and that the grantee implement procedures and mechanisms to ensure that assisted property owners comply with all flood insurance requirements before providing assistance. Section 102(a) of the Flood Disaster Protection Act of 1973 (42 U.S.C. (United States Code) 4012a) requires the purchase of flood insurance protection for any HUD-assisted property within a special flood hazard area. In addition, the State's policy required a final inspection of the property when construction-related activities or expenses were reimbursed. However, State officials contended that the final inspection would be conducted at the closeout of the grant and if the applicant did not provide proof of flood insurance, either the award amount would be adjusted for other eligible expenses or the funds would be recaptured. However, State officials should have obtained required documents before disbursing the CDBG-DR funds. We attributed this condition to State officials' lack of procedures to ensure that applicants provided proof of flood insurance before disbursing the funds and weaknesses in the timely closeout of the grant after final disbursement was provided to the applicant. As a result, \$97,459 was considered ineligible.

Application Number: 103-ED-31974-2013

Questioned Amount: \$50,000

In January 2015, State officials disbursed \$50,000 for construction-related repairs to an applicant for a business located within a special flood hazard area. According to State officials, the items funded were power posts and driveway repairs, which were not eligible for flood insurance coverage as they were not located in an insurable structure. The photographs of the damage showed only dead shrubbery. However, according to an inspection report, only the flooring, carpet, drywall, and electric outlets were damaged. Further, a transmittal memorandum summary in the State's database showed that the driveway and power posts were not listed in the inspection report. As a result, \$50,000 was considered ineligible.

Application Number: 103-ED-916-13

Questioned Amount: \$75,000

In September 2013, State officials disbursed \$100,000 for working capital to cover the business owner's wages contrary to the State's February 2014 policy. Based on the documentation reviewed, the business suffered no physical damage. According to the State's policy, an applicant that incurred indirect damage caused by a documented power outage, road closures, or the inability to conduct business due to storm-related damages for more than or equal to 120 hours (5 days) could receive assistance of 6 months eligible expenses up to a maximum \$25,000, and the owner's wages were excluded from the calculation of working capital for wages. A letter from the utility company showed that the business did not have power from October 29 through November 2, 2012 (5 days); therefore, the applicant should have received the allowable maximum amount of \$25,000. State officials stated that the application was processed and approved under the State's June 2013 draft policy. However, a review of the State's policies version control log contradicted this claim as the February 2014 policy manual was the first policy distributed to the State's program partners and limited assistance to \$25,000. As a result, \$75,000 (\$100,000 - \$25,000 maximum cap) was considered ineligible.

Application Number: 71-ED-33467-2013

Questioned Amount: \$50,000

In April 2015, State officials disbursed \$50,000 for working capital to cover mortgage costs that required the applicant to have flood insurance coverage because the property was located in the flood zone. After our inquiry, State officials changed the working capital assistance for mortgage costs to instead be used for property taxes and stated that flood insurance was not required. However, according to Federal regulations, flood insurance is required for property located in a flood zone. In addition, a review of the annual property tax bill showed that the annual property tax was \$46,000, and according to the State's policy, the applicant could receive assistance of \$23,000, which was 6 months of eligible expenses. Therefore, \$27,000 (\$50,000 - \$23,000) was initially considered ineligible. However, State officials later stated that they have removed the property tax calculation from the working capital assistance and added back applicant's original award calculation of \$50,000 for the mortgage assistance because they believe that it did not require proof of flood insurance. As a result, we have revised the questioned costs from \$27,000 (related to property tax) to \$50,000 (mortgage) because mortgage assistance was provided for the property located in the flood zone and State officials did not ensure that the assisted property owner comply with the Federal regulations.

CDBG-DR Funds Disbursed for Unsupported Costs

State officials approved and disbursed \$152,703 in CDBG-DR funds to four businesses for unsupported costs contrary to the State's program policy. Specific details are as follows:

Application Number: 103-ED-483-13

Questioned Amount: \$98,378

In March 2014, State officials disbursed \$98,378 without obtaining adequate proof of loss. Specifically, \$43,378 was disbursed for a vehicle, which the applicant claimed was submerged or lost due to the storm. Based on the motor vehicle registration, it appeared that the applicant still owned the vehicle in 2013. An insurance claim loss reported that the damage to the vehicle was not significant, and the insurance company disbursed only \$100 for the insurance claim. An additional \$55,000 was disbursed to the applicant for the purchase of a forklift, but there was no evidence that the applicant owned a forklift before the disaster. Further, the documentation on file did not support the loss of either the vehicle or forklift. As a result, \$98,378 was considered unsupported.

Application Number: 103-ED-32593-2013

Questioned Amount: \$23,412

In January and November 2014, State officials disbursed \$10,000 and \$40,000, respectively, for working capital to cover rent, wages, and utilities. The allocation for rent was \$42,000, but the file did not contain adequate documentation to support that the applicant paid the \$7,000 monthly rent to its holding company. A review of the 2004 rental agreement showed that the applicant was both the landlord and the tenant and that the location of applicant's businesses was the same. After our inquiry, State officials removed the rent from the working capital calculation. It appeared that State officials made the change because the applicant's rent payment to its holding company was not at arm's length and no documentation was provided to support the rent payment. In addition, State officials disbursed \$23,412 in November 2014 for machinery and equipment purchased by the applicant's holding company, and there was no evidence to support that the applicant reimbursed its holding company. According to the State's policy, funds are disbursed to business owners based on documentation provided, such as itemized receipts, purchase contracts, proof of payments, etc. State officials stated that their policy did not require the reconciliation of transactions between related parties. However, they should have reimbursed only the costs incurred and paid by the applicant and not the holding company. As a result, \$23,412 was considered unsupported.

Application Number: 031-ED-32263-2013

Questioned Amount: \$28,071

Contrary to the State's policy and Internal Revenue Service (IRS) guidelines, \$16,926 was disbursed to the applicant for working capital to cover mortgage, property tax, and utility costs pertaining to the applicant's business use of his home. However, copies of the applicant's tax return did not show a percentage of business use of the home. According to the State's program policy, working capital completeness review section, the percentage of the home's mortgage and utility cost noted as used for business on most recent tax returns could be provided for the working capital assistance. According to IRS publication 587, a deduction for a home office is based on the percentage of the home used for business, and home-related itemized deductions are apportioned between Schedule A and Business Schedule C or F. Copies of the applicant's tax return did not show such allocation.

In November 2015, \$9,375 was disbursed, and an additional \$1,770 had been approved for disbursement based on quotes and estimates, dated February, March, and August 2014. However, State officials did not verify whether the applicant purchased tools related to logging and farming listed on the estimated quotes and whether the prices listed remained valid more than a year later. According to State's program policy, award amount will be based upon review of estimates for the work to be completed or receipts for work already completed to determine if the cost was necessary, eligible and reasonable. State officials assumed that the price of the items listed in the estimated quotes did not fluctuate over time. As a result, \$28,071 was considered unsupported.

Application Number: 059-ED-31493-2013

Questioned Amount: \$2,842

The business was initially awarded a grant in the amount of \$86,164—\$8,350 for furniture, fixtures, and equipment (FF&E) and \$77,814 for inventory—in August 2013. Of \$8,350 disbursed in 2013, only \$6,326 was supported. However, in March 2014 State officials awarded an additional \$13,836 which was disbursed in November 2014 to satisfy the maximum amount of the grant of \$100,000, based solely on the allowable activities inspection report prepared by the State's contractor. The inspection report was not reliable because the assessor observed that there was no damage at the time of the inspection and estimated the cost of the repairs based on the description of the damages reported by the applicant without knowing the actual damage and repair details. Although the repair had been completed at the time of the inspection, State officials did not request the repair invoice before disbursing the \$13,836. However, State officials subsequently obtained additional documentations in the amount of \$13,018 for the repair work. As a result, \$2,842 (\$2,024 for FF&E + \$818 for the repair work) was considered unsupported.

