



The City of New York, NY, Mayor's Office of Housing Recovery Operations

Community Development Block Grant Disaster
Recovery-Funded Build It Back Single Family
Program



To: Stanley A. Gimont
Deputy Assistant Secretary for Grant Programs (Acting), DG

Michelle Miller
Deputy Director, Office of Healthy Homes and Lead Hazard Control, LM

//SIGNED//

From: Kimberly Greene
Regional Inspector General for Audit, 2AGA

Subject: The City of New York, NY, Implemented Policies That Did Not Always Ensure That Community Development Block Grant Disaster Recovery Funds Were Disbursed in Accordance With Its Action Plan and Federal Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of New York, Mayor's Office of Housing Recovery Operations' administration of Community Development Block Grant Disaster Recovery funds for its Build it Back Single Family 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 212-264-4174.



Audit Report Number: 2017-NY-1001

Date: November 2, 2016

The City of New York, NY, Implemented Policies That Did Not Always Ensure That Community Development Block Grant Disaster Recovery Funds Were Disbursed in Accordance With Its Action Plan and Federal Requirements

Highlights

What We Audited and Why

We audited the City of New York, Mayor's Office of Housing Recovery Operations' administration of the Build it Back Single Family Program, funded with Community Development Block Grant Disaster Recovery (CDBG-DR) funds provided by the U.S. Department of Housing and Urban Development (HUD) to assist in the disaster recovery and rebuilding efforts resulting from Hurricane Sandy. The objective of the audit was to determine whether City officials had adequate controls to ensure that the use of CDBG-DR funds was consistent with the Build it Back Single Family Program guidelines established under the HUD-approved action plan.

What We Found

City officials implemented policies that did not always ensure that CDBG-DR funds were disbursed in accordance with the action plan and Federal requirements. Specifically the policies implemented did not ensure that all eligible homeowners were reimbursed in accordance with the action plan and the Program and CDBG-DR-assisted homes complied with HUD's Lead Safe Housing Rule requirements. In addition, City officials did not maintain complete and accurate Program files and records. These deficiencies resulted from City officials' decision to provide additional CDBG-DR assistance to homeowners with Small Business Administration (SBA) loans and reduce operational costs. Further, City officials believed that the Program would meet HUD's Lead Safe Housing Rule requirements after reimbursement and wished to avoid recapturing grants from homeowners who did not allow the Program to complete the lead hazard work. Additionally, City officials did not establish adequate monitoring controls to ensure that revised record-keeping procedures were consistently followed. As a result, they could not assure HUD that the use of CDBG-DR funds benefited eligible homeowners in a fair and equitable manner, assisted homes were lead safe, and Program records were properly maintained.

What We Recommend

We recommend that HUD instruct City officials to (1) submit an amended action plan for approval to ensure that it agrees with the City's policies regarding the use of \$4.5 million and planned use of \$1.3 million in additional CDBG-DR assistance to homeowners with SBA loans and \$32,107 in assistance above the Program's 60 percent reimbursement rate, (2) reimburse \$101,398 in additional grants owed to 11 homeowners, and (3) provide documentation to support that more than \$1 million in CDBG-DR funds was disbursed for lead-safe homes.

Table of Contents

Background and Objective.....	3
Results of Audit	5
Finding 1: City Officials Did Not Always Implement Policies and Procedures To Ensure That Funds Were Disbursed in Accordance With the Action Plan	5
Finding 2: City Officials Did Not Always Comply With HUD’s Lead Safe Housing Rule Requirements.....	12
Finding 3: City Officials Did Not Maintain Complete and Accurate Program Files and Records	15
Scope and Methodology.....	22
Internal Controls.....	25
Appendixes.....	27
A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....	27
B. Auditee Comments and OIG’s Evaluation	29

Background and Objectives

On November 13, 2012, approximately 2 weeks after Hurricane Sandy made landfall, damaging and destroying properties and disrupting the lives of New York City residents by displacing them from their homes, the City of New York, Mayor's Office of Housing Recovery Operations, was created. The purpose of the Office was to coordinate efforts among the various City agencies and State and Federal Governments for developing long- and short-term housing solutions for these displaced residents.

On January 29, 2013, Congress enacted the Disaster Relief Appropriations Act of 2013, Public Law 113-2, appropriating \$16 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) funds. The purpose of this funding was to cover necessary expenses occurring from calendar years 2011 through 2013 that were related to long-term recovery, infrastructure and housing restoration, and housing and economic revitalization for locations that were declared disaster areas in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974. Of the \$16 billion in CDBG-DR funds appropriated, \$4.21 billion was awarded directly to the City. As of September 30, 2015, City officials had allocated \$1.7 billion of that amount to the Build it Back Single Family Program and had disbursed \$270 million.

The Mayor's Office of Housing Recovery Operations administers the Build it Back Program Single Family Program. The Program provides assistance to homeowners whose primary residence or one- to four-unit rental property was destroyed or damaged by Hurricane Sandy. Disaster assistance is offered through several Program options, such as repair, repair with elevation, rebuild, reimbursement, relocation, and acquisition. Our review was limited to the reimbursement Program option.¹

The reimbursement Program option provides assistance to all eligible homeowners who completed Hurricane Sandy-related repairs with personal resources and met the national objectives of having low to moderate income or urgent need. To be eligible for reimbursement assistance, the homeowner must have completed the rehabilitation work within the same footprint of the damaged structure, sidewalk, driveway, parking lot, or other developed area and incurred costs by the Program application date or October 29, 2013, whichever came first.

The Program did not require documentation of completed repair expenses to receive reimbursement assistance. A Program assessment determined the value of the completed repairs using a standardized pricing model and multipliers to provide a set cost for reimbursement. The determined cost was then reduced by the amount of duplicative assistance made available to the homeowner from other funding sources. Due to funding limitations, the Program reimbursed homeowners at a rate of 60 percent of their eligible reimbursement amount.

¹ At the time the review was started, City officials had drawn CDBG-DR funds for the reimbursement option only.

The objective of the audit was to determine whether City officials had adequate controls to ensure that the use of CDBG-DR funds was consistent with the Build it Back Single Family Program guidelines established under the HUD-approved action plan.

Results of Audit

Finding 1: City Officials Did Not Always Implement Policies and Procedures To Ensure That Funds Were Disbursed in Accordance With the Action Plan

City officials implemented policies and procedures that did not always ensure that CDBG-DR funds were disbursed in accordance with the action plan. The action plan stated that the Program would provide assistance that covered a portion of eligible reimbursable expenses. However, due to policy changes, City officials provided several homeowners with additional assistance that would cover from 60 to 100 percent of their eligible reimbursable expenses, while they provided other homeowners with less than the Program's 60 percent reimbursement rate. We attributed these deficiencies to City officials' decision to provide additional assistance to homeowners receiving SBA loans and to reduce operational costs associated with a second grant agreement signing. As a result, all homeowners were not reimbursed at the same rate and City officials could not ensure that all eligible homeowners received fair and equitable treatment.

Accordingly, City officials disburse an additional \$4.5 million² in CDBG-DR assistance to homeowners solely because they received Small Business Administration (SBA)³ loans. They also overpaid 5 homeowners by \$32,107 and underpaid 11 homeowners by \$101,398.

Due to a Change in the Reimbursement Policy, All Homeowners Would Not Be Reimbursed in Accordance With the Action Plan

Due to a change in the reimbursement policy affecting homeowners receiving SBA loans, all homeowners would not be reimbursed in accordance with the action plan and at the same reimbursement rate. While the City's action plan stated that the Program would provide assistance that covered a portion of eligible reimbursable expenses, neither the City's action plan nor five versions of the policy manual, dated before March 23, 2015, defined what was meant by a "portion" or the rate at which eligible expenses would be reimbursed. However, public comments City officials received requesting a reimbursement percentage higher than 60 percent showed that the public was informed of the Program's reimbursement rate. Upon applying to the Program, homeowners were required to sign a "Notice and Acknowledgment of Limited Availability of Funding," acknowledging that reimbursement assistance was subject to the availability of CDBG-DR funds. The Program's coordination of benefits and reimbursement worksheet stated that due to funding limitations, a homeowner would be reimbursed at a rate of 60 percent of the eligible reimbursement amount. City officials decided to reduce the Program-calculated reimbursement amount by 40 percent based on early estimates of available CDBG-DR funds and to lessen the potential that the Program may have overvalued completed repairs.

² While City officials disbursed \$5.8 million to homeowners with SBA loans, of that amount, they drew \$4.5 million in CDBG-DR funds as of September 20, 2016.

³ In the wake of a disaster, the U.S. Small Business Administration provides low-interest disaster loans to homeowners and is the Federal Government's primary funding source for long-term recovery assistance.

Effective July 24, 2015, City officials implemented the new policy bulletin, in which homeowners with SBA loans would either receive an additional reimbursement equivalent to the lesser of the remaining 40 percent of the eligible reimbursement amount or the amount of the SBA loan considered to be a duplication of benefits. City officials updated the policy manual on September 16, 2015. However, the language in section 14.12 of the policy manual differed from that in the policy bulletin in that it also stated that homeowners with SBA loans would receive an additional reimbursement equivalent to the lesser of the remaining 40 percent of the eligible reimbursement amount or the current disbursed amount of all SBA loans calculated at a point in time. Homeowners would not be reimbursed for more than 100 percent of the eligible reimbursement amount. The policy difference is important because SBA offers several loan types, including loans for real estate (property damage), mitigation, and personal property (contents). However, according to section 7 of the City’s Coordination of Benefits Standard Operating Procedures, the Program included only the amount the homeowner received for property damage in the homeowner’s duplication of benefits calculation. As a result, a homeowner could potentially receive more in additional assistance than the amount of the SBA loan considered duplicative.

During our review, City officials provided a list of potential homeowners with SBA loans who were projected to receive additional reimbursements. An analysis of 817 potential homeowners showed that 140 homeowners were projected to receive \$2.2 million in additional reimbursements, which was approximately \$1 million more than the \$1.2 million in SBA loans considered duplicative. Of the 140 homeowners, 66 were projected to receive additional reimbursements that were more than the amount of the SBA loans considered duplicative but less than all disbursed SBA loans, 47 were projected to receive additional reimbursements that were equivalent to the amount of all disbursed SBA loans, and 27 were projected to receive additional reimbursements that were equivalent to the remaining 40 percent of the eligible reimbursement amounts. The details are shown in the table below.

Projected value of additional reimbursement exceeds the value of SBA loans considered duplicative					
Column A	Column B	Column C	Column D	Column E	Column F
Number of homeowners per category	Projected additional reimbursement amount	Remaining 40 percent of the eligible reimbursement amounts	Amount of SBA loans considered duplicative	Amount of disbursed SBA loans	Excess amount (column B minus column D)
66 - projected to receive additional reimbursements that were more than the amount of the SBA loans considered duplicative but less than all disbursed SBA loans	\$963,291	\$988,644	\$603,000	\$1,629,400	\$360,291
47 - projected to receive additional reimbursements that were equivalent to the amount of disbursed SBA loans	689,500	1,095,200	341,410	689,500	348,090
27 - projected to receive additional reimbursements that were equivalent to the remaining 40 percent of the eligible reimbursement amounts	551,547	551,547	265,300	0	286,247
Total	\$2,204,338	\$2,635,391	\$1,209,710	\$2,318,900	\$994,628

A sample of 84 homeowners with SBA loans showed that approximately 73 percent had a national objective determination of urgent need and 27 percent had a low- to moderate-income determination. Therefore, the City's policy change would primarily benefit higher income homeowners and provide them with additional reimbursement of up to 100 percent of their maximum reimbursement amount. However, the City's action plan stated that the grant amount would cover only a portion of eligible reimbursable expenses. In accordance with Federal Register Notice 78 FR 14338 (March 5, 2013), before implementing this policy change, City officials should have amended the City's action plan since there was a change in the Program benefit from 60 to 100 percent of eligible reimbursable expenses solely for homeowners with SBA loans. The action plan amendment process included publishing the proposed amendment on the City's Web site and giving citizens the opportunity to submit comments.

According to City officials' May 12, 2016, projections and our data analysis,⁴ additional reimbursements to be provided to 817 homeowners with SBA loans totaled approximately \$10.2 million. We considered the grants yet to be disbursed to be funds that could be put to better use. The reduction in outlays could be better used to benefit all eligible homeowners in a more fair and equitable manner.

In response to the draft report, City officials provided an updated analysis of reimbursement review activity related to the 817 homeowners with SBA loans included in our initial review. They also provided an analysis of other homeowners with SBA loans who were not a part of our review. Based on the updated analysis, City officials determined that 549 homeowners with SBA loans received additional reimbursements totaling \$5.8 million. Of the 549 homeowners with SBA loans, 532 were included in City officials' May 12, 2016, projections. As of September 20, 2016, City officials disbursed an additional \$5.7⁵ million to these 532 homeowners. This amount was 45 percent less than the initially projected disbursement amount of \$10.2 million. Further, City officials reported that while 135 of 532 homeowners with SBA loans received additional reimbursements equivalent to 100 percent all disbursed SBA loans, no homeowner received more than 100 percent of non-duplicative reimbursable expenses.

Our analysis of the updated data found that 393 of the 549 homeowners with SBA loans received 100 percent of the maximum reimbursement amount and 1 homeowner received \$1,793 more than the maximum amount allowed. However, a review of the homeowner's Program file showed that the excess amount was reported in error⁶. The first reimbursement approved amount was reported as \$4,507 when it should have been reported as \$5,378. The second reimbursement approved amount was reported as \$5,378 when it should have been reported as \$3,585.

⁴ A review of Program files relating to homeowners identified through our data analysis found inaccuracies in the data. These inaccuracies are discussed in detail in finding 3 of this report.

⁵ While City officials disbursed \$5.7 million to 532 homeowners with SBA loans, of that amount, they drew \$4.4 million in CDBG-DR funds as of September 20, 2016.

⁶ Data errors found in the updated analysis of reimbursement review activity are discussed in detail in finding 3 of this report.

