

# AUDIT REPORT

## SBA'S CONTROLS TO PREVENT DUPLICATION OF BENEFITS WITH COMMUNITY DEVELOPMENT BLOCK GRANTS





# EXECUTIVE SUMMARY

Audit Report  
No. 15-14

## SBA'S CONTROLS TO PREVENT DUPLICATION OF BENEFITS WITH COMMUNITY DEVELOPMENT BLOCK GRANTS

July 31, 2015

### What OIG Reviewed

In the event of a disaster, multiple Federal, State, and local agencies and governments are often involved in providing disaster assistance. When agencies do not coordinate and ensure that one recipient is not receiving benefits from multiple agencies for the same purpose, there is a potential for overlap in funding. This overlap is considered a duplication of benefits.

We reviewed the Small Business Administration's (SBA or Agency) controls to determine whether they adequately prevented duplication of benefits with community development block grants (CDBGs) administered by the Department of Housing and Urban Development (HUD). To accomplish our objective, we met with key Agency personnel at the Fort Worth Processing and Disbursement Center (PDC) and obtained an understanding of SBA's internal controls to prevent a duplication of payment. We also tested a random sample of grants to determine if the controls appeared to be working as intended.

### What OIG Found

SBA's role to prevent duplication of benefits with HUD's CDBG Program is to provide timely, accurate, and complete loan information to HUD grantees that administer the grants for HUD. To accomplish this, SBA (1) signed a memorandum of understanding with each grantee that specified the information to be shared between the grantee and SBA; (2) obtained the grantee's action plans approved by HUD; and (3) provided program guidance to case managers and loan modification officers for each individual program offered by the grantees.

We determined that SBA's internal controls to prevent duplication of benefits were adequately designed and generally working as intended. The Agency generally provided accurate information to HUD grantees administering the CDBG Program. Specifically,

SBA provided regular information from the Disaster Credit Management System (DCMS) to the grantees in order for the grantee to properly account for the loan in its computation of the grant. To ensure that future changes in the condition of the applicant's loan status would be reported to the grantee, SBA received award information from each of the grantees on a regular basis and annotated that grants had been awarded in the DCMS loan file.

We did note a few instances where SBA did not annotate in the loan file that a grant had been awarded. However for each of these cases, there was no negative impact, as the disaster survivor had not requested a loan or increase of a loan from SBA since the time they were awarded CDBG funds.

### OIG Recommendations

Based on the results of this audit, this report contains no reportable conditions or recommendations. We do not require Agency comments to this report or any further action.



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

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**Final Report Transmittal**  
Report Number: 15-14

**DATE:** July 31, 2015

**TO:** Maria Contreras-Sweet  
Administrator, Small Business Administration

Douglas J. Kramer  
Deputy Administrator, Small Business Administration

James Rivera  
Associate Administrator, Office of Disaster Assistance

**SUBJECT:** *SBA's Controls to Prevent Duplication of Benefits with Community Development Block Grants*

This report presents the results of our audit of SBA's controls to prevent duplication of benefits with community development block grants (CDBGs). Specifically, the objective of our review was to determine whether SBA had adequate controls in place to prevent duplication of benefits with CDBGs administered by the Department of Housing and Urban Development (HUD). Based on the results of this audit, this report contains no reportable conditions or recommendations. No further action or response by SBA is required.

We appreciate the courtesies and cooperation extended to us during this audit.

/s/  
Troy M. Meyer  
Assistant Inspector General for Auditing

cc: Nick Maduros, Chief of Staff  
Melvin F. Williams, Jr., General Counsel  
Martin Conrey, Attorney Advisor, Legislation and Appropriations  
Tami Perriello, Chief Financial Officer  
LaNae Twite, Director, Office of Internal Controls

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## Introduction

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On October 29, 2012, Hurricane Sandy made landfall in southern New Jersey. The massive storm effected several States along the East Coast. Subsequently, the President signed the Disaster Relief Appropriations Act of 2013, which provided a total of \$16 billion in community development block grant (CDBG) disaster recovery funding to Sandy victims. The U.S. Department of Housing and Urban Development (HUD) initially allocated \$5.4 billion to five States and New York City.<sup>1</sup> HUD allocated an additional \$5.1 billion in November 2013, and \$2.5 billion in October 2014.

