



The Lower Manhattan Development Corporation, New York, NY

Community Development Block Grant Disaster Recovery Assistance Funds



To: Marion Mollegen McFadden
Deputy Assistant Secretary for Grant Programs, DG

//SIGNED//

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

Subject: The Lower Manhattan Development Corporation, New York, NY, Generally Administered CDBG Disaster Recovery Assistance Funds in Accordance With HUD Regulations

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 Lower Manhattan Development Corporation's (LMDC) administration of Community Development Block Grant (CDBG) Disaster Recovery Assistance funds covering the period April 1, 2013 through March 31, 2014. The review was performed in response to a congressional mandate that HUD OIG continuously audit LMDC's administration of the \$2.783 billion in Disaster Recovery Assistance funds awarded to the State of New York in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center in New York City.

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 OIG to 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: 2015-NY-1008

Date: June 26, 2015

The Lower Manhattan Development Corporation, New York, NY, Generally Administered CDBG Disaster Recovery Assistance Funds in Accordance With HUD Regulations

Highlights

What We Audited and Why

We performed the 19th review of the Lower Manhattan Development Corporation's (LMDC) administration of the \$2.783 billion in Community Development Block Grant (CDBG) Disaster Recovery Assistance funds awarded to the State of New York in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The objective of the audit was to determine whether LMDC disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under the U.S. Department of Housing and Urban Development (HUD)-approved partial action plans for the (1) Lower Manhattan Housing, (2) Fulton Corridor Revitalization, (3) Lower Manhattan Public Information Plan, and (4) Planning and Administration programs.

What We Found

LMDC generally disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under the HUD-approved partial action plans and applicable laws and regulations for the (1) Lower Manhattan Housing, (2) Fulton Corridor Revitalization, (3) Lower Manhattan Public Information Plan, and (4) Planning and Administration programs.

What We Recommend

There are no recommendations.

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Background and Objective

The Lower Manhattan Development Corporation (LMDC) was created in December 2001 as a subsidiary of the Empire State Development Corporation to function as a joint city-State development corporation. A 16-member board of directors, appointed equally by the governor of New York and the mayor of New York City, oversees LMDC's affairs. The Empire State Development Corporation performs all treasury functions for LMDC.

The State of New York designated LMDC to administer \$2.783 billion¹ of the \$3.483 billion² in Community Development Block Grant (CDBG) Disaster Recovery Assistance funds appropriated by Congress in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center to assist with the recovery and revitalization of Lower Manhattan. Planned expenditures of Disaster Recovery Assistance funds are documented in action plans that receive public comment and are approved by the U.S. Department of Housing and Urban Development (HUD). As of March 31, 2014, HUD had approved 15 partial action plans and multiple amendments that allocated the \$2.783 billion to various programs and activities (see appendix B for amounts by program), and LMDC had disbursed approximately \$2.344 billion, or 84 percent, of the \$2.783 billion appropriated.

During this audit, we reviewed disbursements related to the following programs:

Lower Manhattan Housing: As of March 31, 2014, HUD had approved \$54 million to fund the Lower Manhattan Affordable Housing program, which consists of five projects: (1) Site 5B Tribeca, (2) Chinatown-Lower East Side Acquisition and Preservation Program (Chinatown-LES Program), (3) Masaryk Towers, (4) Knickerbocker Village, and (5) Affordable Housing. This program will create new affordable units, preserve and rehabilitate existing affordable housing units, acquire new land or properties for affordable housing, and create incentives for the private sector to develop affordable housing. Specifically, \$16 million was approved for the preservation and rehabilitation of 160 or more units through the Chinatown-LES Program. However, during our audit period, only \$2 million was disbursed to facilitate the acquisition and rehabilitation of privately owned properties in Chinatown and the Lower East Side.

Fulton Corridor Revitalization: As of March 31, 2014, HUD had approved \$35 million to fund the Fulton Street Corridor Revitalization: Incentive and Streetscape and Open Space Program (Fulton Corridor Revitalization). LMDC funds would provide needed public investments in streetscape improvements and public open spaces as well as incentives to spur private rehabilitation and renovation of retail components in the Fulton Street area. There are three core components of Fulton Corridor Revitalization: (1) Fulton Corridor Open Spaces, (2) the Fulton Corridor Grant Program, and (3) Fulton Corridor Streetscape and Street Wall Improvements.

¹ This amount was funded by two grants, B-02-DW-36-0001 for \$2 billion and B-02-DW-36-0002 for \$783 million.

² The Empire State Development Corporation administers the remaining \$700 million.

Lower Manhattan Public Information Plan: As of March 31, 2014, HUD had approved \$2.57 million to deliver information on the rebuilding of Lower Manhattan. The centerpiece of the program was a comprehensive Web site, www.LowerManhattan.info, which offered regularly updated news and information for area residents, workers, and visitors. Topics included rebuilding plans and progress; transportation and transit; health, safety, and security; downtown business; community involvement opportunities; “things to do”; and Lower Manhattan history. The Lower Manhattan Information Plan program also integrated construction information into its Web site.