Conclusion

State officials did not establish adequate controls to ensure that CDBG-DR funds were disbursed for eligible costs. Specifically, the State disbursed \$272,459 in CDBG-DR funds for ineligible costs and \$152,703 for unsupported costs. We attributed these conditions to weaknesses in controls over verifying the program requirements before disbursing the CDBG-DR funds to recipients, compliance with the State's own program policies and maintenance of adequate documentation. As a result, State officials could not assure HUD that CDBG-DR funds were adequately safeguarded and disbursed for eligible, reasonable, and necessary expenses.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs direct State officials to

- 1A. Reimburse the line of credit for \$272,459 in CDBG-DR funds disbursed to four businesses for ineligible costs from non-Federal funds.
- 1B. Provide adequate documentation to justify \$152,703 in CDBG-DR funds disbursed to six businesses. If any amount cannot be adequately supported, it should be reimbursed from non-Federal funds to the State's line of credit.

- 1C. Strengthen controls over program operations to provide greater assurance that costs charged to the CDBG-DR program are for eligible activities and supported by all required documentation, specifically by requiring recipients to provide receipts or other documentation to support the completed replacement or repair costs.

Finding 2: The Preliminary Award Funds Disbursed to Ineligible Businesses Were Not Recaptured in a Timely Manner

State officials did not recapture preliminary award funds disbursed to ineligible businesses in a timely manner. We attributed these deficiencies to State officials' desire to quickly disburse funds without sufficient planning and their focus on disbursing rather than recapturing funds. As a result, State officials did not adequately ensure that the funds were disbursed for eligible businesses and ineligible costs could be promptly recaptured.

Weak Administrative Controls over Program Operations

State officials started the Preliminary Award Initiative program in 2013 to support the small business community through an initial grant of \$10,000. State officials provided all business owners that applied to the program the opportunity to apply for a preliminary award payment of \$10,000 without proper verification of eligibility while a full program application was completed. Preliminary award recipients were required to submit their full application within 60 days of receiving the funds. The cutoff date to submit a full application was later extended to December 31, 2014.

State officials reported that as of August 6, 2015, 253 of 466 preliminary award recipients had received additional grants. The remaining 213 businesses had received only preliminary award grants and were subject to eligibility determination for other grants. During the walk-through of the grant review process, State officials explained that the applications were received by Small Business Development Center (SBDC)³ staff, which determined whether a business was eligible for a grant. To deny the application and start the recapture procedure, a determination was made by SBDC staff and approved by State officials. State officials indicated that staffs from both SBDC and the State monitored the applications for delayed progress in the IntelliGrants⁴ system. They further stated that in addition to the IntelliGrants system, the program maintained an internal tracker to assist with the program progress metrics. However, during a review of 89 preliminary award recipients in the IntelliGrants system, we noted a number of instances of delayed progress and inaccurate current status.

The owners of a home-based business received \$70,931 for repair of the house from the NY Rising Housing Recovery Program and also received a \$10,000 preliminary award in January 2014. However, as of December 1, 2015, there were no business-related documents, such as tax returns or proof of loss, and no receipts in the IntelliGrants system. The applicant document checklist in the IntelliGrants system was last updated in April 2015, and no further action had been taken. The status of this grant in the IntelliGrants system was "face value review," which showed that SBDC staff was reviewing the file to collect documents and put together a request for assistance.

³ SBDC, the State's subrecipient, is responsible for conducting applicant case management, collecting application documents, and packaging applications for State approval.

⁴ The IntelliGrants system is the record-keeping system used by the State for its Rising Small Business Recovery program.

One business was determined to be ineligible on November 24, 2014, because the applicant failed to provide proof of legal residency. State officials sent out the recapture letter on January 21, 2015. However, as of December 1, 2015, the status of the business in the IntelliGrants system was marked “face value review” rather than “not eligible.”

Two businesses were ineligible to receive grant funds because their gross sales amounts were less than \$25,000 in accordance with the small business policy manual. State officials made the ineligible determination for one business on April 6, 2015, but had not notified the business as of December 1, 2015. Further, State officials had not reviewed the other business, and the current status of this business as of December 1, 2015 was marked “face value review.”

We attributed these conditions to weaknesses in administrative controls over program operations, whereby (1) State officials did not follow the cutoff date to submit a full application, (2) there were no specific written review procedures to follow the status of the preliminary award recipients, and (3) there was no evidence of an internal tracker to monitor the applications for delayed progress in the IntelliGrants system. As a result, State officials did not adequately ensure that the program always met its objectives and the required financial management system had been maintained to safeguard the funds and prevent misuse.

Insufficient Recapture Policy

State officials included the recapture policy in the small business policy manual. However, this policy did not specify the procedures for recapturing funds and, therefore, had not been implemented. Regulations at 24 CFR (Code of Federal Regulations) 85.20(b)(5) require that Federal funds be used for allowable costs in accordance with agency program regulations.

State officials should recapture at least \$300,000 from 35 of 89 preliminary award recipients (businesses), according to our review, based on the information provided in the IntelliGrants system. There was one additional business from which State officials had recaptured \$10,000.

	Application ID	IntelliGrants status as of December 1, 2015	Reason for recapture from IntelliGrants as of December 1, 2015	Recapture \$ amount
1	007-ED-32481-2013	Not eligible	Material misrepresentation	\$10,000
2	059-ED-31492-2013	Not eligible	Debarred from 11/2013 to 11/2014 by NY State Dept. of Labor	\$10,000
3	059-ED-32551-2013	Face value review	Approved grant amount of \$2,762	\$7,238
4	059-ED-54-13	Face value review	Approved grant amount of \$8,083	\$1,917
5	059-ED-191-13	Face value review	Missing full application	\$10,000
6	059-ED-31699-2013	Not eligible	Gross sales amount is less than \$25,000.	\$10,000

	Application ID	IntelliGrants status as of December 1, 2015	Reason for recapture from IntelliGrants as of December 1, 2015	Recapture \$ amount
7	059-ED-32501-2013	Not eligible	Duplication of benefits	\$10,000
8	059-ED-31948-2013	Face value review	Missing full application	\$10,000
9	059-ED-32170-2013	Face value review	No proof of legal residency	\$10,000
10	059-ED-39-13	Not eligible	Closed business	\$10,000
11	059-ED-266-13	Preclosing review	Approved grant amount of \$6,166	\$3,834
12	059-ED-32114-2013	Face value review	Missing full application	\$10,000
13	059-ED-252-13	Face value review	Gross sales amount of \$2,850 in 2011, \$4,105 in 2012, and \$0 in 2013. No proof of damage	\$10,000
14	059-ED-32428-2013	Verification in process	Approved grant amount of \$3,677	\$6,323
15	059-ED-161-13	Verification in process	Approved grant amount of \$6,655	\$3,345
16	059-ED-108-13	In progress	Missing full application	\$10,000
17	059-ED-513-13	Face value review	Missing full application	\$10,000
18	059-ED-440-13	Face value review	Missing full application	\$10,000
19	059-ED-76-13	Face value review	Missing full application	\$10,000
20	059-ED-31536-2013	Inactive	Missing full application	\$10,000
21	059-ED-32091-2013	Face value review	Missing full application; phone disconnected	\$10,000

	Application ID	IntelliGrants status as of December 1, 2015	Reason for recapture from IntelliGrants as of December 1, 2015	Recapture \$ amount
22	059-ED-32836-2013	Face value review	Missing full application	\$10,000
23	059-ED-31612-2013	Preclosing review	Approved grant amount of \$2,824	\$7,176
24	059-ED-32531-2013	Face value review	No proof of damage	\$10,000
25	059-ED-31570-2013	Submit application	Missing full application	\$10,000
26	059-ED-32746-2013	Not eligible	Missing full application	\$10,000
27	059-ED-31583-2013	Not eligible	Missing full application	\$10,000
28	059-ED-181-13	Face value review	Missing full application	\$10,000
29	059-ED-32745-2013	Not eligible	Missing full application	\$10,000
30	087-ED-680-13	Preclosing review	Approved grant amount of \$3,454	\$6,546
31	103-ED-531-13	Preclosing review	Approved grant amount of \$7,638	\$2,362
32	103-ED-32037-2013	Not eligible	No damage from the storm	\$10,000
33	103-ED-711-13	Not eligible	Home-based business without the necessary license or permit	\$10,000
34	103-ED-32834-2013	Preclosing review	Approved grant amount of \$6,317	\$3,683
35	103-ED-32199-2013	Face value review	Missing full application	\$10,000
36	119-ED-31865-2013	Preclosing review	Recreational facility yacht club, which “is not open to the public that targets a predominantly higher income clientele.”	\$10,000 (recaptured)
			Total (excluding the recaptured amount)	\$302,424