**Table 1: Amounts allocated by HUD<sup>2</sup>**

Grantee	First allocation	Second allocation	Third allocation	Rebuild by design <sup>3</sup>	Total funding to date
Connecticut	\$71,820,000	\$66,000,000	\$11,459,000	\$10,000,000	\$159,279,000
New Jersey	1,829,520,000	1,463,000,000	501,909,000	380,000,000	4,174,429,000
New York State	1,713,960,000	2,097,000,000	420,922,000	185,000,000	4,416,882,000
New York City	1,772,820,000	1,447,000,000	639,056,000	355,000,000	4,213,876,000
Rhode Island	3,240,000	16,000,000	671,000	N/A	19,911,000
Maryland	8,640,000	20,000,000	N/A	N/A	28,640,000
<b>Total</b>	<b>5,400,000,000</b>	<b>5,109,000,000</b>	<b>1,574,017,000</b>	<b>930,000,000</b>	<b>13,013,017,000</b>

### Guidance on Preventing Duplication of Benefits

In the event of a disaster, multiple Federal, State, and local agencies and governments are often involved in providing disaster assistance. When agencies do not coordinate and ensure that one recipient is not receiving benefits from multiple agencies for the same purpose, there is a potential for overlap in funding. This overlap is considered a duplication of benefits.

Under the Stafford Act, Federal agencies administering disaster benefits must ensure that individuals receiving assistance have not already been compensated for their losses by another program, from insurance, or from any other source.<sup>4</sup> However, even if a recipient receives partial benefits for a major disaster from an agency, that recipient is not prohibited from receiving additional Federal assistance, as long as a Federal agency has not already provided benefits in full for a particular loss or need.

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<sup>1</sup> HUD separately allocated funds under Public Law 113-2 to two individual grantees for New York: New York City and New York State. New York City's funds were managed by the New York City Office of Management and Budget and New York State's funds were managed by the New York State Housing Trust Fund Corporation.

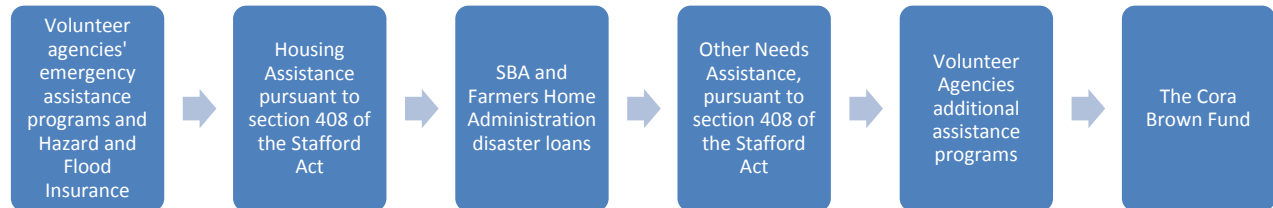
<sup>2</sup> These numbers are as of June 1, 2015. HUD's third allocation was effective October 21, 2014. There have been no additional announcements or allocations after that date.

<sup>3</sup> "Rebuild by design" is a planning and design competition to increase resilience in the Sandy-affected region as part of recovery from the storm. HUD solicited the best talents and ideas from around the world to seek innovative solutions for how communities build and adapt in response to the damage from a disaster and future risks presented by natural hazards and climate change.

<sup>4</sup> P.L. 93-288, as amended, 42 U.S.C. 5121-5207. *Robert T. Stafford Disaster Relief and Emergency Assistance Act and Related Authorities* (June 2007).