Accordingly, the amount of additional reimbursements disbursed to 549 homeowners with SBA loans was reduced by the amount of the \$1,793⁷ error.

The use of \$4.5 million in CDBG-DR assistance to provide additional reimbursement covering up to 100 percent of eligible expenses incurred by homeowners who received SBA loans was inconsistent with the HUD-approved action plan. The action plan stated that the Program would provide assistance that covered a portion of eligible reimbursable expenses. Since there was a change in program benefit, City officials were required to amend the action plan. In the absence of an amended action plan, \$4.5 million is considered to be an ineligible use of CDBG-DR funds and \$1.3 million yet to be drawn is considered to be funds that could be put to better use.

Some Homeowners Received More While Others Received Less Than the Program's 60 Percent Reimbursement Rate

Due to a policy City officials implemented on January 29, 2015, some homeowners received more while others received less than the Program's 60 reimbursement rate. The policy provided that once a reimbursement grant agreement had been signed by a homeowner, a new agreement would not be executed to show a change in the grant amount resulting from a duplication of benefits recalculation in cases in which the original grant was less than the Program-recalculated maximum reimbursement amount. For example, the initial Program-calculated maximum reimbursement amount for homeowner A was \$10,000. Therefore, the original grant amount for homeowner A was \$6,000 ($\$10,000 \times 60$ percent). If the maximum reimbursement amount for homeowner A was recalculated to \$8,000, City officials would not execute a new grant agreement. The grant for homeowner A would continue to be processed at \$6,000, although it should have been reduced to \$4,800 ($\$8,000 \times 60$ percent). Further, the policy memorandum was to be included in the file for each grant processed in that manner.⁸

In cases in which the original grant was more than the Program-recalculated maximum reimbursement amount, the grant would be processed at the newly calculated amount, and a new agreement would be executed. For example, the initial Program-calculated maximum reimbursement amount for homeowner B was \$10,000. Therefore, the original grant amount for homeowner B was \$6,000 ($\$10,000 \times 60$ percent). If the maximum reimbursement amount for homeowner B was recalculated to \$5,000, City officials would execute a new grant agreement. In this example, the grant for homeowner B would be processed at the newly recalculated reimbursement amount of \$3,000 ($\$5,000 \times 60$ percent) since the original grant of \$6,000 was more than the Program-recalculated maximum reimbursement amount of \$5,000.

An analysis of a sample of 16 homeowners whose grant amount changed by \$500 or more due to duplication of benefits recalculations after the homeowners had already signed their reimbursement grant agreements, showed that City officials overpaid for 5 grants by \$32,107 and underpaid for 11 grants by \$101,398. Further, contrary to the City's policy, one of the five overpaid grants continued to be processed at the original grant amount of \$54,533, although the

⁷ City officials reported that 549 homeowners received a total of \$5,783,160 in additional reimbursement assistance. However, this amount was reduced by the amount of the \$1,793 error to \$5,781,367.

⁸ Documentation deficiencies related to grants processed in accordance with the January 29, 2015, memorandum are discussed in detail in finding 3 of this report.

original grant amount was more than the Program-recalculated maximum reimbursement amount of \$49,463. The Program-recalculated maximum reimbursement amount was reduced due to \$41,483 in flood insurance proceeds and \$57 in allowable credits⁹ identified after the initial duplication of benefits calculation had been performed. The details regarding the overpaid and underpaid grants and the reimbursement percentages are shown in the tables below.

Overpaid grants							
Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Number of overpaid grants	Original maximum reimbursement amount	New maximum reimbursement amount	Difference (column B - column C)	Original grant (60% of column B)	HUD OIG* recalculated grant (60% of column C)	Difference (column E - column F)	Percentage of revised maximum reimbursement amount received (column E / column C)
1	\$90,889	\$49,463	\$41,426	\$54,533	\$29,678	\$24,855	110%
2	20,861	14,588	6,273	12,516	8,753	3,763	86%
3	64,921	62,630	2,291	38,953	37,578	1,375	62%
4	21,651	19,879	1,772	12,990	11,927	1,063	65%
5	9,849	8,096	1,753	5,909	4,858	1,051	73%
Total	\$208,171	\$154,656	\$53,515	\$124,901	\$92,794	\$32,107	

*OIG = Office of Inspector General

Underpaid grants							
Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Number of underpaid grants	Original maximum reimbursement amount	New maximum reimbursement amount	Difference (column B - column C)	Original grant (60% of column B)	HUD OIG recalculated grant (60% of column C)	Difference (column E - column F)	Percentage of revised maximum reimbursement amount received (column E / column C)
1	\$140,885	\$208,726	(\$67,841)	\$84,531	\$125,236	(\$40,705)	40%
2	18,350	61,580	(43,230)	11,010	36,948	(25,938)	18%
3	1,591	19,932	(18,341)	955	11,959	(11,004)	5%
4	137,898	155,898	(18,000)	82,739	93,539	(10,800)	53%
5	34,895	44,095	(9,200)	20,937	26,457	(5,520)	47%
6	5,643	10,643	(5,000)	3,386	6,386	(3,000)	32%
7	41,351	44,222	(2,871)	24,811	26,533	(1,722)	56%
8	1,114	2,414	(1,300)	669	1,449	(780)	28%
9	6,811	8,071	(1,260)	4,087	4,843	(756)	51%
10	38,781	39,831	(1,050)	23,269	23,899	(630)	58%
11	13,690	14,595	(905)	8,214	8,757	(543)	56%
Total	\$441,009	\$610,007	(\$168,998)	\$264,608	\$366,006	(\$101,398)	

Consistent with section 312(c) of the Stafford Act, both the coordination of benefits worksheet disclosure and section 13(a)(iii) of the reimbursement grant agreement provided that a homeowner might be required to repay the Program additional disaster recovery funds received from other sources that were considered to be a duplication of benefits after the grant had been awarded. However, City officials chose to continue to process the five overpaid grants at the original amounts. Thus, the City should be held responsible for repaying the Program \$32,107 from non-Federal funds.

⁹ The Program gave homeowners credit for documented, eligible, and nonpermanent Sandy-related repair expenses, thus increasing the reimbursement assistance homeowners received.

We attributed these deficiencies to City officials' desire to reduce operational costs associated with a second grant agreement signing. Further, City officials stated that additional assistance to homeowners above the 60 percent reimbursement rate was allowable under the reimbursement grant agreement.

Conclusion

The City's action plan stated that the Program would provide assistance that covered a portion of eligible reimbursable expenses. The Program defined a portion as 60 percent of eligible reimbursable expenses. Yet City officials implemented policies that did not ensure that all eligible homeowners received fair and equitable treatment. As of May 12, 2016, City officials planned to disburse \$10.2 million in additional CDBG-DR assistance to homeowners solely because they received SBA loans. However, an updated analysis of the City's reimbursement review activity, provided on September 20, 2016, showed that City officials drew \$4.5 million and planned to draw \$1.3 million in CDBG-DR funds for additional reimbursement assistance to homeowners with SBA loans. As a result of City officials' policy decision, the additional assistance increased the reimbursement percentage from 60 to up to 100 percent of eligible reimbursable expenses for homeowners with SBA loans. An analysis of the data showed that 394¹⁰ of the 549 homeowners with SBA loans received a total of 100 percent of their eligible reimbursable expenses. City officials also provided 5 homeowners with \$32,107 more and 11 others with \$101,398 less than 60 percent of their eligible reimbursable expenses. This occurred because City officials wanted to cut operational costs associated with conducting a second reimbursement grant agreement signing to show grant amount changes resulting from recalculated duplication of benefits. The City's position that additional CDBG-DR assistance up to 100 percent of eligible reimbursable expenses was allowable under the reimbursement grant agreement was inconsistent with the HUD-approved action plan.

Recommendations

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

- 1A. Submit an amended action plan for approval to ensure that it agrees with the City's policies regarding the use of \$4,467,299 and planned use of \$1,314,068 in additional CDBG-DR assistance covering up to 100 percent of eligible reimbursable expenses incurred by homeowners with SBA loans. If an amended action plan is not submitted and approved, repay the Program from non-Federal funds for additional reimbursements provided solely to homeowners with SBA loans.
- 1B. Execute new grant agreements to show material changes in grant amounts resulting from duplication of benefits recalculations.

¹⁰ It was determined that 394 homeowners with SBA loans received a total of 100 percent of their maximum reimbursement amount after the first and second reimbursement approved amounts related to the previously discussed homeowner was corrected.

- 1C. Repay the Program from non-Federal funds \$32,107 in overpaid grants to homeowners whose grant amounts (1) were not revised to show recalculated duplication of benefits and (2) exceeded the Program's 60 percent reimbursement rate.
- 1D. Reimburse \$101,398 in additional grants owed to the 11 homeowners whose grant amounts should have been materially increased as a result of recalculated duplication of benefits.

Finding 2: City Officials Did Not Always Comply With HUD's Lead Safe Housing Rule Requirements

The Program files in the City's electronic Case Management System (CMS) lacked documentation showing compliance with HUD's Lead Safe Housing Rule requirements¹¹ and contained lead test result discrepancies. CMS lacked documentation showing that lead-based paint testing had been performed, identified hazards had been removed, and clearance had been achieved. We attributed these deficiencies to design limitations in CMS, City officials' expectation that homeowners would allow the Program to perform the lead hazard work necessary to ensure compliance, and their wish to avoid recapturing grants from homeowners who did not to allow the Program to complete the lead hazard work or provide evidence that compliance had been otherwise achieved. As a result, City officials did not show that the Program disbursed more than \$1 million in CDBG-DR assistance for 47 lead-safe homes.

Program Files Lacked Documentation of Compliance With HUD's Lead Safe Housing Rule Requirements

Our review of 14 Program files found that the environmental analysis view in CMS did not clearly document whether the CDBG-DR-assisted homes were exempt from HUD's Lead Safe Housing Rule requirements or how identified lead hazards would be addressed. HUD's Office of Community Planning and Development (CPD) Notice CPD-15-07 stated that a CDBG-DR-assisted home may be exempt from HUD's Lead Safe Housing Rule requirements in accordance with 24 CFR (Code of Federal Regulations) 35.115 if the home

- Was built after January 1, 1978,
- Required repairs necessary to respond to an emergency,
- Underwent rehabilitation that did not disturb any painted surface,
- Was designated exclusively for the elderly or persons with disabilities but only if no children under the age of 6 were expected to reside in the home,
- Underwent a property inspection and no lead-based paint was found, and
- Underwent a property inspection and lead-based paint had been identified and removed and the property had achieved clearance.

Of the 14 files reviewed, only one CDBG-DR-assisted home was clearly exempt from HUD's lead requirements because the home was built in 1994. However, the home's environmental analysis view in CMS contained blank fields concerning lead. The environmental analysis view of another assisted home built in 1920 showed that it had been tested for the presence of lead. Yet, the reportedly negative test results were not documented in CMS. In addition, four Program files did not contain evidence that identified lead hazards had been removed and the homes had achieved clearance.

City officials explained that due to a design limitation in CMS, lead-related fields were visible, although they were not used to determine reimbursement eligibility or postreimbursement

¹¹ HUD's Lead Safe Housing Rule requirements apply to all pre-1978 housing units receiving CDBG funding to reduce the threat of childhood lead poisoning in federally assisted housing.

compliance. These lead-related fields were used to facilitate later construction. City officials required the homeowners to allow the Program to perform the work necessary to address the lead hazards during the repair option or provide a lead clearance report. Accordingly, without evidence of documented negative lead test results for one homes and the removal of identified lead hazards and lead clearance reports for four homes, City officials could not show that \$182,660 in CDBG-DR assistance was used for lead-safe homes.

Due to our audit inquiry, City officials identified and provided a list of an additional 41 homeowners who received reimbursement checks totaling \$833,199, although the Program had not performed lead-based paint testing, removed identified hazards, or achieved clearance for the homes. City officials believed that during the Program's repair option, which followed the homeowners' receipt of reimbursement assistance, the Program would perform the lead hazard work necessary to ensure that CDBG-DR funds were used for lead-safe homes. However, the homeowners opted out, and City officials wished to avoid recapturing grants when the homeowners refused to take part in the Program's repair option because they believed that grant recaptures were not in the homeowners' best interest. While City officials stated that they would work with HUD to ensure that these homeowners complied with the lead requirements, their only recourse may be to enforce the reimbursement grant agreement, which would require that the homeowners allow the Program to complete the lead hazard work, otherwise achieve clearance, or repay the grant.

Program Files Contained Discrepancies Concerning Lead Test Results

The NYC Houses: Feasibility Determination Report for 9¹² of 14 homes in our sample showed that the homes had been tested for the presence of lead hazards and asbestos-containing materials and the complete test results had been attached to the record in CMS. However, City officials acknowledged that this statement was not always accurate since the template for the Feasibility Determination Report automatically generated this statement. City officials stated that once they discovered the inaccuracy of the autogenerated statement, they revised the report's template.

Our file review uncovered one instance¹³ in which the Feasibility Determination Report showed that the home had been tested for the presence of lead, but the test results were not documented in the Program file. In another instance, one Program file contained a discrepancy concerning the lead test results. The NYC Build it Back Repair Program Lead-Based Paint Risk Assessment Report Summary, dated February 18, 2014, showed that the home did not test positive for lead-based paint or a lead-based paint hazard. However, the March 12, 2014, lead test results showed that there was a potential lead exposure hazard at the home and lead hazard reduction activities were required. Since this discrepancy was not reconciled, City officials could not ensure that \$29,019 in CDBG-DR assistance was used for a lead-safe home.

¹² Of five remaining homes, the Feasibility Determination Reports for three stated that the homes were or would be tested for the presence of lead hazards. The report for the fourth home stated that the home would be tested, and the report for the fifth home stated the home was exempt from testing based on the year of construction.

¹³ This example is the same one that was mentioned in a previous section.