State officials reported on July 28, 2015, that 6 recapture letters were sent to the businesses, although 18 businesses were determined to be ineligible and subject to recapture. However, as of November 5, 2015, State officials had not sent recapture letters to the remaining 12 (18 minus 6) businesses. State officials also reported that they had confirmed one more ineligible business, had been reviewing 14 businesses regarding a final ineligibility determination after the initial ineligible determination, and had been waiting for more information to be submitted by SBDC staff for 7 additional businesses. The majority of preliminary award recipients received their funding from December 2013 to April 2014, but State officials had not finalized their review of all preliminary award recipients, including those determined to be ineligible by SBDC staff and those that did not submit all of the required documents along with a full application. State officials explained on December 17, 2015, that they were developing the recapture procedure. This insufficient recapture procedure caused the delay in recapturing funds from the ineligible businesses. The specific details of the delay in recapture are as follows:

- One business receiving the preliminary award funds was debarred by the New York State Department of Labor. This information was verified on May 22 and July 14, 2014, and the final ineligible determination was made on January 23, 2015, but State officials had not notified the business.
- State officials sent out the recapture letter to one business on January 21, 2015, followed by the ineligibility determination on September 23, 2014, because the applicant received insurance money for two cars that were claimed as a significant loss and used to support the grant. However, as of December 1, 2015, State officials had not begun collection efforts, and the \$10,000 remained outstanding.
- State officials lost contact with at least two businesses while waiting for the businesses to submit required documentation. Specifically, one business was no longer at the address listed, and the phone number for the other business had been disconnected. State officials had not sent recapture letters to either business.

We attributed this deficiency to State officials' lack of planning for the preliminary award program. Further, State officials focused on disbursing the funds rather than recapturing them. As a result, they did not adequately ensure that the funds were disbursed for eligible businesses and ineligible costs could be promptly recaptured.

Conclusion

State officials did not maintain a financial management system that adequately safeguarded funds and prevented their misuse. Specifically, they did not 1) have adequate administrative controls over the Preliminary Award program operation and 2) develop sufficient recapture policies and procedures. We attributed these deficiencies to State officials' desire to quickly disburse funds without sufficient planning and their focus on disbursing rather than recapturing funds. As a result, State officials did not adequately ensure that the funds were disbursed for eligible businesses and ineligible costs could be promptly recaptured.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs instruct State officials to

- 2A. Strengthen administrative controls to ensure that any ineligibility determination is immediately followed by the next level of management for further action and the current status in the IntelliGrants system is accurate.
- 2B. Incorporate and implement recapture policies and procedures to ensure that funds disbursed for ineligible businesses and costs are promptly recovered.
- 2C. Immediately recapture more than \$300,000 in CDBG-DR funds disbursed to 35 businesses that was subject to full or partial recapture, thus ensuring that these funds will be put to their intended use.

Scope and Methodology

We performed our audit fieldwork at the Governor's Office of Storm Recovery located at 25 Beaver Street, New York, NY, from May to December 2015. The audit generally covered the period September 3, 2013, through March 31, 2015, and was extended as necessary to meet the objectives of the review.

To accomplish our objectives, we

- Reviewed relevant CDBG-DR program requirements and applicable Federal regulations, including the Disaster Relief Appropriations Act of 2013, implementing regulations announced through Federal Register notices, and HUD guidance pertaining to the use of CDBG-DR funds.
- Reviewed the HUD-approved April 2013 State certifications and the May 2013 grant agreement executed between HUD and the State.
- Interviewed State officials to gain an understanding of the program.
- Obtained an understanding of the State's management controls and processes by analyzing its responses to a management control questionnaire.
- Obtained an understanding of the control environment and operations by reviewing the State's organization chart for administering its CDBG-DR grant and its CDBG-DR program policies, different versions of policy and procedures manuals, and procurement policy.
- Reviewed HUD's monitoring reports for the period August 2013 to August 2014.
- Reviewed quarterly performance reports for the period July 2013 to March 2015 to document the amount spent and activity accomplished for the Small Business Grants and Loans program.
- Reviewed the State's quality assurance reports related to the Small Business Recovery program.
- Reviewed the State's audited financial statements for the period ending March 31, 2014.
- Reviewed the State's board minutes and resolutions related to the Small Business Recovery program for the period April 2013 to March 2015.
- Reviewed reports from DRGR⁵ to obtain CDBG-DR expenditure information for the period September 2013 to March 2015.

⁵ DRGR was developed by HUD's Office of Community Planning and Development for the CDBG-DR program and other special appropriations.. Grantees use the system to draw down funds and report program income. Data from the system are used by HUD staff to review activities funded under these programs and for required quarterly reports to Congress.

As of March 31, 2015, the State had disbursed \$41.1 million in grant funds from 153 voucher drawdowns related to the Small Business Grants and Loans program and had processed 765 applications, consisting of 54 denied applications and 711 approved applications. We selected and reviewed a statistical sample of 36 voucher drawdowns totaling \$9.6 million to determine whether all drawdowns were supported with the contracts, invoices, timesheets, etc. The sample consisted of 20 vouchers related to program delivery (27.9 percent of \$9.6 million) and 16 vouchers related to grants (72.1 percent of \$9.6 million) to 204 approved businesses. The results of our detailed testing was limited to the 36 vouchers reviewed and cannot be projected to the universe.

Of the 204 businesses, we selected and reviewed a nonstatistical sample of 25 businesses to determine the eligibility of the business and expenses. The sample criteria were that each business received \$50,000 or more in program funds and was randomly selected from the sampled 16 vouchers for grants. The 25 businesses selected for review were awarded \$2.1 million in grant funds, with individual awards ranging from \$50,000 to \$100,000.

For the preliminary award program, we identified 269 applicants awarded only \$10,000 from a listing of all 711 applicants approved and assisted as of March 31, 2015, using ACL software and selected a random statistical sample of 90 of 269 applicants (90 percent confidence interval with 10 percent error rate) to determine whether State officials had reviewed the preliminary award recipients' files. Of those 90 applicants, 89 were preliminary award recipients. We reviewed the 89 files to determine whether the applicants were eligible grant recipients in accordance with the small business program policy manual. If a business was determined by State officials to be ineligible, we reviewed whether steps were taken by State officials to recapture funds disbursed to recipients. The results of our detailed testing was limited to the 89 files reviewed and cannot be projected to the universe.

We relied in part on computer-processed data primarily for obtaining background information on the State's disbursement of program funds. We performed a minimal level of testing and found the data to be adequate for our purpose.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- 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.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- State officials did not implement adequate internal controls to always ensure that resource use was consistent with laws and regulations as they did not always approve and disburse CDBG-DR funding in accordance with regulations (findings 1 and 2).

- State officials did not implement adequate controls to ensure the validity and reliability of data in the IntelliGrants system as the data were not always accurate (finding 2).
- State officials did not implement adequate controls to ensure that funds were always safeguarded against fraud, waste, and abuse. They used CDBG-DR funds for ineligible and unsupported costs and did not recapture ineligible CDBG-DR funds disbursed in a timely manner (findings 1 and 2).

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$272,459		
1B		\$152,703	
2D			\$300,000
Totals	\$272,459	\$152,703	\$300,000

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, more than \$300,000 disbursed to ineligible businesses should be recaptured and put to its intended use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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Lisa Ross-Matt
Executive Director

February 24, 2016

Kimberly Greene
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
25 Federal Plaza, Room 3430
New York, NY 10278-0068

Dear Ms. Greene:

This letter is in response to the Draft Audit Report on the New York Housing Trust Fund Corporation's ("HTFC") Governor's Office of Storm Recovery's ("GOSR") administration of its Small Business Grants and Loans Program. We have reviewed the Draft Report and appreciate the opportunity to respond in writing.

Pursuant to CDBG regulations, GOSR should be afforded the "*maximum feasible deference*" to [its] interpretation of the statutory requirements and the requirements of the [CDBG-DR] regulations, provided that [GOSR's] interpretations are not plainly inconsistent with the Act and the Secretary's obligation to enforce compliance with the intent of the Congress as declared in the Act.¹ 24 C.F.R. §570.480(c) (emphasis added). The regulations provide that HUD must not determine that GOSR has failed to carry out its certifications in compliance with requirements of the Act (and this regulation) unless the Secretary finds that procedures and requirements adopted by the state are insufficient to afford reasonable assurance that activities undertaken by units of general local government were not plainly inappropriate to meeting the primary objectives of the Act, this regulation, and the state's community development objectives.