Both the Stafford Act and general guidance from the Federal Emergency Management Agency (FEMA) require that agencies establish procedures to ensure that agencies uniformly prevent duplication of benefits. FEMA also provided a delivery sequence to ensure that agencies uniformly prevent duplication of benefits, and requires that Federal agencies cooperate with each other when preventing and rectifying duplication of benefits.<sup>5</sup> The delivery sequence established by FEMA is as follows:

**Figure 1: FEMA’s Established Delivery Sequence**



Source: 44 CFR 206.191, Federal Disaster Assistance, Duplication of Benefits (October 1, 2014).

While HUD CDBGs are not specifically listed in the regulation, SBA considers these grants to be “other Federal funds” that follow SBA disaster assistance loans in the sequence of disaster benefits. When the delivery sequence has been disrupted, the disrupting agency is responsible for rectifying any benefits duplication that may have occurred.

### **Prior Work**

A prior SBA OIG report found that SBA took the lead in working with States to identify and recover duplicate benefits.<sup>6</sup> Although SBA did so because it thought it was acting in the best interest of the Government to reduce duplicate benefits, SBA incorrectly placed HUD CDBGs ahead of SBA assistance in the delivery sequence, thereby making them the primary assistance provider. This essentially resulted in \$925.6 million in CDBG funding being used before SBA loan funds, contrary to the delivery sequence. Specifically, \$643.8 million of CDBG funds were sent to SBA to pay down fully disbursed SBA loans, and SBA canceled \$281.8 million of undisbursed SBA disaster loans.

The report’s five recommendations were primarily geared toward having SBA, in coordination with HUD and FEMA, develop agreements and roles consistent with sequence of delivery outlined in 44 CFR 206.191. At the time, SBA did not agree to formalize a new understanding with HUD as it believed that it had an ongoing process that was in compliance with all of the duplication of benefits requirements. However, HUD took a proactive stance as a result of the audit and issued a Federal register notice, which stated that CDBG disaster recovery funds should not be used to pay down SBA home or business loans. If needs remained after all SBA eligibility had been exhausted, supplemental disaster recovery CDBG funds could be used to address that need. In rare instances and extraordinary circumstances, grantees could contend that payment of SBA loans with disaster recovery CDBG for a beneficiary is justified.<sup>7</sup>

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<sup>5</sup> 44 CFR 206.191, *Federal Disaster Assistance, Duplication of Benefits* (October 1, 2014). The sequence of delivery establishes the order in which disaster relief agencies and organizations provide assistance.

<sup>6</sup> *SBA’s Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants*, (Report 10-13, September 2, 2010).

<sup>7</sup> *Clarification of Duplication of Benefits Requirements Under the Stafford Act for Community Development Block Grant (CDBG) Disaster Recovery Grantees* (FR-5582-N-01, effective November 21, 2011).

Each of the grantees during Hurricane Sandy developed action plans providing that CDBG funds were to be used for unmet needs. Memorandums of understanding were implemented that provided for information exchange between SBA and each of the grantees. On July 25, 2013, HUD issued additional guidance that encourages—but does not require—applicants to apply for SBA assistance as a prerequisite to receiving CDBG disaster recovery assistance. It also allows grantees to make a determination whether to deduct SBA loan offers that were declined by borrowers.

### **Objectives**

Our objective was to determine whether SBA had adequate controls in place to prevent duplication of benefits with CDBGs administered by HUD.

## Results

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We determined that SBA's internal controls to prevent duplication of benefits were adequately designed and generally working as intended. We found a few instances where SBA did not timely annotate in the loan file that a grant had been awarded. However, no benefits were duplicated since the disaster survivor had not requested a loan, loan reinstatement, reconsideration or reacceptance, or increase of a loan from SBA after they were awarded CDBG funds.