Conclusion

City officials did not maintain adequate records in CMS to show compliance with HUD's Lead Safe Housing Rule requirements. CMS lacked documentation showing that lead-based paint testing had been performed, identified hazards had been removed, and clearance had been achieved. As a result, City officials could not provide assurance that more than \$1 million in CDBG-DR assistance was disbursed for 47 lead-safe homes. These deficiencies occurred due to design limitations in CMS and City officials' belief that it was not in the homeowners' best interest to recapture grants when homeowners declined the Program's assistance or did not otherwise achieve lead compliance.

Recommendations

We recommend that HUD's Acting Deputy Assistant Secretary for Grant Programs coordinate with the Office of Healthy Homes and Lead Hazard Control to provide technical assistance and instruct City officials to

- 2A. Ensure that Program files clearly identify whether a home required lead-based paint testing. When such testing is performed, City officials should ensure that the testing results are documented, identified lead-based paint hazards are removed, and clearance is achieved.
- 2B. Document the negative lead test results in CMS for one home and the removal of identified lead hazards and lead clearance reports for four homes, thus ensuring that \$182,660 in CDBG-DR assistance was disbursed for lead-safe homes. If the negative test results are not documented, City officials should repay the \$182,660 from non-Federal funds.
- 2C. Provide supporting documentation that lead-based paint testing was performed, identified hazards were removed, and clearance was achieved for the 41 properties for which homeowners received \$833,199 in CDBG-DR assistance. If supporting documentation is not provided, City officials should repay the \$833,199 from non-Federal funds.
- 2D. Advise homeowners of their obligation under the terms of the reimbursement grant agreement to allow the Program to perform lead-based paint testing or hazard removal. Homeowners who refuse to allow the Program to complete lead hazard work or provide evidence that the property achieved clearance must repay the grant.
- 2E. Reconcile the discrepancy in the lead test results. If it is determined that the home tested positive for a lead-based paint hazard, City officials should provide supporting documentation showing that the hazard has been removed and the home has achieved clearance, thus ensuring that \$29,019 in CDBG-DR assistance was disbursed for a lead-safe home. If the lead test results are not reconciled and the lead safety of the home is not documented, City officials should repay the \$29,019 from non-Federal funds.

Finding 3: City Officials Did Not Always Maintain Complete and Accurate Program Files and Records

City officials did not maintain complete and accurate Program files and records to show compliance with all requirements. Specifically, the City's electronic Program files and records (1) contained duplicative forms, (2) included nonstandard file names and unused standard document folders and subfolders, (3) did not always contain executed grant agreements that were countersigned before reimbursement assistance was provided, (4) required clarification regarding SBA loan data and eligible Sandy-related expense offsets, and (5) contained discrepancies regarding projected additional reimbursements and duplication of benefits recalculations. We attributed these deficiencies to the lack of adequate monitoring and quality control reviews to ensure that the records were accurate and documentation was maintained in accordance with Federal requirements¹⁴ and the City's record-keeping procedures. As a result, City officials did not provide assurance that records were complete, reliable, and reconciled with the source documentation in the Program files to facilitate the review of overall Program compliance.

Program Files Contained Duplicative Documentation and Forms

Duplicate forms were not moved to the CMS duplicate or changed document or excess materials folders for 6 of 14 files reviewed as required by section 3.2.1, subsection 3, of the City's record-keeping procedures. While the City's record-keeping procedures were refined due to significant Program changes, City officials did not establish adequate monitoring controls to ensure that the documentation was appropriately maintained. As a result, during our file review, the dates and amounts of each duplicative form had to be compared to determine the applicable version. This was a cumbersome process and added to the time needed to complete the file review. City officials acknowledged that the Program files in CMS contained duplicative forms and that documentation may not have been properly filed. Accordingly, they planned to implement a document and data cleanup process before closing out the files to ensure that duplicative documents were archived, most recent documents were identified and filed in the appropriate subfolders, and all files complied with record-keeping requirements.

Program Files Contained Nonstandard File Names and Unused Standard Document Folders and Subfolders

Our review of 14 files found that contrary to sections 3.1.1 and 3.2 of the City's record-keeping procedures, City officials did not consistently use standard file names. Further, standard document folders in CMS, such as eligibility and its subfolders, proof of location, ownership, primary residency, citizenship, and identity, were often unused. In several instances, documentation that should have been maintained in clearly labeled folders was misfiled.

In its July 18, 2014, monitoring report, HUD expressed concern that City officials were not maintaining Program files in a clear and organized manner to facilitate access to key information, such as duplication of benefits determinations, HUD's Office of Fair Housing and Equal Opportunity-required race and ethnicity data, and records necessary to determine compliance with CDBG-DR crosscutting requirements. In their August 15, 2014, response to

¹⁴ Regulations at 24 CFR 570.506 require City officials to establish and maintain sufficient records to show compliance with the Program's requirements.

HUD’s concern, City officials stated that they had developed a single final applicant folder, which contained the homeowner’s complete file. However, only 4 of 14 files reviewed contained the final applicant folder.

In addition, City officials developed a single end-to-end file, which contained supporting documentation to show compliance with Program requirements. However, they did not consistently maintain the end-to-end file in the eligibility and benefits certification document folder as required. In several instances, the end-to-end file was found in other folders, such as the end-to-end folder or the final applicant folder, or in the documents section in no particular folder. These deficiencies occurred because City officials did not establish adequate monitoring controls to ensure that the Program files were clearly and consistently organized in accordance with the City’s record-keeping procedures. Monitoring consisted of a quality control sample of approximately 10 percent of the end-to-end files.

Executed Grant Agreements Were Not Always Documented as Required and Countersigned by City Officials After Assistance Had Been Provided

HUD encouraged City officials to include the signed executed grant agreements in the end-to-end file; however, none of the 14 files reviewed contained the executed grant agreement in that file. The executed grant agreements were filed in the grant agreement subfolder under the grant award folder. Further, contrary to section 3.2.1, paragraph 6a, of the City’s record-keeping procedures, the executed grant agreements for three of the files reviewed were initially missing from the grant award folder. However, as a result of our inquiry, City officials entered the three executed grant agreements into CMS.

Although the 14 homeowners in our sample signed their reimbursement grant agreements before receiving assistance, City officials countersigned 11 of the 14 agreements an average of 115 days after the CDBG-DR assistance had been provided. The details are in the table below.

Reimbursement grant agreements executed after issuance of reimbursement checks				
Count	Date applicant(s) signed grant agreement	Date reimbursement check issued	Date City official countersigned grant agreement	Elapsed days from the countersigning of the grant agreement to the issuance of the reimbursement check
1	12/16/2014	12/29/2014	11/30/2015 ¹⁵	336
2	04/22/2015	04/28/2015	02/19/ 2016 ¹⁵	297
3	08/04/2015 and 08/06/2015 ¹⁶	08/12/2015	02/19/2016 ¹⁵	191
4	04/01/2015	04/07/2015	08/06/2015	121
5	03/12/2015	03/09/2015	07/07/2015	120
6	07/10/2014	07/21/2014	10/06/2014	77
7	06/28/2014	07/14/2014	09/24/2014	72
8	04/17/2015	04/27/2015	05/22/2015	25
9	03/11/2015	03/25/2015	04/8/2015	14
10	10/13/2014	10/14/2014	10/28/2014	14
11	12/12/2014	12/22/2014	12/24/2014	2

¹⁵ As a result of our inquiry, City officials entered the executed reimbursement grant agreement into the grant agreement document folder in CMS in compliance with section 3.2.1, subsection 6, of the Record Keeping Standard Operating Procedure.

¹⁶ Multiple homeowners signed the grant agreement on different dates.

City officials explained that due to a system issue, CMS did not notify designated users when a grant agreement requiring a City official's signature had been entered into CMS. Upon discovery of the system issue, the City initiated corrective action, and as of February 2016, City officials reported that more than 90 percent of grant agreements had been signed and entered into CMS. Further, City officials held that the remaining grant agreements would be signed and entered into CMS by the end of March 2016. City officials were developing a system enhancement that would notify designated users daily when a grant agreement was ready to be countersigned by a City official. Timely countersigning of a grant agreement is consistent with prudent business practices.

Data Required Clarification

SBA loan and allowable activity credit data in CMS needed clarification to verify the homeowners' grant calculations. While City officials verified and documented SBA loan data obtained through direct data feeds from SBA, the data contained undefined canceled codes and unreconciled loan amounts that needed clarification and confirmation. As a result, we questioned why City officials excluded three canceled SBA loans and a portion of a fourth loan from the duplication of benefits calculations without documented explanations as required by HUD Guidance on Duplication of Benefit Requirements and Provision of CDBG Disaster Recovery (DR) Assistance, dated July 25, 2013.

Regarding the first SBA loan, City officials stated that a documented analysis of the canceled loan was unnecessary because the \$20,700 SBA loan was for personal property only. The file did not contain an indication that the loan was for personal property and thus, it was not considered duplicative assistance. Regarding the second and third SBA loans, City officials stated that the loans were canceled by SBA as indicated by the code C12. This code reportedly showed that there was an adverse change in the homeowner's income that made the loan no longer affordable, resulting in loan cancellation. However, the canceled code was not clearly defined in the file or in the City's Coordination of Benefits Standard Operating Procedure. Regarding the fourth SBA loan, although SBA documentation, dated January 26, 2013, showed that the homeowner received a \$14,000 loan to be used for real estate repair and replacement, City officials included only \$5,300 of the loan amount in the duplication of benefits calculation. They explained that a direct data feed received from SBA on October 10, 2014, showed that \$5,300 of the \$14,000 SBA loan was for property damage. The remaining \$8,700 was for personal property. However, the files did not include documentation showing that \$8,700 was for personal property. Since the files did not contain documentation to support City officials' explanations, direct confirmation was obtained from an SBA official.

City officials used documented eligible Sandy-related expenses to offset the amount of potentially duplicative benefits, thus increasing the reimbursement assistance a homeowner was eligible to receive. However, documentation in four files, namely the receipts, did not clearly identify the expenses related to eligible recovery activities for which the homeowners were given credit. As a result, the total allowable activity offsets or total verified allowable activity credits shown in the coordination of benefits worksheet could not be easily verified. Due to our inquiry, a City official provided four itemized listings of receipts detailing what was and was not allowable. However, at the time of our file review, the documentation provided should have been maintained in the Program files to clearly identify items eligible for offset credit.

Program Files and Records Contained Discrepancies

City officials provided an Excel spreadsheet showing 834 homeowners with SBA loans, to whom they planned to disburse additional reimbursements of up to 40 percent of the homeowners' eligible reimbursement amounts. The projected value of the additional reimbursements was approximately \$10.5 million, but the documentation in the Program files did not agree with the data provided. Using data analytics, we determined that eight homeowners received additional reimbursements totaling \$54,824. A review of the documentation in the Program files found that additional reimbursements had not been provided since the homeowners were not eligible for additional assistance. Further, City officials planned to provide additional reimbursements to 38 homeowners for whom the projected amounts of the additional reimbursements to be provided were equivalent to the remaining 40 percent of their eligible reimbursement amounts. These amounts were more than both the SBA loans counted as duplicative and all disbursed loans. However, the documentation in the Program files showed that City officials determined that 11 homeowners were not eligible to receive \$243,857 in projected additional reimbursements. For 1 of the 11 homeowners, CMS documented that City officials planned to provide additional reimbursement in the amount of \$20,000, which was \$48,791 less than originally projected.

Since the data in the Program files did not reconcile with the data City officials provided, the projected amount of additional reimbursements to be provided solely to homeowners with SBA loans was reduced from approximately \$10.5 million to approximately \$10.2 million, and the number of applicable homeowners with SBA loans was reduced from 834 to 817 to remove the inaccurate data identified. We attributed this deficiency to the fact that City officials' projection of additional CDBG-DR assistance solely to homeowners with SBA loans may not have been finalized and subject to a quality control review due to ongoing homeowner eligibility reviews. This was particularly true since 53 homeowners with SBA loans were projected to receive more than \$1 million in additional reimbursements, which was more than \$1.1 million more than the remaining 40 percent of the homeowners' eligible reimbursement amount of \$408,184. This practice was contrary to section 14.12 of the City's policy manual, which states that the Program may not reimburse a homeowner in an amount that exceeds 100 percent of the eligible reimbursement amount as stated in finding 1.

As indicated in finding 1, in response to the draft report, City officials provided an Excel spreadsheet containing an updated analysis of reimbursement review activity related to the 817 homeowners with SBA loans included in our initial review. They also provided an analysis of other homeowners with SBA loans who were not a part of our review. Using data analytics, we determined that one homeowner received \$1,793 more than the maximum reimbursement amount allowed. However, a review of the homeowner's Program file showed that the excess amount was reported in error. The first reimbursement approved amount was reported as \$4,507 when it should have been reported as \$5,378. The second reimbursement approved amount was reported as \$5,378 when it should have been reported as \$3,585. Accordingly, the amount of

additional reimbursements disbursed to 549 homeowners with SBA loans was reduced by the amount of the \$1,793¹⁷ error.

Moreover, worksheets within the Excel spreadsheet contained conflicting data as detailed in the table below.

Conflicting data within the Excel spreadsheet containing the updated analysis of reimbursement review activity of 817 homeowners with SBA loans		
Worksheet name	Number of SBA recipients approved for additional reimbursement	Second reimbursement approved amount
Summary table	532	\$5,655,752
Summary table dataset (817)	695	\$7,297,373
Full Set (817)	701	\$7,315,097

However, we were able to reconcile the conflicting data as detailed in the tables below.

Reconciliation of conflicting data between worksheets containing the updated analysis of reimbursement review activity of 817 homeowners with SBA loans		
Summary table		
	Number of SBA recipients	Second reimbursement approved amount
Approved	532	\$5,655,752
Not approved	285 ¹⁸	\$1,641,621
Totals	817	\$7,297,373
Summary table dataset (817)		
	Number of SBA recipients	Second reimbursement approved amount
Approved	695	\$7,297,373
Not approved	122	\$0
Totals	817	\$7,297,373
Summary table dataset (817)		
	Number of SBA recipients	Second reimbursement approved amount
Approved	701	\$7,315,097
Subtract 6 SBA recipients for whom duplicate second reimbursement approved amounts were reported	(6)	(\$17,724)
Revised approved	695	\$7,297,373
Not approved	122	\$0
Totals	817	\$7,297,373

¹⁷ City officials reported that 549 homeowners received a total of \$5,783,160 in additional reimbursement assistance. However, this amount was reduced by the amount of the \$1,793 error to \$5,781,367.