GOSR created a successful Small Business Program that has, to date, helped approximately 1,000 small business owners affected by Superstorm Sandy and Hurricane Irene, and/or Tropical Storm Lee. This Program was developed in compliance with all HUD requirements, and GOSR stands by its interpretation of those requirements. The NY Rising Small Business Program has been very successful achieving the goal to distribute disaster relief aid to the many citizens affected by the storms.

Background and Objective
Comprising 99% of all businesses in New York, small businesses are often at the heart of local communities, providing a source of jobs and contributing to a stronger civic spirit and identity. Many small businesses lack the necessary capital to recover from storms and other disasters. Aiming to get businesses up and running as quickly as possible, the New York Rising Small Business Program renders grants of up to \$50,000 (or more, in certain instances) to help replace essential equipment or inventory, renovate facilities, or provide working capital. GOSR recognizes the tremendous diversity of these businesses and works to provide tailored assistance to them. The following opportunities are provided through GOSR's Small Business Grants and Loans Program:

Small Business Grants - All eligible Business owners may receive a grant of up to \$50,000 (or more if applicant

¹ The March 5, 2013 regulations made clear that this standard applies equally to the State's interpretation of those requirements as it does for the local governments that ordinarily distribute CDBG funds. 38 Fed. Reg. 14,129, 14,139 (Mar. 5, 2013) ("Pursuant to this notice, the standard at section 570.480(c) and the provisions at 42 U.S.C. 5304(c)(2) will also include activities that the State carries out directly.")

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meets additional eligibility criteria) to cover eligible, unmet need to enable a storm-impacted business to repair or replace damaged property, assets, and inventory, and/or cover eligible working capital expenses.

Coastal Fishing Industry Grants - Commercial and recreational fishing businesses, as defined by the New York Department of Environmental Conservation, may be eligible for an additional \$50,000 to cover eligible, unmet need to enable the affected business to repair or replace damaged property, assets, and inventory, and/or provide the working capital necessary to help the business recover from the impacts of the storm(s).

Seasonal Business Grants - Seasonal businesses, as defined by the Program, may be eligible for an additional \$50,000 to cover remaining eligible, unmet need to enable an affected business to repair or replace damaged property, assets, and inventory and/or provide the working capital necessary to help the business recover from the impacts of the storm(s) and prepare for the upcoming season.

Economic Hardship Grants - Grants of up to an additional \$50,000 may be available for applicants with remaining unmet need and facing severe economic hardship, defined as the risk of business closure or significant employment loss.

Mitigation Grants - In conjunction with assistance provided to an eligible, impacted business that experienced physical damages, a mitigation grant of up to an additional \$100,000 may be provided to reduce the risk of storm damage occurring again in the future.

(I) HUD OIG FINDING: State Officials Did Not Always Disburse CDBG-DR Funds in Accordance With Federal and State Regulations

a. HUD OIG COMMENT: CDBG-DR Funds Disbursed for Ineligible Assistance

GOSR RESPONSE: The State disagrees with this Finding. The Program employs a carefully implemented and multi-pronged approach to documentation collection and processing. The State previously presented the OIG with documentation of the internal steps of the Program process. This process includes four stages of consecutive documentation review: 1) the Small Business Development Center (SBDC) Business Advisor collects the application from the applicant and verifies basic Program eligibility; 2) the SBDC Case Manager Lead performs quality control/quality assurance on the application package; 3) the application is submitted to State Program staff for review and award determination; and 4) a final quality assurance/quality control check is performed by a senior Program staff member before the award is officially approved and sent for environmental review. The Program utilizes an application document checklist, already shared with the OIG, to ensure required documentation is collected. Additionally, the Program utilizes an underwriting review form to detail the steps taken prior to approval. This form can be found within each approved application file. These checklists are only two of many processing steps taken to ensure tight internal controls are upheld.

In addition to application processing, the Program utilizes operational support staff to draft award letters that are sent to applicants and contain required closing conditions. This staff creates these letters based on information provided by the State reviewers; it is part of the support staff's process.

Comment 1

Comment 1

Comment 2



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to check what activities are approved for funding to ensure that flood insurance is requested where applicable.

As described in further detail below, the majority of the applications referenced in the OIG's report were processed early on in the life of the Program. In instances where the OIG cited deficiencies in documentation, the Program has since: (1) collected the majority of necessary documentation and (2) where necessary, implemented updated Policies and Procedures to ensure that such documentation is collected in the future. If documentation is not provided by applicants prior to close out, where noted, such applicants will be placed in recapture, and money will be collected pursuant to the subrogation agreements signed by all applicants. Please see below for an applicant-by-applicant response to this portion of the OIG's Finding.

Application Number: 103-ED-32248-2013

The OIG states that this applicant was provided an award, consisting of working capital and construction related activities, for which flood insurance is required. Prior to the audit, State officials were aware of the missing documentation and contacted the applicant to obtain documentation of flood insurance covering the funded construction-related activities. The working capital award provided to the applicant constituted both mortgage expenses and utility expenses. During the audit period, the policy regarding flood insurance for mortgage assistance was revised so that this is no longer a requirement. This change was implemented after revisiting the HUD and National Flood Insurance Plan (NFIP) insurance requirements. As per GOSR's interpretation, mortgage assistance is neither acquisition nor construction, and therefore does not require flood insurance.²

Utility expenses do not require flood insurance, and therefore the entire working capital amount of \$50,000 should be deducted from the ineligible award calculation. Further, regarding the requirement of flood insurance for construction related activities, it appears that the explicit request, for this particular applicant, to provide flood insurance coverage documentation was accidentally not included in the award letter, even though noted in the application file as a requirement. In order to communicate the flood insurance requirements to applicants, the requirement to obtain and maintain flood insurance, where applicable, is (i) included in the policy manual, (ii) standard language in all award letters (in addition to the explicit request) and (iii) included in the grant agreement. A review for flood insurance, where required, is included as part of the Program's closeout process. If the applicant does not provide proof of flood insurance prior to or at time of closeout, the applicant may be subject to recapture of applicable assistance if the applicant refuses to purchase the insurance.

² HUD CDBG regulation:
§ 570.605 National Flood Insurance Program. Notwithstanding the date of HUD approval of the recipient's application (or, in the case of grants made under subpart D of this part or HUD-administered small cities recipients in Hawaii, the date of submission of the grantee's consolidated plan, in accordance with 24 CFR part 91), section 202(j) of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4106) and the regulations in 44 CFR parts 59 through 79 apply to funds provided under this part 570.

NFIP Section 202(j):
SEC. 202(j) No Federal officer or agency shall approve any financial assistance for acquisition or construction purposes on and after July 1, 1973, for use in any area that has been identified by the Administrator as an area having special flood hazards unless the community in which such area is situated is then participating in the national flood insurance program.



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Comment 3

Application Number: 103-ED-31974-2013

The OIG states that \$50,000 was awarded to this applicant without required flood insurance and without proof of damage. However, as noted by the OIG, the State did not require flood insurance for this applicant because the items funded for repairs were not located in an insurable structure. Therefore, the items (power posts and driveway repairs) are not eligible for flood insurance coverage, and coverage was not required.

Proof of damage is documented in several places in this application. This includes Program inspections, which noted building damages and several feet of flooding. The scope of the Program inspections are limited to building damages only (not accessories or non-building structures located on the premises, which would include the power posts and driveway), therefore the power posts and driveway repairs would not have been included in the Program inspections. Additional proof of damage supplied includes pictures of dead shrubs and pictures of the property inundated with several feet of water, which, when combined with the Program inspections, supports a reasonable conclusion that power posts (permanently affixed to supply power) and driveways would have been damaged in the storm. Repairs of the power posts were completed in April 2013 and the invoice for driveway repairs was dated May 2013 and verified via phone as being paid in full. The timing of these repairs (Spring 2013) further supports these repairs are a result of storm damages, as it is reasonable to assume the repairs would be made after the winter season and in advance of the business's main revenue generation period (summer). Furthermore, the costs were incurred long before the application was submitted to GOSR, which was in March of 2014, supporting that the repair costs were needed and incurred without the expectation of receiving assistance.