Planning and Administration: As of March 31, 2014, HUD had approved \$115.24 million in CDBG funds covering broad planning and administration activities related to the recovery, remembrance, and rebuilding efforts in Lower Manhattan (defined by LMDC as the entire area of Manhattan south of Houston Street). Administration activities include extensive public information and coordination activities relating to LMDC planning work and maintenance of an interactive Web site, www.RenewNYC.com.

HUD has authorized the use of up to 5 percent of the total grant to LMDC for costs associated with planning and administration activities, which include costs for overhead, personnel, and consultants.

Our audit objective was to determine whether LMDC disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under HUD-approved partial action plans for the (1) Lower Manhattan Housing, (2) Fulton Corridor Revitalization, (3) Lower Manhattan Public Information Plan, and (4) Planning and Administration programs.

Results of Audit

Finding: LMDC Generally Administered CDBG Disaster Recovery Assistance Funds in Accordance With HUD Regulations

LMDC officials generally disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under the HUD-approved partial action plans, subrecipient agreements, and applicable laws and regulations for the Lower Manhattan Housing, Fulton Corridor Revitalization, Lower Manhattan Public Information Plan, and Planning and Administration programs.

Funds Disbursed in Compliance With HUD-Approved Action Plan and Federal Requirements

For the programs tested, LMDC generally disbursed CDBG Disaster Recovery Assistance funds in accordance with the HUD-approved partial action plans, subrecipient agreements, and applicable laws and regulations. We tested approximately \$6.57 million of the \$11.21 million disbursed under the Lower Manhattan Housing, Fulton Corridor Revitalization, Lower Manhattan Public Information Plan, and Planning and Administration programs. We found no material deficiencies.

Specifically, for the items tested, LMDC disbursed funds to subrecipients and vendors for eligible, reasonable, and necessary expenses that complied with the HUD-approved partial action plans, subrecipients' agreements, and applicable laws and regulations. LMDC officials continuously monitored subrecipient performance against goals and performance standards prescribed in subrecipient agreements. Monthly progress reports and adequate support documentation for cost reimbursements must be maintained for each subrecipient project. Audit fieldwork disclosed that LMDC officials prepared monthly, bimonthly, and quarterly monitoring reports and maintained adequate support documentation for each of their projects. Additionally, these reports documented communications and identified problems and resolutions.

Conclusion

For the items tested during our review, LMDC officials generally administered and disbursed CDBG Disaster Recovery Assistance funds in accordance with the established guidelines under HUD-approved partial action plans, subrecipient agreements, and applicable laws and regulations for the Lower Manhattan Housing, Fulton Corridor Revitalization, Lower Manhattan Public Information Plan, and Planning and Administration programs.

Recommendations

There are no recommendations.

Scope and Methodology

During the audit period, April 1, 2013 through March 31, 2014, LMDC disbursed more than \$114.5 million of the \$2.783 billion in CDBG Disaster Recovery Assistance funds appropriated for activities related to the rebuilding and revitalization of Lower Manhattan.

To accomplish our audit objective, we interviewed LMDC officials and reviewed

- Applicable laws, regulations, program requirements, and the Code of Federal Regulations.
- LMDC policies, procedures, and internal controls.
- HUD-approved partial action plans and amendments.
- Empire State Development Corporation and LMDC records and subrecipient agreements applicable to the disbursements.
- HUD quarterly performance reports and prior Office of Inspector General (OIG) audit workpapers.
- HUD monitoring reports.
- Data in the HUD Disaster Recovery Grant Reporting (DRGR) system.³
- Audited financial statements for the years ending March 31, 2014 and March 31, 2013.
- Documented and reconciled disbursements in DRGR that were recorded during the review period.

During our audit, we selected four programs for a general understanding of LMDC’s internal controls. We tested a nonstatistical sample of \$6.57 million, or 58.6 percent, of the \$11.21 million disbursed during our review period as follows:

Program	Amount tested (in millions)	Amount disbursed from April 1, 2013 through March 31, 2014 (in millions)
Lower Manhattan Housing	\$2.00	\$2.00
Fulton Corridor Revitalization	3.15	5.82
Lower Manhattan Public Information Plan	0.54	0.76
Planning and Administration	0.88	2.63
Total	\$6.57	\$11.21

³ The DRGR system was developed by HUD’s Office of Community Planning and Development for the CDBG Disaster Recovery program and other special appropriations. Data from the system are used by HUD staff to review activities funded under these programs and for required quarterly reports to Congress.

The Lower Manhattan Housing program had one drawdown, of which we reviewed 100 percent.

For the disbursements under the Fulton Corridor Revitalization, Lower Manhattan Public Information Plan, and Planning and Administration programs, we reviewed the largest dollar amount drawn down and disbursed for each program.