¹⁸ While City officials reported that 285 of the 817 homeowners with SBA loans were not approved for additional reimbursements, the worksheet “Summary table dataset (817)” showed that 163 of such homeowners had a second reimbursement approved amount of \$1,641,621. The remaining 122 homeowners did not have second reimbursement approved amounts.

A review of 29 CMS Program files related to homeowners who were reportedly not approved for additional reimbursements showed that in two instances, homeowners were approved for additional reimbursements on September 15, 2016, and September 27, 2016. However, the reimbursement checks had not been issued. Given the recent approvals, we questioned whether the data City officials provided represented the actual population of homeowners who would ultimately receive additional reimbursements.

In addition, City officials provided an Excel spreadsheet showing 122 homeowners whose grant amounts were not revised to show changes resulting from duplication of benefits recalculations after their reimbursement grant agreements had been signed. The documentation in the Program files did not agree with data provided for 2 homeowners in our sample of 16. For one homeowner, City officials' data showed an original maximum reimbursement amount of \$140,885. However, the reimbursement grant agreement in CMS showed a maximum reimbursement amount of \$183,867, for a difference of \$42,982. For the second homeowner, City officials' data showed a new maximum reimbursement amount of \$61,580, but the revised coordination of benefits worksheet in CMS showed a new maximum reimbursement amount of \$49,432, for a difference of \$12,148.

Duplication of Benefits Recalculation Discrepancies Were Not Always Documented

City officials did not always document discrepancies resulting from duplication of benefits recalculations that caused grant amounts to change after homeowners had signed their reimbursement grant agreements. Of the 16 Program files reviewed relating to homeowners whose grant amounts changed by \$500, 6 did not contain the revised duplication of benefits calculations. Further, seven Program files did not contain the memorandum, "Changes to Reimbursement Amount Post-Grant Agreement Signing," dated January 29, 2015. This memorandum was required to document why a new agreement was not executed to show a change in the grant amount resulting from a duplication of benefits recalculation after a reimbursement grant agreement had been signed. This deficiency occurred because City officials did not establish adequate monitoring controls to ensure that the revised duplication of benefits calculation and the memorandum were always maintained in the Program files in accordance with their policies. Accordingly, without the revised duplication of benefits calculations or the required memorandum, there would be no record of the change in the grant amount or why the grant was not reprocessed or a new grant agreement was not executed to show the change.

Conclusion

City officials did not maintain complete, accurate, and reliable Program files and records in accordance with the City's record-keeping requirements. The source documentation in the Program files did not reconcile with the data provided by City officials. In addition, based on our sample, City officials countersigned reimbursement grant agreements on average approximately 115 days after CDBG-DR assistance had been provided, which was inconsistent with prudent business practices. These record-keeping deficiencies occurred due to the lack of adequate monitoring and quality control reviews to ensure that the Program files and records were appropriately maintained to facilitate the review of overall Program compliance.

Recommendations

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

- 3A. Complete the planned document and data cleanup process in CMS before file closeout to ensure that duplicative documents are archived, the most recent documents are identified and filed in the appropriate subfolders, and all files are auditable and comply with the requirements and the City's record-keeping procedures.
- 3B. Ensure that all financial reports are accurate and agree with supporting documentation in the Program files.
- 3C. Update the Coordination of Benefits Standard Operating Procedures to include definitions of SBA cancellation codes.

Scope and Methodology

The review generally covered the period January 29, 2013, through September 30, 2015, and was expanded as necessary. Audit work was performed from November 2015 through June 2016 at the City's Office of Management and Budget located at 255 Greenwich Street, New York, NY, and at our office located at 26 Federal Plaza, New York, NY.

To accomplish our objective, we

- Reviewed relevant CDBG-DR Program requirements and applicable Federal regulations, including the Disaster Relief Appropriations Act of 2013, Federal Register notices, HUD CPD notices, and HUD guidance.
- Reviewed the City's HUD-approved action plan and applicable amendments.
- Reviewed the City's written policies and procedures, including several versions of the Program policy manual and the record-keeping standard operating procedure.
- Met with City officials to obtain an understanding of the Program's operations, system of internal controls, and CMS functionality.
- Reviewed HUD's monitoring reports issued during the period December 2013 to July 2015.
- Reviewed quarterly performance reports for the period October 2013 to September 2015 generated from the Disaster Reporting Grant Recovery (DRGR) System¹⁹ for the purpose of obtaining background information on the City's activities and disbursement of CDBG-DR funds only. We did not assess the data.
- Reviewed the August 2013 executed grant agreement and June 2015 amendment between HUD and the City.

As of September 30, 2015, City officials assisted 4,326 homeowners who received approximately \$82.8 million in reimbursement assistance. Of that population, we selected a statistical sample of 14 homeowners who received \$427,105 during the period March 2014 to September 2015, and reviewed the Program files in CMS for documentation of Program compliance, including compliance with HUD's Lead Safe Housing Rule requirements.

¹⁹ The Disaster Reporting Grant Recovery System was created by HUD's Office of Community Planning and Development for the CDBG Disaster Recovery Program and other special appropriations. Grantees use the DRGR system to access grant funds and report accomplishments in quarterly performance reports. HUD officials use the DRGR system to review grant-funded activities, prepare reports to Congress, and monitor program compliance.

We also selected a nonstatistical sample of 16 of 122 homeowners whose grant amounts were adjusted by \$500 or more due to duplication of benefits recalculations, to determine the number of grants that were overpaid or underpaid.

City officials provided an Excel spreadsheet showing 834 homeowners with SBA loans who were projected to receive approximately \$10.5 million in additional reimbursements. From that spreadsheet, we selected a nonstatistical sample of approximately 10 percent, or 84 homeowners, to determine their national objective determination.

Of the 834 homeowners with SBA loans, an analysis of the data using the Audit Command Language Program²⁰ identified eight homeowners who received an equivalent of 100 percent of their eligible reimbursement amount. A comparison analysis of the data provided by City officials to the source documentation in the Program files in CMS noted discrepancies in the City's data and determined that the eight homeowners received an equivalent of 60 and not 100 percent of their eligible reimbursement amount as reported and they were not eligible for additional reimbursement.

Using the Audit Command Language Program, we performed an additional analysis of the 834 homeowners with SBA loans. Our analysis showed that 151 of such homeowners were projected to receive additional reimbursements totaling approximately \$2.5 million. This amount exceeded the approximately \$1.4 million in the SBA loans considered duplicative by approximately \$1.1 million. Of the 151 homeowners projected to receive additional reimbursements,

- 66 were projected to receive additional reimbursements that were more than the amount of the SBA loans considered duplicative but less than all disbursed SBA loans,²¹
- 47 were projected to receive additional reimbursements that were equivalent to the amount of disbursed SBA loans, and
- 38 were projected to receive additional reimbursements that were equivalent to 40 percent of the eligible reimbursement amount.

We selected a nonstatistical sample of approximately 25 percent of the 66, 47, and 38 homeowners, namely, 17, 12, and 10 sample items, respectively, to determine whether source documentation in the Program files in CMS confirmed the accuracy and the reliability of the data. A review of the source documentation regarding the sample of 10 of 38 homeowners found inaccuracies in the data. As a result, we expanded our sample to include 100 percent of the 38 homeowners. Of the 38 homeowners, the Program files clearly showed that 10 homeowners were either not eligible to receive additional reimbursements or had no reimbursement amounts for additional assistance. Further, in one example, a homeowner was projected to receive an additional reimbursement that was \$48,791 [\$68,791 (original projection) - \$20,000 (new

²⁰ The Audit Command Language Program is a software used to perform data analysis and audit tests enabling its users to identify fraud patterns and data irregularities.

²¹ SBA offers three loan types: real estate (property damage), mitigation, and personal property loans. However, the program included only real estate loans in the duplication of benefits calculation.

projection)] less than the original projection, which was less than the amount of the SBA loan considered duplicative.

Due to inaccuracies in City officials' data, we determined that 140 of 151 homeowners with SBA loans were projected to receive \$2.2 million in additional reimbursements, which exceeded the \$1.2 million in SBA loans considered duplicative by approximately \$1 million. Additionally, City officials' projection of additional reimbursements to homeowners with SBA loans was reduced from approximately \$10.5 million to \$10.2 million, and the number of impacted homeowners with SBA loans was reduced from 834 to 817.²²

In response to the draft report, City officials provided an Excel spreadsheet containing an updated analysis of reimbursement review activity related to the 817 homeowners with SBA loans included in our initial review. They also provided an analysis of other homeowners with SBA loans who were not a part of our review. The spreadsheet showed that City officials disbursed \$5.8 million to 549 homeowners with SBA loans. Of that amount, they drew \$4.5 million in CDBG-DR funds as of September 20, 2016. Using the Audit Command Language Program, we analyzed the data contained in the spreadsheet and found a number of discrepancies, which are discussed in detail in findings 1 and 3 of this report.

We selected a nonstatistical sample of approximately 10 percent, or 29 of 285 homeowners who City officials reported were not approved for additional reimbursement to determine their second reimbursement eligibility status in CMS.

Based on the audit work performed, we concluded that the Program files in CMS and the data City officials provided were not sufficiently reliable. Further, while we selected several nonstatistical samples to accomplish our objectives, the results from these samples related only to the items sampled and could not be projected to the population.

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

²² The 817 equals 834 minus 8 homeowners who received 60 and not 100 percent of their eligible reimbursement amount, minus 10 homeowners, all of whom were either not eligible to receive additional reimbursements or had no reimbursement amounts for additional assistance. One homeowner appeared in both categories; thus, to avoid double counting, this homeowner was added back ($834 - 8 - 10 = 816 + 1 = 817$).

Internal Controls

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

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

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

Relevant Internal Controls

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

- 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:

- City officials did not implement policies and procedures to ensure that CDBG-DR funds were always disbursed in accordance with the HUD-approved action plan and Federal requirements (findings 1 and 2).

- City officials did not implement adequate controls to ensure compliance with laws and regulations since they did not maintain sufficient documentation to show that HUD's Lead Safe Housing Rule requirements and the City's record-keeping standards were met (findings 2 and 3).
- City officials did not implement adequate controls to ensure the validity and reliability of data in the Case Management System with regard to lead testing and records regarding projected additional reimbursements and duplication of benefits recalculations as the data were not always accurate (findings 2 and 3).
- City officials did not implement adequate controls to ensure that funds were always safeguarded against fraud, waste, and abuse as CDBG-DR funds were used for grants that should have been adjusted to show revised duplication of benefits calculations. Further, City officials did not pursue grant recaptures against homeowners who refused to allow the Program to perform lead hazard compliance work, thus ensuring that CDBG-DR funds were used for lead-safe homes (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	\$4,467,299		\$1,314,068
1C	32,107		
1D			101,398
2B		\$182,660	
2C		833,199	
2E		29,019	
Totals	\$4,499,406	\$1,044,878	\$1,415,466

- 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. We considered \$1.3 million in additional CDBG-DR assistance yet to be drawn as funds that could be put to their intended use once City officials submits and HUD approves the amended action plan that would allow homeowners with SBA loans to receive additional reimbursements covering from 60 to 100 percent of their eligible reimbursable expenses. Further, 11 homeowners are owed

\$101,398 in additional assistance due to changes in their grant amounts resulting from duplication of benefits recalculations.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



The City of New York
Office of Management and Budget
255 Greenwich Street, 6th Floor
New York, New York 10007

September 23, 2016

Ms. Kimberly Greene
Regional Inspector General for Audit, 2AGA
U.S. Department of Housing and Urban Development
Office of the Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Re: Draft Audit Report concerning the City of New York, Mayor's Office of Housing Recovery Operations' administration of Community Development Block Grant Disaster Recovery funds for its Build it Back Single Family Program.

Dear Ms. Greene:

The City of New York's Office of Management and Budget is in receipt of the Draft Audit Report concerning the City of New York, Mayor's Office of Housing Recovery Operations' administration of Community Development Block Grant Disaster Recovery funds for its Build it Back Single Family Program.

We would like to express our gratitude to your audit team for their due diligence in reviewing the City's administration of Community Development Block Grant Disaster Recovery funds for its Build it Back Single Family Program during the period January 29, 2013, through September 30, 2015.

The City believes it has adequately addressed each of the three Findings contained in your Draft Audit Report in our attached response.

Again, the City of New York's Office of Management and Budget appreciates the efforts of your audit team and looks forward to working with you in the future.

Sincerely,


A handwritten signature in blue ink, appearing to read "Calvin Johnson".

Calvin Johnson,
Assistant Director, CDBG-DR


Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



The City of New York
Office of Management and Budget
255 Greenwich Street • New York, New York 10007-2146



**CITY OF NEW YORK'S
RESPONSE TO AUGUST 2016
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
PROPOSED AUDIT REPORT**

**PREPARED BY THE NEW YORK CITY
OFFICE OF MANAGEMENT AND BUDGET AND
THE MAYOR'S OFFICE OF HOUSING RECOVERY OPERATIONS
SEPTEMBER 23, 2016**

OVERVIEW

The City of New York values all feedback provided by oversight agencies and auditors. The Office of Inspector General's independent oversight provides valuable information that the City can use to better implement its Community Development Block Grant funded Hurricane Sandy disaster recovery housing activities. This relationship with our federal partners is critical to successful Program implementation.

The City of New York strives through Build It Back to implement a program that provides timely and fair benefits while minimizing the risk of recapture for the individuals being served by these funds. This HUD OIG audit of New York City's reimbursement program highlights the balance the City is trying to achieve.