Comment 4

Application Number: 103-ED-916-13

The OIG states that funds awarded for owner's wages were provided contrary to the Program's policy. The first final version of the policy was released in February of 2014, and this policy version reflected the revised working capital policy cited in the OIG report. The policy applied to the working capital award for this applicant was the June 2013 draft policy that was provided to the OIG during their audit. This draft policy was being utilized internally prior to the February 2014 policy. In the June 2013 version of the policy manual, there were no restrictions on total eligible working capital assistance or inclusion of business owner wages in the calculation.

The application was approved in fall of 2013 and the full \$100,000 payment was provided in September of 2013, well before the implementation of the February 2014 policy. As such, the working capital award of \$100,000 and inclusion of the business owner's wages was allowable.

Comment 5

Application Number: 71-ED-33467-2013

The OIG states that flood insurance is required for property located in a flood zone. During the audit period, the policy regarding requiring flood insurance was revised so that this is no longer a requirement for mortgage assistance. This change was implemented after revisiting the HUD and National Flood Insurance Plan (NFIP) insurance requirements.³ As per GOSR's interpretation, mortgage assistance is not acquisition or construction, and therefore does not require flood insurance. Therefore, the

³ See references in footnote 2.



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Comment 5

applicant's original award calculation for \$50,000, utilizing mortgage expenses, is allowable and will not require flood insurance to be provided. The alternative property tax calculation for the working capital award therefore no longer applies as the originally calculated award is eligible and in compliance with Program guidelines.

Comment 1

b. HUD OIG COMMENT: CDBG-DR Funds Disbursed for Unsupported Costs

GOSR RESPONSE: The State disagrees with this Finding. As mentioned in the above response, the Program utilizes extensive internal controls to ensure that required documentation is collected and processed. Should additional documentation be needed upon the State's review, the SBDC Case Manager Lead assigned to the file is asked to request the pertinent documentation from the applicant in a timely manner.

As explained in further detail below, for each of the applicants referenced in the OIG report as receiving funds for unsupported costs, it is GOSR's position that documentation in the applicant files supports the award amounts. Please see below for an applicant-by-applicant response to this portion of the OIG's Finding.

Comment 6

Application Number: 103-ED-483-13

The OIG states that funds for a vehicle and forklift were disbursed to this applicant without adequate proof of loss. However, the file contains several items documenting both ownership of and damage to these items. Specifically, the receipt showing the original purchase of the forklift in April 2011 is provided in file. Regarding the vehicle, the applicant did continue to own the vehicle through 2013, as evidenced by registration and several repair receipts for extensive repair work to the vehicle in attempts to continue its operation, which is also included in the applicant's file. Furthermore, the applicant provided documentation of flooding damages, including property insurance reports and photos, which was verified by GOSR Inspections, and which noted more than four feet of flooding throughout the property. When combined, the repair bills, property damage, and property insurance reports and photos reasonably support that both the forklift and vehicle were damaged as a result of the storm.

Comment 7

Application Number: 103-ED-32593-2013

The operating company and holding company cited in the OIG's report are under common ownership. The operating company filed an application; the holding company did not. Based on proof of damages (i.e. Program inspections, pictures, and town approvals for repair work), applicant-supplied information relating to damages, and business interruption noted in the file, it is reasonable to determine that funds from the holding company may have been temporarily used to support recovery of the operating company.

Specifically, the applicant reported that during rebuilding of operations, the business operated with 25% of total capacity for two months, and at 50% of capacity after three months, with financial effects on both the restaurant and catering businesses. Additionally, the applicant noted that \$745,000 in damage was caused to the restaurant and its contents (including the destruction of 2,000 square feet of dining



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Comment 7

deck, 100 linear feet of bulkhead, and 1,300 square feet of the building, as well as electrical wiring, bathrooms, and plumbing). The applicant also reported that five feet of water entered the building, and all machinery was destroyed. All cooking equipment, refrigeration, dishwashing machines, tables, chairs were also destroyed, as well as computers, the security system, and all plates, silverware, serving utensils, glassware, and all service items to serve the business. Wine and alcohol inventory losses totaled \$8,000. Losses included all sales for catering (\$250,000) for 2013, due to rebuilding these areas of the operation.

In the operating company's application, the losses are all attributable to the operating company (i.e. working capital and machinery and equipment to run the operating business). Receipts for replacement/repair were provided and reimbursed to the applicant. Furthermore, in the verification of benefits review, both the operating company and the holding company were reviewed regarding receipt of assistance from other sources, to reduce possible sources of additional benefits. As the holding company did not apply for assistance from GOSR, duplicative assistance utilizing CBDG funds was not an issue.

Comment 8

Application Number: 031-ED-32263-2013

The policy drafted for home-based businesses was designed to identify businesses in which the majority of a property is utilized for residential use. In the case of a family farm, such as the one operated by this applicant, the majority of the property is for commercial use. The property as noted by the tax roll is 131 acres, and the home's square footage of 3,543 square feet, as documented in the applicant's housing application program inspections, equates to less than 1% of the land being attributed to residential uses. Based on the satellite image as the floodplain map that is part of this application, the applicant actively uses the property for business operations of farming hay, raising elk, and logging wood. In addition, a home office is noted in the applicant's housing application program inspections (this portion of the applicant's home was not provided assistance by the Housing Program). Considering the nature of this applicant's business, it is reasonable to assume the home is utilized for business operations related to the farm, which accounts for the overwhelming majority of his property.

Regarding the disbursement of funds for the machinery and equipment, the OIG states that "Program did not verify whether the applicant purchased tools related to logging and farming listed on the estimated quotes and whether the prices listed remained valid more than a year later." See OIG Report, p. 7-8. In addition to the original estimate, the applicant provided proof of purchase receipts that were reviewed prior to disbursement. The documentation provided showed an average increase of 8% as compared to the original invoice. The disbursement of machinery and equipment funds to the applicant was limited to the original invoice provided.

Application Number: 059-ED-31493-2013

GOSR reached out to the applicant to obtain copies of furniture, fixture and equipment expenses previously funded by New York Business Development Corporation (NYBDC). In the initial launch of the Program (and through January of 2014), NYBDC was charged with reviewing, closing, collecting cost documentation and disbursing funds for Program applications. The applicant provided additional documentation thus far in the amount of \$3637.85 to support furniture, fixture and equipment expenses

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Comment 9

(\$2172.46 for computer hard drives; \$506.97 for an office chair; \$362.06 for truck repairs; and \$596.36 for forklift repairs). Regarding the repair work, the applicant's Program Inspection noted completed repairs in excess of \$31,000, far beyond the funded \$13,836. Regarding support for the \$13,836 of completed repair work noted in the OIG's report, thus far receipts for \$13,018 have been received by the Program. GOSR has requested follow up receipts regarding the remaining \$818, of the over \$31,000 of completed and documented repairs by the applicant as noted in the Program inspection.

Comment 10

Application Number: 031-ED-32216-2013 & 071-ED-32272-2013

The OIG states that Program has failed to verify the source of farm income for these two applicants. The Duplication of Benefits Affidavit, which was completed by both applicants in late 2013, is where the applicants would have disclosed any disaster assistance received from the USDA during 2013. Per VOB policy, the Program confirms all data feeds (NFIP, SBA, etc.) and all disclosed sources of assistance via the Affidavit and supporting documentation in advance of an award and once again at closeout (if more than 90 days has passed between the initial VOB and the closeout of the file). If identification of such assistance would have been deemed a duplication of benefits, the applicant would be subject to possible recapture of funds.

However, the Program has confirmed that the \$6,155 received by 031-ED-32216-2013 from the USDA was for crop land rehabilitation, which is not an eligible Program activity. Since the Program awarded the applicant funds for crop losses, this assistance was not duplicative.