For informational purposes, we used the data obtained from HUD's DRGR system. The assessment of this reliability was limited to the data we reviewed and reconciled to LMDC records. Therefore, we did not assess the reliability of this system.

We performed our audit fieldwork from January through May 2015 at the LMDC office located in Lower Manhattan and the LMDC parent company, Empire State Development Corporation, located in Midtown Manhattan.

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.

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.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- 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.

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.

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole.

Accordingly, we do not express an opinion on the effectiveness of LMDC's internal control as a whole.

Appendix A

Auditee Comments and OIG's Evaluation

Auditee Comments



LMDC

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June 2, 2015

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

Dear Ms. Greene:

The Lower Manhattan Development Corporation (LMDC) has reviewed the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General Draft Audit Report that was provided to us on June 1, 2015 covering the period from April 2013 through March 2014. We recognize the importance of this and the previous 18 congressionally mandated audits your office has performed and appreciate the effort you and your staff put forth.

We are pleased that this report reflects the fact that LMDC *"disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under the HUD-approved partial action plans and applicable laws and regulations"* and that there are no findings or recommendations to report. LMDC has and will continue to work conscientiously to insure Disaster Recovery Assistance funds are disbursed in accordance with approved action plans and only for eligible HUD-approved expenses.

Respectfully,

A handwritten signature in blue ink, appearing to read "Daniel A. Ciniello".

Daniel A. Ciniello
Senior Vice President
Lower Manhattan Development Corporation

Appendix B

Schedule of Disbursements as of March 31, 2014

Program	Budget as of Mar. 31, 2014	Audit period disbursement Apr. 1, 2013 – Mar. 31, 2014 ⁴	Cumulative disbursement as of Mar. 31, 2014	Balance remaining as of Mar. 31, 2014
Business Recovery Program	\$218,946,000	0	\$218,750,393	\$195,607
Job Creation & Attraction Program	143,000,000	(560,740)	106,659,401	36,340,599
Small Firm Attraction & Retention	29,000,000	0	27,625,391	1,374,609
Residential Grant Program	236,180,809	0	236,057,064	123,745
Employment Training Assistance	346,000	0	337,771	8,229
Interim Memorial	309,969	0	309,969	0
Columbus Park Pavilion	998,571	0	767,406	231,165
History & Heritage Marketing	4,612,619	0	4,612,619	0
Downtown Alliance Streetscape	4,000,000	0	4,000,000	0
NYSE [New York Stock Exchange] Security Improvements	25,255,000	7,871,262	20,264,136	4,990,864
Parks & Open Spaces	46,981,689	8,453,581	28,625,960	18,355,729
Hudson River Park Improvement	72,600,000	0	72,600,000	0
West Street Pedestrian Connection	22,955,811	750,041	21,492,152	1,463,659
LM [Lower Manhattan] Communication Outreach	1,000,000	0	1,000,000	0
Chinatown Tourism Marketing	1,160,000	0	1,159,835	165
Lower Manhattan Public Information Plan	2,570,000	760,165	2,512,556	57,444
WTC [World Trade	714,953,783	22,435,629	649,472,382	65,481,401

⁴ Negative amounts represent recoveries to the program.

Program	Budget as of Mar. 31, 2014	Audit period disbursement Apr. 1, 2013 – Mar. 31, 2014 ⁴	Cumulative disbursement as of Mar. 31, 2014	Balance remaining as of Mar. 31, 2014
Center] Site				
Lower Manhattan Tourism Programs	3,950,000	0	3,950,000	0
East River Waterfront	163,000,000	48,922,836	105,391,786	57,608,214
Lower Manhattan Street Management	9,000,000	0	8,324,375	675,625
East Side K-8 School	23,000,000	0	22,998,703	1,297
Fiterman Hall	15,000,000	5,071,230	15,000,000	0
Chinatown Local Development Corporation (LDC)	7,000,000	99,794	5,367,394	1,632,606
Lower Manhattan Business Expansion	4,000,000	0	0	4,000,000
Lower Manhattan Housing	54,000,000	2,000,000	30,200,000	23,800,000
Lower Manhattan Public Service Programs	7,891,900	33,076	7,402,521	489,379
Planning & Administration	115,247,005	\$2,631,393	105,675,459	9,571,546
Community & Cultural Enhancements	87,855,844	8,605,883	68,635,771	19,220,073
Drawing Center	2,000,000	0	2,000,000	0
Fulton Corridor Revitalization	35,000,000	5,821,893	13,993,043	21,006,957
Economic Development	6,775,000	630,266	4,897,866	1,877,134
Transportation Improvements	15,835,000	10,795	157,654	15,677,346
Education – Other	3,000,000	0	3,000,000	0
Utility Restoration and Infrastructure Rebuilding	483,382,087	0	483,382,087	0
Disproportionate Loss	33,000,000	0	32,999,997	3
Other World Trade Center Area Improvements	189,192,913	968,578	34,961,557	154,231,356
Total	\$2,783,000,000	\$114,505,682	\$2,344,585,248	\$438,414,752