- *Build It Back prioritized timely financial relief* - In early 2015, the City reversed its policy related to the timing of reimbursements related to the completion of lead abatement. The City prioritized the payment of reimbursement funds, while establishing procedures to ensure that legally required lead abatement would be completed. HUD OIG questioned the City's decision to prioritize financial relief.
- *Build It Back focused on providing fairness in distribution of benefits* – The City responded to extensive public feedback related to inequities identified in the relationship between SBA loan disbursement and other disaster recovery benefits. The City made the policy decision to provide additional reimbursement to SBA loan recipients. HUD OIG put this determination into question, stating that these funds could be put to better use.
- *Build It Back's reimbursement program has minimized the risk for recapture* - In an approximately \$120 million program, HUD OIG has only questioned as ineligible \$32,107 or less than one-third of one percent of distributed funds.

New York City takes its compliance responsibilities seriously. Controls throughout program implementation and at close-out are put in place to ensure that funding decisions are fair, timely, comply with regulations and program policy, and are not subject to recapture. The issues that are referenced in the Audit Report must be considered to be preliminary because they pertain to the City's working population of applications and not to applications that had completed the City's

Comment 1

Comment 2

Comment 3

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

processing cycle or to funds that had been disbursed and drawn. At the time that the Office of Inspector General reviewed the City's reimbursement program, the City had not completed its review of the applications that are referenced in the Audit Report. Furthermore, much of the data that was reviewed by the Office of Inspector General was preliminary and did not reflect the actual beneficiaries of the Program and the impact of the policy decisions that are criticized in the Audit Report.

Comment 4

Additionally, the City respectfully states that all of the application-specific issues that are referenced in the Audit Report were known to the City and identified for review at the time of the Office of Inspector General's review. The City had not yet resolved some of those issues because of the order of application processing that has been adopted by the City. The City believes that the policies, procedures and processes in place during the audit will adequately address these issues when each of these applications enters into the Program's closeout phase, which is specifically designed to correct the issues in the Audit Report.

Comment 2

The City's Response to Finding 1

The City's Policy of Providing Additional Reimbursement to the Recipients of SBA Disaster Loans Was Justified

The City of New York firmly believes that it has a sound policy basis and rationale for adopting its policy of additional reimbursement to homeowners who received post-Sandy disaster loans through the Small Business Administration. The decision to provide additional reimbursement to applicants that received post-Sandy SBA disaster loans was within the City's policy making discretion as a CDBG-DR grantee and it did not violate any laws or regulations by adopting this policy. This policy decision was made after extensive public feedback.

The City's policy change to allow additional reimbursement was based upon two primary principles. First, the City's intent to assist New Yorker's who had incurred post-Sandy disaster debt to ensure that they would be more likely to avoid severe financial stress and to preserve homeownership. Second, the City wished to use its authority to use CDBG-DR funds in a flexible manner to address the inequity resulting from the implementation of SBA's disaster loan program in relation to other disaster recovery benefits after Hurricane Sandy.

A. Preserving Home-Ownership

Each SBA disaster loan that was provided after Hurricane Sandy represents a debt that must be repaid by a residential property owner who was financially impacted by the storm event. One of the primary purposes of the Build it Back program is to ensure that impacted New Yorkers are able to continue to afford to live in a City with ever-increasing costs associated with property ownership and general costs of living.

In formulating its policy decision to provide additional reimbursement assistance to property owners with SBA loans, the City determined that many of the applicants that qualified for and received SBA loans after Sandy are over 55 and retired or are on the verge of retirement. This holds true regardless of the applicant's level of income. Program data analytics reveals that the average age of Low to Moderate Income (LMI) households that received assistance is 62. The average age of Urgent Need (UN) households that received assistance is 58.

When considering that the overall, average age of the beneficiaries of the Program's additional reimbursement assistance is 59 years of age, the Program determined that providing such assistance to this at-risk population would have a substantial public benefit by preserving homeownership within Sandy-impacted areas by decreasing the financial stress experienced by Sandy property owners who received SBA loans. The City believes that preserving homeownership and providing stability within the affected areas of New York City is a worthy use of its CDBG-DR funds

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

and it also believes that the end-goal of helping homeowners retain ownership of their properties is neither unfair nor inequitable.

B. Addressing Unfairness Resulting from the Implementation of the SBA Loan Program in Relation to Other Disaster Recovery Benefits

At the outset of the Build it Back Program, two of the primary complaints that were received from applicants were that they "did not know" that SBA loan assistance would supplant CDBG-DR assistance and that they "were not told" that CDBG-DR assistance could not be used to pay back SBA disaster loans. Further, many applicants were specifically instructed that they were required to apply for SBA loans in order to be eligible for future CDBG-DR assistance. Based upon this feedback from the applicant population, the City determined that it wished to use its program design authority to correct the failure of clear information for impacted citizens, which resulted in increased disaster-related debt for affected homeowners, by providing additional reimbursement assistance.

Accordingly, the decision was made by the City to maximize its reimbursement assistance by providing additional reimbursement assistance up to the maximum reimbursement amount to this population of applicants, who were essentially forced to make the decision to incur disaster-related debt in order to repair their homes and rental properties. Under this policy, no homeowner is to receive more than 100% of non-duplicative reimbursable expenses, thus resulting in no duplication of benefits. The City firmly believes that this decision was fair and equitable and that it served to partly correct an underlying issue that was created by the federal government's disaster recovery delivery strategy. Furthermore, the City would like to again stress that all agencies within the federal government that are involved in providing disaster assistance to residential property owners should reexamine their policies and communication materials regarding SBA loans in the post-disaster environment to correct this issue so that future grantees and applicants are not faced with the frustrating and financially damaging impacts caused by this situation.

C. The Actual Number of Beneficiaries and the Total Amount of Additional Reimbursement Paid to Date was Substantially Lower than the Amounts Projected

The City believes that the Office of Inspector General's finding is not accurate considering that the data used to formulate the finding is incorrect and was based upon the City's early projections of the potential population that would receive additional reimbursement payments. This data was provided by the City to the Audit Team, at the Audit Team's request, based upon the understanding that the Program had not yet reviewed the majority of the potential applicant population for eligibility to receive the additional benefit and based upon the understanding that the ultimate number of beneficiaries and the total size of the benefit would change substantially after the City began processing the additional reimbursement payments.

As of the issuance of this response, the City has determined that the actual population of applicants that have received additional reimbursement assistance is 549 households and that the total amount of additional reimbursement assistance that has been provided to these households is \$5,783,160.10. This number is substantially lower than the 817 homeowners noted in the Audit Report and the total reimbursement amount issued is substantially lower than the projected amount of \$10.2 million. The City believes that this difference should substantially alter the audit analysis that gave rise to this finding and that the actual amount reimbursed, while it makes a substantial difference to the recipients because it reduces their financial vulnerability, is a very small portion of the City's overall CDBG-DR expenditures.

D. The Change to the City's Policy after the Issuance of the Policy Bulletin was Not in Error

As noted above, one of the primary reasons that the City determined that providing additional reimbursement was critical was to assist applicants with reducing their post-disaster debt

Comment 3

Comment 5

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 5

obligations. Although the City initially determined that it would cap second reimbursement payments to such applicants at the maximum amount received for structural repair, the City subsequently reexamined this policy and determined that the most effective way to meet this policy goal was to cap second reimbursement payments at the total amount drawn by the applicant from all SBA loans since this amount represented their true Sandy-related debt obligations as of the date of the reimbursement. Because the decision to adjust the policy was made after the referenced Policy Bulletin was issued, but before the Program was fully developed and before the next version of the Program's Policy Manual was due to be issued, the Program determined that the policy change could be reflected in the next version of the Policy Manual and in its public communications regarding the policy change. No additional reimbursements were processed using the initial Policy Bulletin (which was quickly superseded), thus the Program has been unable to discern any negative impact caused by this policy governance decision.

Comment 6

E. The City is Modifying Its Action Plan Language to Reflect the Additional SBA Reimbursement Benefit

Regarding the language contained within the Program's Action Plan, the City acknowledges that the inclusion of the word "portion" in the previous Action Plan technically suggested that any additional reimbursement amount would be something less than 100% of the total reimbursable amount (even if that amount was merely a penny lower). While the consequence of this word choice seems minimal at worst, the City is nonetheless currently amending its Action Plan and will include the following language in this amendment:

- Additional reimbursement to SBA loan population: Based on community input, the City performed an analysis of its population and discovered that many applicants that were reimbursement eligible had also received Small Business Administration disaster loans that had requirements that were not clearly understood and created significant financial hardships for many borrowers. The risk of financial hardship was particularly evident when the Program considered that the average age of applicants who had both received SBA loans and were reimbursement eligible was 59. In order to address this situation, Build it Back determined that it was fair and equitable to maximize the reimbursement provided to the recipients of SBA loans to address issues associated with the SBA loan application process and to help ensure that the recipients of SBA loans were not placed in financial risk due to disaster-related debt....

To comply with federal guidance, costs incurred or costs associated with contracts signed before the earlier of a) the homeowner's application to the Program or b) October 29, 2013 will be eligible for reimbursement.

The City's reimbursement program provides a grant amount that covers all or a portion of eligible reimbursable expenses and includes reviews to ensure that reimbursable expenses meet applicable program requirements. The Program provides additional reimbursement of up to 100% of reimbursable expenses to homeowners that received SBA loan payments as outlined earlier in the Action Plan but no more than the eligible reimbursement expenses.

The City Has Processes in Place to Detect and Resolve Potential Underpayments and Overpayments During the Program's Closeout Process

A. The Program's Reimbursement Process Included Robust Controls to Detect Benefit Changes

The Program's reimbursement review process primarily relies upon external data feeds that are provided by partner federal agencies such as the Federal Emergency Management Agency and the Small Business Administration. This data feed, which appears in the Program's CMS system as a table known as the IFRAME, is updated regularly by the City's federal partners. The data feed, in

Comment 7

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 7

turn, is used to update the information within the Program's Case Management System ("CMS") on a regular basis.

During the Reimbursement Review process, the City's Review Analyst would confirm the data in IFRAME matched the Coordination of Benefits ("COB")¹ confirmed fields in CMS, and the Coordination of Benefits Worksheet that is signed by the applicant. Any discrepancies would be escalated as a COB revision, prior to reimbursement calculation approval. In some cases, the IFRAME data update occurred after the reimbursement calculation was approved. This could occur in cases where an applicant received a National Flood Insurance Program claim settlement or additional benefits from a number of other sources, for example.

B. The City's Closeout Process is Designed to Detect Benefit Changes

Due to circumstances that are outside of the Program's control, applicants receiving reimbursement and other benefits from the Program may receive additional benefits from other potentially duplicative sources after the Program calculates the amount of CDBG assistance that may be provided. This is a risk that is inherent in all federal disaster recovery programs, but it is a risk that the City's processes are designed to eliminate because benefit amounts are verified and re-verified at multiple points in the process prior to providing assistance to an applicant, even before the City's closeout process. The effectiveness of this process is evident when considering that, of the 122 applications reviewed by the Audit Team, ten applications representing only 8% of the total population had a subsequent change to their benefit calculation after their reimbursement grant amount was calculated.

Comment 8

Even with this process, however, actions that have occurred post-Sandy such as the settlements of hundreds of flood insurance lawsuits due to underpayment by FEMA and the re-opening of the SBA loan program have increased the likelihood that an applicant may receive benefits from other, potentially duplicative sources after the Program provides its assistance. In order to ensure compliance with federal duplication of benefits requirements, the Program is developing a robust closeout process which will detect and resolve any changes to benefit amounts that may change an applicant's eligible CDBG grant amount. Upon detection of a change, the Program will recalculate the applicant's CDBG eligibility and, if required, will require applicants to reimburse the Program in any amounts that are considered duplicative through the Program's recapture process.

The Audit Report's Overpayment Amount of \$32,107 is Incorrect

A. The City's Examination of Alleged Overpayments

Comment 9

Of the identified applications that the Audit Team identified as having a maximum reimbursement amount decrease, only one application had a paid reimbursement grant award amount that was greater than the applicant's new maximum reimbursement amount. Because the reimbursement amount exceeded the new maximum reimbursement amount, recapture may be required at closeout after a review is completed.

Comment 10

The remaining four applications had a Grant Award amount less than the new maximum reimbursement. Because they fall within the 60-100% reimbursement range, recapture is not required because the payment did not result in a duplication of benefits. The "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum, which governs these application types, has been uploaded by the Program to the applicant's file for three applications. The fourth is currently pending a second reimbursement for SBA Loans and would be reimbursed only up to the new maximum reimbursement amount. The reason for this policy choice is simple: the City would have spent more money adjusting the grant amount and conducting the additional

¹ The City uses the term "Coordination of Benefits" to refer to its method of complying with the federally mandated duplication of benefits review required by the Stafford Act.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 10

casework to cancel previous agreements and have applicants sign new agreements compared to the minimal amount of additional, non-duplicative reimbursement provided to Program participants. Indeed, making these "corrections" would have resulted in a waste of CDBG-DR funds that would be better directed to actual storm victims rather than administrative costs.

B. Individual Application Data to Support the City's Analysis

APP-A	
Maximum Reimbursement Amount Summary	
<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$90,889.00 • New maximum reimbursement amount (from OIG) - \$49,463.00 • Difference - \$41,426.00 	
Grant Agreement Summary	
<ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$54,533.00 • Recalculated Grant Agreement Amount (from OIG) – \$29,678.00 • Difference - \$24,855.00 	
Reason for Alleged Overpayment	
The applicant's National Flood Insurance Program (NFIP) structural loss payment amount changed. The Program revised their benefit amount in CMS, but revision did not map correctly to the reimbursement review screen in CMS at the time that the reimbursement review took place.	
Issue Resolution	
This application is the subject of the Audit's recapture recommendation. The Program will review the additional flood insurance payment received to determine if it is subject to the HUD-allowed \$20,000 exemption. Any amounts that are considered duplicative after this analysis may be subject to recapture pursuant to the Program's guidelines and grant agreement.	