Further, of the \$35,715 received by 071-ED-32272-2013 from the USDA, \$28,835 was for a 2010 disaster unrelated to Irene, Lee, or Sandy and \$6,880 was for crop land rehabilitation, not crop losses as assisted by GOSR. In 2015, the USDA confirmed that no crop loss payments were issued to this applicant in 2012. GOSR has also confirmed that the USDA did not provide any additional disaster payments received by either of these applicants. Documentation related to these items is included in these applicant files.

c. HUD OIG COMMENT: Inadequate Verification of Duplication of Benefit

GOSR RESPONSE: The State disagrees with this Finding. The OIG states that GOSR "did not adequately verify duplicate assistances." *See* OIG Report, p. 9. The Program has developed an extensive verification of benefits process, which currently includes the utilization of in-house verification of benefits specialists. Prior to awarding an applicant, all files receive a thorough initial verification of benefits check. As an additional control, a secondary verification of benefits process is implemented prior to close out of an applicant file. If the first check was performed more than 90 days from the time the file enters into the closeout process, the secondary verification of benefits check is performed. Thus, the majority of files will receive two verification of benefits checks. Furthermore, some files receive additional checks beyond these two if the Program deems it appropriate and necessary. The verification of benefits process incorporates a quality assurance/quality control final review of all verification of benefits checks to ensure that processes and procedures are being followed, and to avoid any administrative errors. Verification of benefits specialists submit their work for review by a quality assurance/quality control specialist before final

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submission.

Specifically, the OIG's review included two applicants who did not file an insurance claim. As previously stated to the OIG, GOSR does not believe that this constitutes an "available benefit" for the purposes of duplication of benefits calculation. 76 FR 71061 requires a grantee to ensure assistance is provided to applicants that have a need for disaster recovery, only to the extent this need is not fully met by other assistance, including other available benefits.

76 FR 71062, Paragraph IV(B) instructs grantees to determine available benefits by (i) identifying "all assistance received" by the applicant and (ii) identifying "reasonably anticipated assistance". Reasonably anticipated assistance includes "assistance that has been awarded, but has not yet been received" and does not include funds where the "source and/or amount is indefinite."

Having insurance coverage without having filed a claim does not constitute "available benefit" because (a) assistance has not been received by the applicant, (b) assistance has not been awarded to the applicant, and (c) the amount of funds that may have been paid under such coverage is indefinite. Because 76 FR 71062 requires inquiry only into available benefit, and insurance coverage without having filed a claim does not constitute available benefit, GOSR is not required to inquire further into such insurance coverage.

If the applicant ultimately elects to file a claim under such insurance coverage and receives duplicative benefits, CDBG-DR funds granted to such applicant would be subject to the subrogation agreement that each applicant is required to sign.

In regards to the two farm businesses addressed above, although the Program was not able to verify benefits received prior to disbursement of the awards, the award amounts were verified prior to closeout. As noted above, Program applications undergo a verification of benefits both prior to the award approval and then again prior to closeout (provided more than 90 days has passed since the initial verification of benefits was completed and the file is eligible to be closed out). Due to Program operations and timing related to processing applications, the overwhelming majority of the Program applications will receive two verification of benefits reviews. The second review includes confirmation of all available data sources and applicant disclosed sources of assistance to confirm whether there has been any change in the amount of assistance received. In the event that the second verification of benefits review denotes different information than the initial review, the change is reviewed against the applicant's award to determine if any duplication of benefits may have occurred. In the event a possible duplication of benefits is identified, the application will be reviewed to identify potential additional eligible activities and/or be subject to recapture.

As such, Recommendations 1A, 1B, 1C, and 1D have been addressed and no further action is required.

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Comment 11

Comment 12



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(2) HUD OIG FINDING 2: The Preliminary Award Program Was Not Sufficiently Reported to HUD and Funds Disbursed to Ineligible Businesses Were Not Recaptured in a Timely Manner

a. HUD OIG COMMENT: Preliminary Award Program Not Sufficiently Reported to HUD

GOSR RESPONSE:

The State disagrees with this Finding. The Preliminary Award initiative was launched in 2013 in an effort to aid small businesses as promptly as possible. The Preliminary Award allowed an applicant to provide a subset of the full application documentation in order to receive a \$10,000 Preliminary Award, which was conditional upon completing a full program application. The Preliminary Award documentation included: personal identification, a voided check, a W-9, an electronic deposit form, Certification of Preliminary Award Eligibility (which included self-certification of major full application eligibility requirements), and a signed Preliminary Grant agreement. Each Preliminary Award applicant also received an anti-fraud, waste, and abuse check and application quality assurance/quality control review(s).

As required by the March 5, 2013 Federal Register Notice, the State's Action Plan describes the eligibility criteria to receive and maintain the full award (of which the Preliminary Award is a subcomponent), the eligible applicants, the national objective, and the Program budget. While the initial documentation requirements differ between the Preliminary Award and full grant application, it is consistent with what is described in the Action Plan. The activity type, eligible activity, and eligible applicants are described in the Action Plan. The businesses were required to certify their eligibility and execute a grant agreement as part of the Preliminary Award initiative. The grant agreement notes that the "grant is provided as early stage, bridge funding for certain Storm-related business expenses while the Business completes its application... the Grant may be used to pay for Storm-related expenses which have interrupted, or threaten to interrupt, normal business operations, or which have compelled, or threaten to compel, the Business to forgo business development activities and/or to dedicate time and resources to maintaining business operations in their community, applying for assistance and other Storm recovery activities..." It is evident that the Preliminary Award grant initiative served the same purpose as full application grants (aiding in essential recovery needs), was a subcomponent of full application grants, and was a necessary measure to provide critical assistance in a timely manner. The description of the Small Business Program in the Action Plan includes the information required in the Federal Register Notice, provides necessary information about the eligibility of the Program to applicants, and informs HUD about how GOSR intends to use the CDBG-DR funds. The Preliminary Award initiative was made available to small businesses until May 1, 2014.

The Preliminary Award grant initiative is described in the Program's Policy and Procedures manuals. HUD has reviewed these manuals, and the Policy manual is available on GOSR's public website. During HUD's monitoring visit in February 2014, the State provided HUD a copy of the February 2014 Small Business Recovery Program Policy Manual Section 1.1.1.2 *Preliminary Award Initiative* clearly describes the nature and extent of the Preliminary Award initiative.

Comment 13



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Executive Director

Comment 13

In addition, to further support that the Preliminary Award initiative aligned with full Program application assistance in necessity and scope, the February 2014 Policy Manual notes, "total Program assistance available to each Business Owner will be calculated net of any Preliminary Award payment received". Thus, the Preliminary Award was factored into the full Program grant calculation and resulting remaining disbursement(s). Beyond providing background into this initiative, the February 2014 Policy Manual details the mandatory document requirements for submittal by the small business to the State, as well as the definition of the Preliminary Award initiative. Correspondingly, the February 2014 Procedure manual, which was also provided to HUD, documents the prescribed procedures performed by staff regarding the management of the Preliminary Award initiative. Providing financial disaster recovery assistance to eligible businesses was, and continues to be, the main priority for the Program.

As such, Recommendation 2A has been addressed and no further action is required.

b. HUD OIG COMMENT: Weak Administrative Controls Over Program Operations

GOSR RESPONSE:

The State disagrees with this Finding. The Program utilizes both the system of record and internal tracking resources to monitor Program operations in relation to application status and progress. The Program has routinely been able to provide metrics related to the status of both Preliminary Award and full award applications. GOSR routinely reviews the Program for opportunities to increase administrative controls through data analysis and comparison, application reviews, and oversight of general Program progress.

Comment 14

The OIG states that "State officials did not follow the cutoff date to submit a full application." *See* OIG Report, p. 12. As previously mentioned, the Program serves only small businesses, with the main focus on providing eligible businesses much needed disaster recovery assistance. Many of these mom-and-pop shops lacked the necessary capital to recover from recent storms and are especially vulnerable to the impacts of manmade and/or natural disasters. Due to the nature of the Program's application population, in order to facilitate the highest amount of success, the Program extended the deadline to submit a full application. This time extension permitted this busy and hardworking population to gather required documentation for submittal and processing. The Program did hold a deadline for the full application submission, which resulted in some of the Preliminary Award population being forced into the recapture process, but no doubt less than would have resulted if the extension had not been granted.

Comment 15

Comment 16

The OIG additionally states that "there were no specific written review procedures to follow the status of the Preliminary Award recipients." *See* OIG Report, p. 12. The Program previously provided the OIG with a copy of the February 2014 Procedure Manual. Within this manual, explicit procedures are listed for the processing of the Preliminary Award application, as well as the resulting full award application. All full applications submitted to the State are tracked internally, providing clear insight into the status of remaining preliminary award recipients yet to have submitted a full application.