In order to prevent duplication of benefits, there must be a free exchange of information between agencies. Consequently, SBA's role during Hurricane Sandy was to provide timely, accurate, and complete data for grantees to use for determining grant awards. As such, controls to prevent duplicate benefits included:

- An action plan between the grantee and HUD, which described the needs, strategies, and projected uses of the Disaster Recovery funds.
- An MOU between the grantee and SBA, which detailed roles and responsibilities of each entity. A circle-back list from grantees to SBA's grant team, which was used to add a comment to DCMS and open a state grant condition.<sup>8</sup> This helped SBA identify grants and served as a flag for any future changes in loan amount.
- Weekly DCMS reports by SBA to individual grantees, which allowed grantees to have reasonably up-to-date information at all times.
- Guidance from the grant team to case managers and loan modification officers, which directed them to notify the grant team of any pending changes to the loan amount, properly counsel the borrower, and coordinate with the HUD grantee.

We found that SBA's controls were functioning appropriately. We tested 200 grants to determine if SBA annotated DCMS loan files accurately, timely, and completely. SBA met all three criteria for 195 of the 200 transactions we reviewed. Although there were 5 instances where SBA did not input information in DCMS timely, none resulted in a duplicated benefit. Additionally, we tested 120 grants to determine if the DCMS reports provided by SBA to grantees were accurate and complete and found that the information was accurate and complete without exception. Our analysis of the design of the information exchange was that the process sufficiently ensured that the data was provided in a timely manner. Thus, we did not specifically test transactions for timeliness of the DCMS reports.

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<sup>8</sup> Grant conditions in DCMS are used to report the various states an account is in and indicate what type of actions are required on the account. They are used in business rule and edit criteria to prevent or allow certain actions to be performed on an account.



## **Agency Comments**

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ODA management generally agreed that this report is an accurate analysis of the internal controls ODA has in place to prevent duplication of benefits with CDBGs administered by HUD.

## Appendix I: Scope and Methodology

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

Our audit scope covered the bilateral information exchange between SBA and grantee agencies administering CDBG awards, and the design and effectiveness of SBA's internal controls to ensure grantees were provided timely, accurate, and complete disaster loan data. To achieve the audit objectives, we obtained grant information from the three largest grantees administering CDBG funds: New York City, the State of New York, and the State of New Jersey. Funding for these entities comprise 98 percent of all Hurricane Sandy CDBG funds allocated to date. The audit universe consisted of all CDBG awards for Hurricane Sandy as of November 4, 2014, which comprised 15,824 grants totaling \$1.1 billion.

**Table 2: Universe of Grants**

Type	By Type	
	Number of Grants	Amount
Home	14,449	\$986,268,925
Buyout	212	\$75,451,402
Business	879	\$50,382,950
Rental Repair	284	\$16,095,784
<b>Totals</b>	<b>15,824</b>	<b>\$1,128,199,061</b>

To assess the control structure, we met with officials from the PDC in Fort Worth, TX, and performed testing of DCMS data associated with grants. We selected a random sample of 70 home grants, 70 business grants, 30 buyout grants, and 30 rental repair grants. We analyzed whether data provided to grantees was accurate and complete, and whether SBA annotated grants in the loan file to ensure that future changes in loan amounts were coordinated with the grantees to prevent duplication of assistance.

### Internal Controls

OMB Circular A-123 provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. To understand SBA's internal control structure in place to avoid duplication of assistance with CDBG funds, we met with key program officials, reviewed program documentation, and tested DCMS data associated with grants. We concluded that SBA's internal controls were adequate to prevent duplication of benefits.

### Use of Computer-Processed Data

We relied on grant data provided by the PDC grant team from the various grantees. For the corresponding loan data relevant to the individual grant awards, we relied on information generated from DCMS. We tested the data contained in DCMS against source documents for a judgmental sample of grants and found no errors. Additionally, this is an accredited information system and we believe, based upon the testing and accreditation, that the information is sufficiently reliable to meet our audit objectives.

### **Nature of Limited or Omitted Information**

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this evaluation.