Comment 9

APP-B	
Maximum Reimbursement Amount Summary	
<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$20,861.00 • New maximum reimbursement amount (from OIG) - \$14,588.00 • Difference - \$6,273.00 	
Grant Agreement Summary	
<ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$12,516.00 • Recalculated Grant Agreement Amount (from OIG) – \$8,753.00 • Difference - \$3,763.00 	
Reason for Alleged Overpayment	
The FEMA Individual Assistance Repair amount was updated after the Grant Agreement and Coordination of Benefits Worksheet were signed by the applicant, after reimbursement review took place and after the reimbursement amount was approved.	
Issue Resolution	
The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that a recapture of funds will be required because a duplication of benefits did not occur.	

Comment 9

Auditee Comments and OIG's Evaluation

**Ref to OIG
Evaluation**

Auditee Comments

Comment 9

Comment 9

	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">APP-C</td> <td></td> </tr> <tr> <td colspan="2">Maximum Reimbursement Amount Summary</td> </tr> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$64,921.00 • New maximum reimbursement amount (from OIG) - \$62,630.00 • Difference - \$2,291.00 </td> </tr> <tr> <td colspan="2">Grant Agreement Summary</td> </tr> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$38,953.00 • Recalculated Grant Agreement Amount (from OIG) – \$37,578.00 • Difference - \$1,375.00 </td> </tr> <tr> <td colspan="2">Reason for Alleged Overpayment</td> </tr> <tr> <td colspan="2">The Program revised the applicant's Temporary Repairs and Other Post-Storm Activities credit amount during the post-reimbursement End to End Review to correct the amount and reduce it from \$10,370 to \$8,078.50.</td> </tr> <tr> <td colspan="2">Issue Resolution</td> </tr> <tr> <td colspan="2">The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that recapture of funds will be required because a duplication of benefits did not occur.</td> </tr> </table>	APP-C		Maximum Reimbursement Amount Summary		<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$64,921.00 • New maximum reimbursement amount (from OIG) - \$62,630.00 • Difference - \$2,291.00 		Grant Agreement Summary		<ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$38,953.00 • Recalculated Grant Agreement Amount (from OIG) – \$37,578.00 • Difference - \$1,375.00 		Reason for Alleged Overpayment		The Program revised the applicant's Temporary Repairs and Other Post-Storm Activities credit amount during the post-reimbursement End to End Review to correct the amount and reduce it from \$10,370 to \$8,078.50.		Issue Resolution		The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that recapture of funds will be required because a duplication of benefits did not occur.	
APP-C																			
Maximum Reimbursement Amount Summary																			
<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$64,921.00 • New maximum reimbursement amount (from OIG) - \$62,630.00 • Difference - \$2,291.00 																			
Grant Agreement Summary																			
<ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$38,953.00 • Recalculated Grant Agreement Amount (from OIG) – \$37,578.00 • Difference - \$1,375.00 																			
Reason for Alleged Overpayment																			
The Program revised the applicant's Temporary Repairs and Other Post-Storm Activities credit amount during the post-reimbursement End to End Review to correct the amount and reduce it from \$10,370 to \$8,078.50.																			
Issue Resolution																			
The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that recapture of funds will be required because a duplication of benefits did not occur.																			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">APP-D</td> <td></td> </tr> <tr> <td colspan="2">Maximum Reimbursement Amount Summary</td> </tr> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$21,651.00 • New maximum reimbursement amount (from OIG) - \$19,879.00 • Difference - \$1,772.00 </td> </tr> <tr> <td colspan="2">Grant Agreement Summary</td> </tr> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$12,990.00 • Recalculated Grant Agreement Amount (from OIG) – \$11,927.00 • Difference - \$1,063.00 </td> </tr> <tr> <td colspan="2">Reason for Alleged Overpayment</td> </tr> <tr> <td colspan="2">The Program revised its damage assessment data, which reduced the completed permanent repairs value.</td> </tr> <tr> <td colspan="2">Issue Resolution</td> </tr> <tr> <td colspan="2">The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that recapture of funds will be required because a duplication of benefits did not occur.</td> </tr> </table>	APP-D		Maximum Reimbursement Amount Summary		<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$21,651.00 • New maximum reimbursement amount (from OIG) - \$19,879.00 • Difference - \$1,772.00 		Grant Agreement Summary		<ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$12,990.00 • Recalculated Grant Agreement Amount (from OIG) – \$11,927.00 • Difference - \$1,063.00 		Reason for Alleged Overpayment		The Program revised its damage assessment data, which reduced the completed permanent repairs value.		Issue Resolution		The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that recapture of funds will be required because a duplication of benefits did not occur.	
APP-D																			
Maximum Reimbursement Amount Summary																			
<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$21,651.00 • New maximum reimbursement amount (from OIG) - \$19,879.00 • Difference - \$1,772.00 																			
Grant Agreement Summary																			
<ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$12,990.00 • Recalculated Grant Agreement Amount (from OIG) – \$11,927.00 • Difference - \$1,063.00 																			
Reason for Alleged Overpayment																			
The Program revised its damage assessment data, which reduced the completed permanent repairs value.																			
Issue Resolution																			
The applicant's reimbursement payment is less than the applicant's revised maximum reimbursement amount. The Program will review this application at closeout, but it does not appear that recapture of funds will be required because a duplication of benefits did not occur.																			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">APP-E</td> <td></td> </tr> <tr> <td colspan="2">Maximum Reimbursement Amount Summary</td> </tr> <tr> <td colspan="2"> <ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$9,849.00 • New maximum reimbursement amount (from OIG) - \$8,096.00 • Difference - \$1,753.00 </td> </tr> </table>	APP-E		Maximum Reimbursement Amount Summary		<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$9,849.00 • New maximum reimbursement amount (from OIG) - \$8,096.00 • Difference - \$1,753.00 													
APP-E																			
Maximum Reimbursement Amount Summary																			
<ul style="list-style-type: none"> • Original maximum reimbursement amount (from CMS) - \$9,849.00 • New maximum reimbursement amount (from OIG) - \$8,096.00 • Difference - \$1,753.00 																			

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 11

Comment 12

Comment 13

Comment 14

<p>Grant Agreement Summary</p> <ul style="list-style-type: none"> • Original Grant Agreement Amount (from CMS) – \$5,909.00 • Recalculated Grant Agreement Amount (from OIG) – \$4,858.00 • Difference - \$1,051.00
<p>Reason for Alleged Overpayment</p> <p>The Program revised the applicant's Temporary Repairs and Other Post-Storm Activities credit amount during the post-reimbursement End to End Review to correct the amount and reduce it from \$3,139.63 to \$1,387.24.</p>
<p>Issue Resolution</p> <p>The applicant is eligible for a second reimbursement payment under the Program's SBA loan recipient reimbursement policy. The overpayment amount will be removed from the pending second reimbursement payment. Recapture will not be required because a duplication of benefits did not occur.</p>

The City Does Not Believe That the Audit Report's Underpayment Amounts Are Correct

The City has reviewed the applications referenced in the Audit Report where an alleged underpayment has occurred and has determined that in six of the cited cases, the Audit Team used the incorrect fields or calculation methodology when calculating the applicant's eligible reimbursement amount. The City does not believe that an underpayment occurred in these cases. Indeed, the Audit Team's approach would have resulted in the same "overpayments" that are assailed in this Report.

For the remaining five cases, the City's review determined that for the first four listed applications, a revision was completed during the End to End Review that added additional allowable activities that, in turn, increased the applicant's maximum reimbursement amount. The last application's maximum reimbursement amount increased because the FEMA Individual Assistance Repair amount decreased and was updated during the post-reimbursement approval End to End review. As with all other applications, these 5 applications will be reviewed during closeout and appropriate action will be taken.

The City Does Not Believe That the Execution of New Grant Agreements is Necessary or Justified Given the Additional Cost and Administrative Burden

The City does not believe that it should be required to execute new grant agreements when an applicant's actual reimbursement grant payment falls below the applicant's grant amount as listed in their reimbursement grant agreement. The City designed its reimbursement grant agreement to account for the possibility of an applicant's grant amount fluctuating within the 40% range that constitutes the applicant's unreimbursed amount; indeed this language is explicitly included in the Reimbursement Grant Agreements signed by applicants. Requiring the execution of new grant agreements would require the City to undertake an expensive and burdensome process to both the City and the applicant which would have no legal effect on either the applicant population or upon the City and it would not alter either party's rights or responsibilities.

The City's Response to Finding 2

The City's Processes Contemplate Resolving Lead Based Paint Documentation Issues During the Program's Closeout Process

In February of 2014, the City of New York's Build it Back Program changed its policy on reimbursement to allow applicants to receive reimbursement for eligible out of pocket expenses incurred to complete repairs to their damaged homes after Hurricane Sandy. The Program's original policy stated that if a home contained a lead based paint hazard, the applicant's reimbursement

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 14

payment would be delayed and only issued after the lead hazard had been addressed through the Program's repair option. This policy decision unfortunately prevented the Program from providing vital financial assistance to hundreds of applicants who were depending upon reimbursement assistance to assist them in their recovery from the storm.

In order to rectify this dire situation and provide additional financial security to impacted New Yorkers, the Program determined in February 2015 that it would provide reimbursement assistance to applicants with a lead based paint hazard prior to the completion of construction. This decision allowed the Program to speed the delivery of financial relief to many property owners that were depending upon the Program's reimbursement assistance to replace funds that they had borrowed from their family, friends, retirement accounts or from personal savings.

The Program conditioned this advanced assistance upon the applicant agreeing to allow the Program to address all lead hazards through construction. The Program fully reviewed all applicable laws, regulations and HUD guidance and determined that there is no legal prohibition on providing reimbursement to applicants prior to completing a construction project, rather, the mitigation must occur as a part of the applicant's overall recovery activity. Therefore, the Program's policy to reimburse applicants prior to the completion of lead testing or abatement is fully compliant with all applicable regulations because the Program conditioned its assistance on fully completing the required testing and/or abatement at a later date and will ensure that such abatement is, in fact, completed. Additionally the work being reimbursed had already been completed and there is no additional lead risk tied to the timing of the reimbursement payment.

Although a limited population of applicants with lead based paint hazards chose to "withdraw" from the Program prior to the initiation of required construction activities, the City understands that the recovery activity is not yet complete. As was noted in the City's communications with auditors during the survey, the City will be addressing these incomplete projects as a part of its overall closeout process as follows:

A. Phase 1 - Issue Identification & Resolution

Prior to closeout, the Program will review each application that received reimbursement that did not subsequently complete construction (i.e. a "reimbursement only" application) to determine if lead based paint testing and/or lead based paint abatement is required before the project can be considered complete and closed out. This review will include a determination of whether the Program's classification of the project as having a lead hazard was correct based on the testing reports on file.

Applications that require testing or that have unabated hazards will move to Phase 2. If not already documented, applications that are determined to not require testing or that do not have lead based paint hazards will have their files updated to reflect his determination.

B. Phase 2 - Applicant Communication

If the Program's closeout review determines that testing is required for an assisted property or that an assisted property has a lead based paint hazard that requires abatement, the Program will send the applicant a letter that states that their property requires lead testing or has a lead hazard that requires abatement. These communications will inform the applicant that if the testing is not completed or if the lead hazard is not properly addressed, the applicant will be required to repay all reimbursement grant funds received as required by applicable regulations. Applicants will be given the following alternatives in this communication:

- repay all reimbursement funds pursuant to the requirements of their grant agreement,
- authorize the Program to complete abatement activities as a CDBG-DR funded activity, or

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 14

- if the abatement work has already been completed, allow the Program to inspect the premises and prepare a lead clearance report.

C. Phase 3 - Response to Applicant Communication

The Program will provide case management, preconstruction and construction resources to the population receiving the above communication to:

- process repayments and grant cancellations, if necessary,
- schedule required testing using a Program lead inspector, if necessary,
- facilitate completion of lead based paint abatement through the Program, and/or
- inspect the property and prepare a lead clearance report.

D. Phase 4 – Recapture, If Required

The City wishes to avoid recapture in all possible cases as this result is not optimal for homeowners nor for the City's overall recovery efforts. However, applicants that do not successfully follow one of the pathways identified above will be slated to enter the Program's recapture process. Through this process, the Program will attempt to recapture the reimbursement funds paid to the applicant consistent with the Department's recommendation and in compliance with all applicable regulations and the Program's policies.

The City Has Reviewed the Files Referenced in the Audit Report and Has Found That Many of the Audit Report's Comments Are Unjustified or Incorrect

A. The City Does Not Believe That the Recommendation to Potentially Repay \$228,600 for Two Homes Allegedly Lacking Negative Lead Test Results and Four Homes Allegedly Lacking Lead Clearance Reports is Correct

Comment 15

The City performed a review of the referenced applications and determined that in the case of the first identified application, the Program's Case Management System correctly reflected the results of the Program's Risk Assessment. The Program stored the electronic copy of the Risk Assessment in its "Inactive Environmental Analysis Entity", a location that all relevant users of CMS are trained to use to locate this document type when an application's pathway changes during the preconstruction process. Thus, the file is complete and in no need of correction.

Comment 16

In the case of the second application, the initial Risk Assessment is on file; however it failed the Program's quality control review. Following this determination, the Program has attempted to retest the premises; these attempts have, thus far, been unsuccessful. Accordingly, prior to and during the closeout phase, the Program will continue to reengage with the applicant to complete the testing process.

Comment 17

The City also reviewed the four homes that allegedly lacked clearance reports and found that two homes had completed construction with successful lead based paint abatement and further found that the Program's documentation and data in its Case Management System had been appropriately updated to show that all abatement had been completed and that clearance was achieved. The Program found that one home was currently in construction and that lead abatement work had been properly included in the project's scope of work. The final application is in the Program's preconstruction phase and the required lead abatement has been properly included in the project's scope of work. When construction is completed for these two applications, the City will note that clearance has been achieved and will ensure that the appropriate documentation is appended to the applicant's files. Had these concerns been raised with HRO prior to the issuance of this draft report, HRO would have been happy to provide additional training to the Audit Team on the location of these reports within the CMS system.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 18

B. The City Does Not Believe That the Recommendation to Potentially Repay \$833,199 for Forty-One Homes Allegedly Lacking Documentation of Testing Is Correct

The City acknowledges that the forty-one applications referenced in the Audit Report represent applicants that received reimbursement, but subsequently attempted to withdraw prior to the completion of abatement through participation in one of the Program's construction pathways. The City asserts, however, that recommending repayment for these applications is premature because the City has not completed its comprehensive closeout process as referenced above. The City expects that many of these applications will achieve clearance through either its Issue Identification and Resolution process or through reengagement with applicants who will choose to voluntarily repay their reimbursement amount or who choose to complete abatement by participating in the City's program. The City does acknowledge, however, that it will be required to initiate recapture efforts for applicants that do not achieve clearance during closeout.