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Comment 17

Finally, the OIG states that "there was no evidence of an internal tracker to monitor the delayed progress in IntelliGrants." *See* OIG Report, p. 12. The Program has always had close oversight on the Preliminary Award population, both those that successfully submitted full applications and those that did not. The internal tracker utilized by the Program has documented all Preliminary Award recapture applications, as well as the date they were determined to be slated for recapture.

In response to the specific applicants referenced by the OIG (*See* OIG Report, p. 12):

Comment 18

- "The owners of a home-based business received \$70,931 for repair of the house from the NY Rising Housing Recovery Program and also received a \$10,000 preliminary award in February 2014. However, as of December 1, 2015, there were no business-related documents, such as tax returns or proof of loss, and no receipts in the IntelliGrants system. The applicant document checklist in the IntelliGrants system was last updated in April 2015, and no further action had been taken. The status of this grant in the IntelliGrants system was "face value review," which showed that SBDC staff was reviewing the file to collect documents and put together a request for assistance."
 - GOSR Response: Upon full implementation of GOSR's recapture procedures, any files determined to be subject to recapture will be transferred to the applicable recapture status in IntelliGrants and sent any corresponding notification.
- "One business was determined to be ineligible on November 24, 2014, because the applicant failed to provide proof of legal residency. State officials sent out the recapture letter on January 21, 2015. However, as of December 1, 2015, the status of the business in the IntelliGrants system was marked 'face value review' rather than 'not eligible.'"
 - GOSR Response: Upon full implementation of GOSR's recapture procedures, any files determined to be subject to recapture will be transferred to the applicable recapture status in IntelliGrants and sent any corresponding notification.
- "Two businesses were ineligible to receive grant funds because their gross sales amounts were less than \$25,000 in accordance with the small business policy manual. State officials made the ineligible determination for one business on April 6, 2015, but had not notified the business as of December 1, 2015. Further, State officials had not reviewed the other business, and the current status of this business as of December 1, 2015 was marked 'face value review.'"
 - GOSR Response: Upon full implementation of GOSR's recapture procedures, any files determined to be subject to recapture will be transferred to the applicable recapture status in IntelliGrants and sent corresponding notification.

As mentioned in "c" below, as of February 2016, the State formally launched the recapture process. As Preliminary Award files are formally entering this process, their IntelliGrants statuses are being



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Comment 19

transferred to a "Payment Review" status. This is the accurate status for this population; however, as mentioned below, the recapture process took careful consideration to launch. As soon as this process was operationalized and the status was made available, the first set of Preliminary Award recapture applicants were converted to this status in IntelliGrants. Ultimately, all applicants that are noted for recapture in the Small Business Program will be moved into this status.

As such, Recommendation 2B has been addressed and no further action is required.

c. HUD OIG COMMENT: Insufficient Recapture Policy

GOSR RESPONSE:

The State disagrees with this Finding. First, the Program took extensive measures to notify Preliminary Award applicants of the requirements to complete the full application process. These measures resulted in approximately 350 small businesses successfully converting from Preliminary Awards to complete awards. A small number of businesses did not comply with the required measures and GOSR has begun transferring them to recapture. However, GOSR proceeded responsibly by attempting to maximize the number of businesses eligible for the Program, rather than prematurely starting recapture efforts.

Second, understanding that recapture is a common, yet complex, component of disaster assistance program operations, GOSR has spent considerable effort to develop a comprehensive and thoughtful recapture process. At all times, the Program has operated a system that has enabled it to track applicants that are potentially in recapture so that these efforts, when commenced, are efficient and targeted at the complete universe. GOSR began a concerted effort to recapture the Preliminary Awards from these applicants starting February 16, 2016, and it is expected that all of these applicants will have received recapture letters by mid-March.

Of the 36 recapture files noted in the OIG's report, 12 are currently in the "Payment Review" status in IntelliGrants, 5 of the 12 were sent recapture letters on February 16, 2016, and the remaining 7 were sent recapture letters on February 24, 2016. The remaining 24 are currently being processed and are expected to be transferred to "Payment Review" and to receive recapture letters in March 2016.

In response to specific points raised by the OIG (See OIG Report, p. 15-16), please see below:

- "One business receiving the preliminary award funds was debarred by the New York State Department of Labor. This information was verified on May 22 and July 14, 2014, and the final ineligible determination was made on January 23, 2015, but State officials had not notified the business."
 - GOSR Response: This business is scheduled to be transferred to "Payment Review" and to be sent a recapture letter in March 2016.
- "State officials sent out the recapture letter to one business on January 21, 2015, followed by the ineligible determination on September 23, 2014, because the applicant received

Comment 20

Comment 21

Comment 22

Comment 22



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insurance money for two cars that were claimed as a significant loss and used to support the grant. However, as of December 1, 2015, State officials had not begun collection efforts, and the \$10,000 remained outstanding.”

- GOSR Response: As the State has since formally launched the recapture process, further notification and collection efforts will be underway.
- “State officials lost contact with at least two businesses while waiting for the businesses to submit required documentation. Specifically, one business was no longer at the address listed, and the phone number for the other business had been disconnected. State officials had not sent recapture letters to either business.”
 - GOSR Response: The State’s recapture department will handle any files that require investigation.

As such, Recommendations 2C and 2D have been addressed and no further action is required.

Should you require further information, please feel free to contact me via email at Lisa.Buvo-Haft@governor.ny.gov or by phone at (212)480-4694.

Sincerely,

Lisa Buvo-Haft
Executive Director

Cc: Daniel Greene, General Counsel, GOSR
Natalie Wright, Deputy Executive Director, GOSR
Margaret Egiziaco, Interim Director, Small Business Recovery Program
Jane Brogan, Policy Director, GOSR
Cassie Ward, Interim Director of Monitoring & Compliance/Senior Counsel, GOSR

OIG Evaluation of Auditee Comments

- Comment 1 State officials disagreed with the finding and stated that the program employed and implemented a multi-pronged approach to documentation collection and processing that includes various stages of review. State officials acknowledged, however, that the majority of applications referenced in the report were processed early in the life of the program, and where OIG cited deficiencies in documentation, the Program has since collected the majority of necessary documentation and where necessary implemented updated policies and procedures to ensure such documentation is collected in the future. However, our review of the sampled applicants' files, which disclosed several deficiencies, covered the period September 2013 through March 2015; thus, our review was not limited only to the early phase of the program. Further, the report reflects a snapshot in time based upon the results of sampled disbursements and assisted businesses during the period of the audit scope. Any information provided concerning corrective action taken subsequent to the completion of the audit fieldwork that we could verify has been reflected in the report; otherwise, verification will have to occur during the audit resolution process.
- Comment 2 State officials stated that the requirement for flood insurance for assistance with mortgage expenses was revised during the audit period to no longer be required. However, no such statement or revised policy was mentioned or provided during the course of our fieldwork. Further, state officials acknowledged that proof of flood insurance should have been obtained, and if the applicant does not provide such prior to closeout of the grant, the applicant's applicable assistance may be subject to recapture. Therefore, we maintain the position that State officials provided \$97,459 to the applicant contrary to Federal regulations⁶.
- Comment 3 State officials stated that \$50,000 was awarded for repairs that were not located in an insurable structure and as a result, flood insurance was not required. According to the officials, the program inspection scope was limited to building damages only, therefore, repairs related to power posts and driveway were not included in the inspection report and assumptions of damage were made. While repairs related to the power posts and driveway were not eligible for flood coverage and coverage was not required, the officials did not provide an explanation for not providing the award for the building damage, which is an insurable structure. Further, State officials did not obtain canceled checks as required to support that the applicant had incurred the expenses. Instead, officials

⁶ The National Flood Insurance Act of 1968, as amended, and the Flood Disaster Protection Act of 1973, as amended, 42 U.S.C. 4003 defines financial assistance for acquisitions or constructions purpose as any form of financial assistance which is intended in whole or in part for the acquisition, construction, reconstruction, repair, or improvement of any publicly or privately owned building or mobile home, and for any machinery, equipment, fixtures and furnishings contained or to be contained, and shall include the purchase or subsidization of mortgages or mortgage loans.

verified over the telephone with the vendor that the incurred expenses were paid in full. Regulations 24 CFR 85.20 (b) (2) require that grantees and subgrantees maintain record that adequately identify the source and application of funds provided for financially assisted activities. We also noted that one invoice did not appear to include repair costs pertaining to the power posts or driveway related items and instead detailed items related to a boat docking marina. As a result, \$50,000 was considered ineligible.

Comment 4 State officials stated that the application was approved in the fall of 2013 and the \$100,000 disbursed in September 2013 was in accordance with the June 2013 draft policy. However, the State's action plan, dated April 2013, provides that the business must have suffered eligible uncompensated losses as a direct result of Hurricane Sandy, Hurricane Irene or Tropical Storm Lee. Our review of the documents in the applicant file did not disclose that the applicant suffered any physical or economical loss but suffered business interruption (power outage for 5 days). The June 2013 draft version of the State's policy requires the financial analysis of business operations to determine the working capital need and states that the applicant must have applied, or will apply, for all other disaster recovery assistance funds available through the Federal government. There was no evidence on file to indicate that such requirements were met. The State's February 2014 policy reflects a simplified working capital award calculation, tiered funding based on the damage and limited assistance to \$25,000. Therefore, the \$75,000 disbursed was considered ineligible.

Comment 5 State officials stated that the applicant's original award calculation of \$50,000 for the mortgage assistance was allowable and would not require proof of flood insurance. We maintain that flood insurance is required per the Flood Disaster Protection Act of 1973 (42 U.S.C. 4012a) (refer to footnote 6). State officials also stated that they have removed the property tax calculation from the working capital assistance award. We had considered \$27,000 as an ineligible cost that was related to property tax assistance, we revised the ineligible questioned costs from \$27,000 to \$50,000.

Comment 6 State officials stated that the applicant's file contained several items documenting the ownership, damage and repair of the vehicle and forklift. Review of the April 2011 receipt for the purchase of the forklift detailed a handwritten invoice from the vendor for a pre-owned forklift without further detail. Also, it appears that the vendor operates a marine repair business and is not an authorized forklift dealer. Therefore, the authenticity of the handwritten invoice for the purchase of the forklift is questionable. Further, the damage to the vehicle was not considered significant by the insurance company. The documents and pictures related to proof of loss did not support damage or loss of the vehicle and forklift. Therefore, \$98,378 is considered unsupported.

Comment 7 State officials stated that the operating company and holding company were under common ownership, and that the operating company filed an application for the

assistance and its holding company did not. State officials assumed that funds from the holding company may have been used to support recovery of the operating company. As noted in the finding, State officials disbursed \$23,412 for the items purchased by the holding company and there was no evidence to support that the operating company reimbursed its holding company. Since the items were purchased by the holding company, we conclude that the operating company did not have uncompensated loss or unmet need. The Stafford Act, and 76 FR 71061 (November 16, 2011), requires grantees to ensure that assistance is provided to a person having the need for disaster recovery assistance only to the extent to which this need was not fully met by other assistance. As a result, \$23,412 is considered unsupported.

Comment 8 State officials stated that the majority of the property pertaining to the family farm operated by the applicant is for commercial use, the size of the home was equal to less than 1 percent of the land being attributed to residential use, and it was assumed the home was utilized for business operations related to the farm. Our review of documents on file did not provide evidence that the home was actively used for business operations. Copies of the applicant's tax return did not show the applicable percentage allocation of the business use of the home. As a result, the provision of \$16,926 for working capital to cover mortgage, property tax and utility costs pertaining to the business use of the home is contrary to IRS publication 587 and the State's policy pertaining to the working capital completeness review.

State officials stated that in addition to the original estimates, the applicant provided receipts for proof of purchases. However, the \$9,375 disbursed in November 2015, and the additional \$1,770 approved for disbursement, were based on outdated estimates from February, March, and August 2014 and there were no proof of purchase receipts. Regulations at 24 CFR 85.20(b)(6) require that accounting records be supported by source documents, such as paid bills, canceled checks, payroll and attendance records etc. As a result, \$28,071 (\$16,926+\$9,375+\$1,770) was considered unsupported.

Comment 9 State officials stated that they obtained additional documentation from the applicant. We have reviewed the documentation provided on February 29, 2016 and determined that the additional documentation included some duplicate receipts that we had already considered. Nevertheless, we have adjusted the unsupported amount to \$2,842.

Comment 10 State officials provided documentation on February 29, 2016 to show the questioned assistance was not duplicative. We have verified such and therefore have removed reference to these two applicants from the final audit report.

Comment 11 Based on the State officials' explanation, we have removed the deficiency related to inadequate verification of duplication of benefit from the final audit report.

- Comment 12 State officials agreed that the program did not verify benefits received prior to disbursement of the awards to the two farm businesses. State officials stated that due to program operations and timing related to processing applications, the majority of the program applicants would receive two verification of benefits (VOB) reviews. The State's VOB policy, drafted in May 2015, requires confirmation of all sources of assistance disclosed by the applicant. However, State officials did not require the program to review the various source of income reported on the tax returns. It was not until we questioned the source of the benefit amounts that State officials realized that the two applicants received such benefits from the USDA. These benefits were not disclosed in the Duplication of Benefits Affidavits completed by the applicants. This demonstrates a weakness in the State's VOB procedures. However, we have removed related discussion from our final audit report as it is immaterial for reporting purposes.
- Comment 13 State officials disagreed that the preliminary award program was not sufficiently reported to HUD and stated that although the initial documentation requirements between the Preliminary Award and full grant application were different, the grant initiative was 1) a subcomponent of full grant application which was described in the State's Action Plan, , and 2) described in the Program's Policy and Procedure Manuals, which were reviewed by HUD during HUD's monitoring visit in February 2014. Accordingly, we have removed any discussion pertaining to the preliminary award program not reported to HUD from the final audit report.
- Comment 14 State officials disagreed that there were weak administrative controls over program operations and stated that they could routinely provide metrics related to the status of both preliminary award and full award applications and reviewed the program for opportunities to increase administrative controls through data analysis and comparison, application reviews, and oversight of general program progress. However, as noted in the report, State officials did not successfully assure that all preliminary award recipients applied for the full grants and the funds disbursed to the businesses which failed to meet the requirements of the program were recaptured in a timely manner.
- Comment 15 State officials explained that due to the nature of the program's application population, the program extended deadlines to submit a full application and they had a cut-off date. However, the cutoff date of December 31, 2014 in the Small Business policy and procedure was not followed.
- Comment 16 State officials stated that the February 2014 Procedure Manual listed the processing procedures of the Preliminary Award application and the resulting full award application. However, the updated March 2014 Procedure Manual and its subsequent Procedure Manual did not include the same processing procedure for the Preliminary Award application. Further, there was no written follow up procedure including a reasonable time frame between the initial determination and the final determination dates.

- Comment 17 State officials stated that the program had close oversight on the Preliminary Award population; however, we did not note any monitoring activities for the delayed progress pertaining to our sample in IntelliGrants.
- Comment 18 State officials stated that any files determined to be subject to recapture would be transferred to the applicable recapture status in IntelliGrants and sent any corresponding notifications upon full implementation of the recapture procedure. This is responsive to our finding.
- Comment 19 State officials stated that they formally launched the recapture process and the status of the Preliminary Award files were transferred to a “Payment Review” status. Further, as soon as this recapture process was operationalized, the first set of Preliminary Award recapture applicants were converted to the “Payment Review” status in IntelliGrants. The officials’ actions are responsive to our finding. However, State officials should strengthen their controls by prescribing a time frame between the first and second (or final) review and approval and describing the reason if not done within the time frame to avoid any unreasonable delays during the recapture process.
- Comment 20 State officials disagreed that the recapture policy was insufficient and they stated that they have spent considerable effort to develop a comprehensive and thoughtful recapture process and began to recapture the Preliminary Awards from the applicants starting February 16, 2016. Since the recapture process began after the end of our audit period, we did not verify the actual recapture process. Therefore, HUD will have to verify the State’s actions during the audit resolution process.
- Comment 21 State officials stated that of the 36 recapture files noted in our report, 12 were converted to “Payment Review” status in IntelliGrants, 5 of the 12 were sent recapture letters on February 16, 2016, and the remaining 7 were sent recapture letters on February 24, 2016. Further State officials stated that the recapture letters for the remaining 24 would be sent in March 2016. This is responsive to our finding.
- Comment 22 This is responsive to our finding.