C. The City Does Not Believe That the Recommendation to Potentially Repay \$29,019 for an Alleged Discrepancy in Lead Test Results is Correct

Comment 19

The City reviewed this application and found that, contrary to the Audit Report's findings, it only performed one Risk Assessment and the date field on the February 8, 2014, document is a reference to the date that the test was performed. The City has performed a further review of this application's Risk Assessment and has determined that its finding of no lead based paint hazard is correct. The language referred to by the Audit Team is boilerplate language that was inserted into the Risk Assessment even though the amount of lead dust that was detected was below the threshold for a hazard. This language was inserted so that, if the Program performed work on the home, the contractor would be advised that lead dust exists that may require the use of lead safe work practices if renovation or demolition were to take place within the home. A careful review of the documents in the file results in the accurate conclusion that the home is lead-safe, and fully compliant with regulatory requirements.

The City's Response to Finding 3

The City is Currently Performing a Global File Review to Remove Duplicative Documents and Forms and File Documentation in Appropriate Folders and Subfolders

The Build it Back Program is a complex disaster recovery program that processed over twenty thousand registrants that generated and submitted millions of documents that were required for initial applicant intake. It should be expected that such a Program, implemented expeditiously after a natural disaster, will have challenges with document management and information management. Nonetheless, in order to address these issues, the Program has developed protocols and procedures to improve file organization prior to the closeout of individual applications and the closeout of the overall grant.

Comment 20

The City has implemented a comprehensive document and data cleanup process involving the creation of a Document Management Team and the implementation of a system of Record Keeping & Document Management as documented in its Standard Operating Procedures that governs the collection, organization, and placement of documents into the City's official system of record, CMS. The purpose of this effort is to facilitate the collection and naming of Program-required documentation, while utilizing monitoring controls to efficiently review applicant materials in order to meet the standards identified in the Program's operating procedures and governing documents. This includes:

- the identification, review, and removal of duplicate documents and forms,
- the renaming of documents to follow a detailed and comprehensive naming convention,

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 20

- the organization of applicant documents into clearly labeled folders and subfolders in order to facilitate access to key information, and
- an independent review by HRO's audit team of corrected files to ensure compliance with the SOP.

While the document management team manages the corrective actions involved in this comprehensive cleanup process, the Program is currently in the process of employing the services of a management consulting and systems integration firm specializing in the conversion of massive repositories of digital content, to support the document management team in their efforts to effectively organize existing and future documentation corresponding to Program Applicants. This service will identify duplicate documents and nonstandard file names, based on imaging content. The implementation of this electronic data management system will assist in the image processing and classification of document images uploaded in CMS by identifying organizational document errors at an accelerated pace. The document management team will then correct the errors made aware to them by this automated service. By the time of grant closeout, the Program's files will be uniform and easily accessible.

Comment 21

The City is Countersigning Grant Agreements, the Timing of which is Immaterial

At the time of the Office of Inspector General's audit of the Program, the City was experiencing a backlog of grant agreements that required a counter-signature by appropriate City officials. In the period since this backlog occurred, the City has implemented a plan that has accelerated the execution and uploading of signed grant agreements to CMS. Since this action was implemented, all of the countersigned grant agreements have been uploaded to applicant's files and countersigned grant agreements continue to be uploaded on a regular basis.

Although the City has implemented this procedure, the City asserts that countersigned grant agreements are not legally required, and that the time it takes to obtain the countersignature is immaterial to the enforcement of these agreements.

Pursuant to New York State Law, N.Y. General Obligations Law § 5-701(b)(3)(b), contracts, including HRO's Grant Agreements, are enforceable where the document is signed by the party against whom enforcement is sought. This is true not only in New York State, but in virtually every other jurisdiction in the United States: Section 2-201 of the Uniform Commercial Code states that it is enough to have a "writing sufficient to indicate that a contract has been made between the parties and signed by the party against whom enforcement is sought." Accordingly, the City's action of not hurriedly countersigning grant agreements has not limited the City's ability to enforce the grant agreements in question. Thus, this finding by the Audit Team is of no legal, regulatory, or practical significance.

The City's Case Management System Contains All Required Information and Data

A. The SBA Loan Cancellation Code Information was Not Relevant to Application Processing

The SBA cancellation codes that are referred to in the Audit Report are codes that are created by the SBA to organize the data that is sent to the Program through its data exchange agreement. These codes, which are widely and publicly available, are used by the Program to organize and route applications for further action. The City's standard operating procedures provided clear and unambiguous direction to reviewers that instructed personnel on how to process applications based upon ranges of SBA cancellation codes. The underlying meaning of the codes themselves were not relevant to the determinations that were made by these reviewers and the Audit Report did not identify any negative impact to the Program's decision to not include information regarding the SBA cancellation codes themselves. The City will, however, include a printout of SBA's publicly-available definitions of the cancellation codes with future versions of its standard operating procedures so that auditors will have access to the information provided by its sister federal agency.

Comment 22

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 23

B. Applicant Files Contained Sufficient Information to Justify Allowable Activity Credits

The Program provides applicants with the opportunity to submit receipts for certain eligible post-Sandy expenses which serve to prove that they spent disaster recovery benefits on eligible items and services. This, in turn, decreases the amount of benefits that the Program must consider "duplicative" of assistance provided using CDBG-DR funds. The Program tracks each of these eligible offsets in its Case Management System. The offsets are enumerated in the Coordination of Benefits section of each applicant's file as is shown below.

Figure 1: Screenshot of CMS Allowable Activity Listing

Activity	Application	Receipt Date	Confirmed Amount	Status	Amount Reported
Permanent Repa...			\$61,038.63	Verified - Inspec...	\$0.00
Temporary Repa...			\$201.97	Verified - Eligibl...	\$499.33
Temporary Repa...			\$29.97	Verified - Eligibl...	\$138.33
Temporary Repa...			\$37.38	Verified - Eligibl...	\$139.02
Temporary Repa...			\$323.36	Verified - Eligibl...	\$323.36
Temporary Repa...			\$3.44	Verified - Eligibl...	\$53.28
Temporary Repa...			\$20.97	Verified - Eligibl...	\$209.93
Temporary Repa...			\$83.57	Verified - Eligibl...	\$26.78
Temporary Repa...			\$65.99	Verified - Eligibl...	\$171.34
Temporary Repa...			\$30.95	Verified - Eligibl...	\$55.85
Temporary Repa...			\$799.00	Verified - Eligibl...	\$962.54

In addition to the overall offset listing shown in the screenshot, above, a reviewer or auditor can also see additional detail regarding the expense by clicking on the individual line item. This additional detail is captured in CMS in the "Notes" section as shown, below.

Figure 2: Screenshot of CMS Allowable Activity Detailed Notes

Allowable Activity Information

Homeowner Repairs Cost: _____ Philanthropy Repairs: _____

Total Rapid Repairs Cost: \$ _____

Notes

Title: Note created on 6/25/2014 11:13 AM by [REDACTED]
 Lineman Pliers reimbursable - Equipment, 5/29/2014

[REDACTED] 6/25/2014 11:13 AM

Title: Note created on 5/16/2014 12:22 PM by [REDACTED]
 Home Dept. 11/13/12, lineman pliers - P 13 with Receipts, pg. 9 of 11

[REDACTED] 5/16/2014 12:22 PM

REDACTED IN PART

Comment 24

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 24

The City believes that this is sufficient detail for both a CMS user and for an auditor because it clearly defines the expenses amount and type. Once again, had these concerns been raised with HRO prior to the issuance of this draft report, HRO would have welcomed the opportunity to provide additional training to the Audit Team on the location of this information within the CMS system.

Comment 3

[The Data for Additional Reimbursements to SBA Loan Recipients That Was Provided to the Audit Team was Preliminary and has since been Revised](#)

As stated by the City at the time the information was provided, the original additional SBA loan reimbursement report that was provided to the Audit Team was merely a projection that was based upon the best available data that could be analyzed at the time the Audit Team made their request. When this report was provided, it was clearly communicated to the Audit Team that the data would change as the Program entered into its review and grant calculation processes. And indeed, since that report was provided, the City has shared a more accurate report that is based upon actual reimbursement amounts rather than historical projections.

[The City's Case Management System Documents All Duplication of Benefits Recalculations and the City is in the Process of Uploading the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memo to All Impacted Files](#)

The City has reviewed the Audit Report's statement that duplication of benefits recalculation discrepancies were not always documented and the applications that provided the basis for the Report's comment and found the following:

A. The City Does Not Agree That The Six Referenced Applications Did Not Contain Revised Duplication of Benefits Calculations

The City asserts that this comment from the Audit Report resulted from the Audit Team's misunderstanding of the Program's procedures. The Program procedures require that an applicant sign a revised Coordination of Benefits Worksheet at the time that they sign their Reimbursement Grant Agreement if the Coordination of Benefits Worksheet that is on-file with the Program does not match the most recent grant calculation. If, however, a grant calculation revision, or "COB Revision" takes place after the grant agreement is signed and this recalculation does not change the applicant's reimbursement amount, something that has occurred in the past, the Program will not collect a revised Coordination of Benefits Worksheet. Any modifications that are made post-reimbursement that may indicate a potential overpayment are to be resolved during the Program's closeout process. In the case of the six applications referenced in the Audit Report, the Program has determined that none of the applications required an updated Coordination of Benefits Worksheet for this reason.

Comment 25

- APP-F: A new Coordination of Benefits Worksheet was not required as the revision was the result of the implementation of the Program's elevation reimbursement proration calculation methodology. The change to the applicant's reimbursement amount was explained in a Case Specific Determination that was uploaded to the applicant's file.
- APP-G: The Program could not detect any issues with this file because the signed Coordination of Benefits Worksheet that is on file matches the Program's reimbursement calculation and the applicant's signed Grant Agreement. Because the Audit Report contains no more specific information about this application, the City is unable to further clarify the Audit Team's questions with respect to this application.
- APP-H and APP-I: Revisions of the applicant's coordination of benefits calculation did not change the applicant's reimbursement amount. Accordingly, the Program did not collect a revised Coordination of Benefits Worksheet or Grant Agreement. The Program will perform its standard review at closeout to determine if any further action is required, but no action appears to be warranted in this case at this time. As previously noted, the collection and

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 25

processing of unnecessary documentation does nothing more than add a burden to the homeowners and a cost to the program without providing any benefit to affected homeowners.

- APP-J: The Program revised the applicant's coordination of benefits calculation prior to the approval of the applicant's reimbursement amount. The Program could not detect any issues with this file because the signed Coordination of Benefits Worksheet that is on file matches the Program's reimbursement calculation and the applicant's signed Grant Agreement. Again, because the Audit Report contains no more specific information about this application, the City is unable to further clarify the Audit Team's questions with respect to this application.
- APP-K: No coordination of benefits revisions were performed. The Program could not detect any issues with this file because the signed Coordination of Benefits Worksheet that is on file matches the Program's reimbursement calculation and the applicant's signed Grant Agreement. Again, because the Audit Report contains no more specific information about this application, the City is unable to further clarify the Audit Team's questions with respect to this application.

B. The City Does Not Believe That the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum Was Required In All Cases. Where It Was Required, The Memorandum Has Been Uploaded to the Applicant's File

Comment 26

As was noted in the Audit Report, the City implemented measures to reduce the Program's administrative cost and burden in cases where an applicant's reimbursement grant amount increased after the applicant signed a grant agreement and the increase was less than the applicant's maximum reimbursement amount (above the 60% reimbursement amount, but below 100% of the reimbursement amount). This was done because, in some cases, grant agreements were signed before final calculations were performed to account for all available allowable activities. This procedure allowed the Program to move forward with reimbursing the applicant without having to reengage with the applicant to sign new documentation while ensuring that a duplication of benefits did not occur, saving the Program not only time but money—money more properly directed to impacted homeowners.

The Program reviewed the seven files referenced in the Audit Report and found the following:

- APP-L: The applicant's original grant agreement containing the preliminary calculation was not signed. When the applicant's reimbursement amount changed, the applicant executed a new grant agreement with the correct amount. Accordingly, the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum was not required.
- APP-M: This applicant received reimbursement for a completed elevation, which uses a different calculation methodology. This methodology was finalized after the applicant signed their grant agreement. The use of the elevation reimbursement proration calculation methodology changed the applicant's reimbursement amount. The Program placed a Case Specific Determination in the applicant's file explaining the change. The new amount was within 60% to 100% of the applicant's original reimbursement amount, so no duplication of benefits occurred. The "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum was not required because the issue was explained by the more detailed Case Specific Determination.
- APP-N: The Program performed a post-grant agreement revision to the applicant's coordination of benefits calculation, but the revision did not change the applicant's reimbursement amount. Accordingly, the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum was not required.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 26

- APP-O: The Program performed a post-grant agreement revision to the applicant's coordination of benefits calculation, but the revision did not change the applicant's reimbursement amount. Accordingly, the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum was not required.
- APP-P: The Program performed a pre-grant agreement revision to the applicant's coordination of benefits calculation. The reimbursement calculation was approved and the reimbursement amount matches the amount stated in the applicant's grant agreement. Accordingly, the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum was not required.
- APP-Q: The Program did not revise the applicant's coordination of benefits calculation prior to calculating the applicant's eligible reimbursement amount and grant amount. The reimbursement calculation was approved and the reimbursement amount matches the amount stated in the applicant's grant agreement. Accordingly, the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum was not required.
- APP-R: The Program revised the applicant's coordination of benefits calculation after the grant agreement was signed to add additional allowable activities during the Program's End to End Review process. The revision increased the applicant's reimbursement amount, but the new amount was within 60% to 100% of the applicant's original reimbursement amount, so no duplication of benefits occurred. The Program has since uploaded the "Changes to Reimbursement Amount Post-Grant Agreement Signing" Memorandum to the applicant's file.

As can be seen from this analysis, the Audit Report's assertion that seven files did not contain the appropriate memorandum is incorrect. The City acknowledges that the memorandum was required to be uploaded to one out of the seven files, and the City has corrected this condition by uploading the appropriate memorandum. The City notes that no Program policies were violated and that a duplication of benefits did not occur in any of the cases referenced in the Audit Report.

OIG Evaluation of Auditee Comments

- Comment 1 We disagree with City officials' statement that we questioned their decision to prioritize financial relief. We questioned City officials' lack of documentation to show compliance with HUD's Lead Safe Housing Rule requirements. The CMS Program files reviewed did not clearly document whether assisted homes were exempt from lead requirements. The files lacked documentation showing that lead-based paint testing had been performed, identified hazards had been removed, and clearance had been achieved. Further, City officials did not have a plan to ensure lead hazard compliance when homeowner did not allow the Program to complete the required lead hazard work.
- Comment 2 City officials stated that they made the policy decision to provide additional reimbursement to SBA loan recipients in response to extensive public feedback regarding inequities identified in the treatment of SBA loans in comparison with other disaster recovery benefits. By providing additional assistance solely to SBA loan recipients, City officials attempted to correct fundamental complaints with Federal disaster assistance programs, namely that homeowners were unaware that SBA loans replaced CDBG-DR assistance, although they had to be repaid and CDBG-DR assistance could not be used to repay SBA loans. City officials believed that these complaints should be addressed by Federal partners involved in providing disaster assistance to residential property owners.
- City officials' commitment to address what they considered to be unfairness in the treatment of SBA loans in comparison with other disaster recovery benefits is acknowledged. However, the implementation of their policy decision to provide additional reimbursement covering up to 100 percent of eligible expenses incurred by homeowners who received SBA loans was inconsistent with the HUD-approved action plan. The action plan stated that the Program would provide assistance that covered a portion of eligible reimbursable expenses. Further, this policy decision primarily benefited higher income homeowners who had the necessary income and credit to qualify, obtain, and repay their SBA loans.
- Comment 3 City officials stated that the issues in this audit report must be considered to be preliminary because at the time of our review, much of the data provided did not show actual beneficiaries since no funds had been disbursed and drawn. With the exception of the data related to additional reimbursements approved for SBA loan recipients, all data provided during the review related to actual beneficiaries. We have revised the audit report to include the actual number of beneficiaries and the total amount of additional reimbursement paid as September 20, 2016, the date on which the updated data were provided. Other than the revised figures, the issues in the audit report remain unchanged.

Our initial data request was made on January 29, 2016. In an email, dated February 11, 2016, City officials indicated that they were working on the list and expected to have it completed by February 16, 2016. The email also stated that

that the applicants on the list were not guaranteed to receive an additional payment until they were reviewed for eligibility, which would take another month. Based on the email, eligibility reviews should have been completed in March 2016. More than 2½ months later, City officials provided the data attached to an email, dated May 2, 2016. The email stated that the list was current as of April 29, 2016, and was subject to change based on homeowner eligibility reviews. However, by May, it was reasonable to believe that most of the eligibility reviews had been completed since they were supposed to be completed in March. Neither this nor later emails indicated that there would be substantial changes in the actual number of beneficiaries and the total amount of additional reimbursements issued. However, the actual number of beneficiaries is approximately 33 percent less than City officials' initial projections, and the total amount of additional reimbursements issued is approximately 44 percent less than City officials' initial projections. We question the accuracy and reliability of City officials' data, given the substantial differences between the actual and projected amounts.

- Comment 4 City officials maintained that at the time of our review, they were aware of the application-specific issues addressed in the audit report but had yet to resolve some of the issues because of the order in which they process applications. City officials believed that during the Program's closeout phase, they would resolve the issues identified in this audit report. Therefore, their planned actions are responsive to our recommendations.
- Comment 5 City officials stated that they revised the cap for second reimbursement payments from the maximum amount of SBA loans received for structural repairs to the total amount drawn from all SBA loans because the latter represented the homeowner's true Sandy-related debt obligations. However, the policy of capping second reimbursements payments at the total amount drawn from all SBA loans resulted in higher benefit amounts for SBA loan recipients only, which was inconsistent with the HUD-approved action plan.
- Comment 6 City officials stated that they were modifying the language in the action plan to ensure that the action plan would be consistent with the Program's implementation regarding providing additional reimbursement of up to 100 percent of reimbursable expenses to homeowners with SBA loans. Thus, City officials' planned actions are responsive to our recommendations.
- Comment 7 City officials stated that their closeout process designed to detect benefit changes was effective, given that only 10 of 122 homeowners, representing 8 percent of the total population, had a change in their benefit calculation after the initial grant amount had been calculated. However, our audit report identified 16 homeowners whose grant amount changed by \$500 or more due to changes in their benefit calculation. While we chose to report on 16 homeowners only, we identified 25 homeowners whose grant amount changed by more than \$100. This represented approximately 20 percent of the total population.

- Comment 8 City officials' development of a robust closeout process to detect and resolve changes to benefit amounts that may affect a homeowner's eligible grant award is responsive to our recommendations.
- Comment 9 City officials' planned review of the reimbursement to determine whether grant recapture is necessary is responsive to our recommendation.
- Comment 10 City officials stated that while four homeowners had grant awards that were less than the new maximum reimbursement amount, grant recaptures were not necessary because the grants fell within the 60 to 100 percent reimbursement range. However, these four homeowners were reimbursed in excess of the Program's 60 percent reimbursement rate and received additional benefits that other homeowners were not given. Further, both the coordination of benefits worksheet disclosure and section 13(a)(iii) of the reimbursement grant agreement stated that a homeowner might be required to repay the Program additional disaster recovery funds received from other sources that were considered to be a duplication of benefits after the grant had been awarded.
- Comment 11 City officials stated that one of the four homeowners was eligible for a second reimbursement payment and any overpayment would be removed from the second reimbursement payment. Second reimbursements to SBA loan recipients are not authorized by the HUD-approved action plan. Therefore, in the absence of an approved amended action plan, this amount should be repaid to the Program.
- Comment 12 City officials believed that we used either incorrect fields or an incorrect methodology when calculating the homeowners' eligible reimbursement amount in six of the cited cases. The remaining five cases had revisions that increased the homeowners' maximum reimbursement amount. The data used to calculate the underpayments were obtained from a list City officials provided of 122 homeowners whose grant amount changed due to duplication of benefits recalculations. We applied the Program's 60 percent reimbursement rate to the original and new maximum reimbursement amounts and calculated the difference or the underpayment. We also reviewed the grant agreements, the original and revised coordination of benefits worksheets (if available), and the reimbursement review associated view in the CMS Program files. Accordingly, two discrepancies were noted between the data provided and the Program files. The discrepancies are discussed in detail in finding 3 of this report.
- City officials' planned review of the applications during the closeout process to determine the appropriate action that should be taken is responsive to our recommendations.
- Comment 13 City officials cited cost concerns and the administrative burden associated with executing a new grant agreement as reasons why they did not believe that they should be required to execute a new grant agreement when a homeowner's actual grant payment was less than what was shown on the homeowner's reimbursement grant agreement. However, by not executing new grant agreements, City officials

deprived homeowners of valuable financial resources that they could have used to assist them in their recovery efforts. Further, under the reimbursement program, homeowners were eligible to receive 60 percent of their reimbursable expenses. Yet, due to City officials' policy decision, they received much less than they were eligible to receive and should be compensated.

City officials also stated that the reimbursement grant agreement accounted for grant changes within the 40 percent range, which made up the unreimbursed amount. However, the Program defined the reimbursement rate as 60 percent of eligible reimbursable expenses. By providing homeowners with as much as 110 percent of their eligible reimbursable expenses, while providing others with as little as 5 percent of their eligible reimbursable expenses, City officials did not reimburse all eligible homeowners equitably.

- Comment 14 City officials believed that the Program's policy to reimburse applicants before lead testing or abatement was completed complied with the regulations because the Program provided assistance to homeowners after they agreed to allow the Program to address all lead hazards during construction. Further, City officials asserted that although some homeowners withdrew from the Program before required construction activities began, City officials would address all incomplete projects during its closeout process. At the time of our review, the CMS Program files did not clearly document City officials' plan to address compliance with HUD's Lead Safe Housing Rule requirements postreimbursement during later construction. However, City officials' planned action is responsive to our recommendations.
- Comment 15 City officials stated that they reviewed the first identified application and found that CMS correctly showed the results of the Program's risk assessment and that the risk assessment was stored in CMS' "Inactive Environmental Analysis Entity," a location all relevant CMS users are trained to use when a homeowner's pathway changes. This issue was first communicated to City officials in our February 12, 2016, tentative observations. At that time, City officials provided a general response concerning the Program's lead compliance. However, based on City officials' current response, we were able to locate the lead testing report showing the negative test results. Accordingly, we have removed all references to this issue from the audit report and have reduced questioned costs by \$45,940, the dollar value associated with this issue.
- Comment 16 City officials' continual attempts to ensure that the applicant completes lead-based paint testing is responsive to our recommendations.
- Comment 17 City officials stated that two of the four homes had completed construction with successful lead-based paint abatement. However, we were unable to locate the lead clearance reports in the CMS Program files. Further, City officials stated that the third home was in the construction phase and the fourth home was in the preconstruction phase and the lead abatement work for each home was included in the respective projects' scope of work. When construction on these two homes is

complete, City officials must document the lead clearance reports for these and all homes that have completed lead-based paint abatement.

- Comment 18 City officials stated that recommending repayment for the 41 homeowners who withdrew from the Program before lead hazard activities were completed was premature since the City had not completed its comprehensive closeout process. Recommendation 2C of this report recommends repayment only if supporting documentation is not provided to show that lead-based paint testing was performed, identified hazards were removed, and clearance was achieved. City officials' acknowledgement that grant recapture will be required when applicants do not achieve clearance during closeout is responsive to our recommendations.
- Comment 19 City officials stated that only one risk assessment was performed on February 8, 2014. Our audit report stated that there was a discrepancy in the lead test results. The performance of two risk assessments was not discussed. The risk assessment was performed on February 18, 2014, as indicated on The NYC Build it Back Repair Program Lead-Based Paint Risk Assessment Summary Report and the actual lead testing report, which was dated March 12, 2014. While the risk assessment stated that the home did not test positive for lead-based paint or hazard, the lead testing report stated that there was a potential lead exposure hazard at the home and lead hazard reduction activities were required. City officials asserted that this was boilerplate language and that the amount of lead dust detected was below the hazard threshold. City officials will have the opportunity to work with HUD officials to resolve this issue during the audit resolution process.
- Comment 20 City officials' comprehensive document and data cleanup process is responsive to our recommendations.
- Comment 21 We have revised the audit report based on City officials' assertion that countersigned grant agreements are not legally required and when these agreements are countersigned has no bearing on their enforcement. However, countersigning grant agreements as much as 336 days after reimbursement assistance had been provided is inconsistent with prudent business practices.
- Comment 22 City officials' planned action to include definitions of SBA cancellation codes in futures versions of their standard operating procedures is responsive to our finding. Although the draft audit report did not specifically recommend that City officials include this information in their procedures, based on City officials' comments, we have added this recommendation (3C) to the audit report. Defining SBA cancellation codes is important because the reason why an SBA loan was canceled affected whether the SBA loan amount was included or excluded from a homeowner's duplications of benefits calculation. While City officials' standard operating procedures provided instructions on how to process applications based on the cancellation codes, the procedures did not explain why the loans were to be processed in a certain manner.

- Comment 23 City officials stated that the offsets were itemized in the Coordination of Benefits section of each applicant file in CMS. However, we could not trace the offsets to the corresponding receipts related to four applicants because the receipts did not clearly identify the items eligible for offset credit. This matter was first communicated to City officials in our February 12, 2016, tentative observations. In response to our observations, City officials provided four itemized listings of receipts to facilitate our review.
- Comment 24 City officials stated that we could have obtained additional detail concerning an expense by clicking on the individual line item since the additional detail was captured in CMS' "Notes" section. During a meeting with City officials held on February 4, 2016, we informed them that we did not have access to the "Notes" section in CMS and such access was not provided during our review.
- Comment 25 City officials stated that none of the six applications referenced in the audit report required an updated coordination of benefits worksheet and this issue resulted from our misunderstanding of the Program's procedures. However, the data used in our analysis were obtained from a list City officials provided. The list consisted of 122 homeowners whose grant amount changed due to duplication of benefits recalculations after the homeowners had signed their grant agreements. From that list, we selected a sample of 16 homeowners whose grant amounts changed by \$500 or more. A review of the CMS Program files showed that 6 of 16 files did not contain a revised coordination of benefits worksheet. City officials will have the opportunity to work with HUD officials to resolve this issue during the audit resolution process.
- Comment 26 City officials acknowledged that the "Changes to Reimbursement Amount Post-Grant Agreement Signing" memorandum was required in one of the seven files cited in the audit report. Further, City officials stated that they had corrected the deficiencies by uploading the missing memorandum to the file. For the remaining six files, City officials provided various reasons why the memorandum was not required. The data used in our analysis were obtained from a list City officials provided of 122 homeowners whose grant amount changed due to duplication of benefits recalculations after the homeowners had signed their grant agreements. From that list, we selected a sample of 16 homeowners whose grant amounts changed by \$500 or more. A review of the CMS Program files showed that 7 of 16 files did not contain the required memorandum. City officials will have the opportunity to work with HUD officials to resolve this issue during the audit resolution process.