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

Community Development Block Grant, Disaster Recovery Assistance, New York Rising Housing Recovery Program

Office of Audit, Region 2
New York – New Jersey

Audit Report Number: 2015-NY-1011
September 17, 2015

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

//SIGNED//
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Regional Inspector General for Audit, 2AGA

Subject: Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs

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 New York State Governor's Office of Storm Recovery's administration of its New York Rising Housing Recovery Program.

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

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

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

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Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs

Highlights

What We Audited and Why

We audited the New York State Community Development Block Grant Disaster Recovery (CDBG-DR) assistance-funded New York Rising Housing Recovery Program to address the Disaster Relief Appropriations Act requirement that the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, monitor the expenditure of CDBG-DR funds. State officials allocated more than $1 billion in CDBG-DR funds to the Housing Recovery Program, of which $621 million had been obligated and more than $600 million had been disbursed as of March 31, 2015. The objective of the audit was to determine whether State officials established and maintained adequate controls to ensure that CDBG-DR funds were disbursed for eligible activities and allowable costs and properly reported in compliance with regulations.

What We Found

Weaknesses in program controls did not always ensure that CDBG-DR funds were disbursed for eligible costs, ineligible awards could be recovered, procurement activity was executed or reported as required, and disbursements were properly reported. Specifically, (1) funds were disbursed for ineligible and unsupported costs, (2) disbursements were made before recipients executed grant agreements, (3) procedures were not implemented to recapture funds disbursed for ineligible costs, (4) procurement of construction management and environmental review services did not comply with Federal and State requirements, (5) national objectives were inadequately classified and reported, and (6) assistance payments were made without receipts.

What We Recommend

We recommend that HUD direct State officials to (1) repay the program more than $2.2 million in CDBG-DR funds disbursed for ineligible costs, (2) provide documentation for $119,124 in unsupported disbursements and the reasonableness of the cost figure used to disburse more than $55.6 million for reconstruction costs, (3) strengthen controls to ensure that grant agreements are signed before checks are disbursed to recipients, (4) implement procedures to recapture ineligible CDBG-DR funds disbursed, (5) provide documentation showing that the $127.2 million contract for construction management and environmental review services was fair and reasonable, (6) strengthen controls to ensure that national objectives are adequately classified and reported and (7) require receipts for completed work to ensure that more than $241.2 million will be put to its intended use.

Table of Contents

Background and Objective

In response to Hurricane Sandy, in October 2012, Congress made available $16 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) assistance funds through the Disaster Relief Appropriations Act of 2013, Public Law 113-2, January 29, 2013. This funding was for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974, these disaster relief funds were intended for the most impacted and distressed areas affected by Hurricane Sandy and other declared major disaster events that occurred during calendar years 2011, 2012, and 2013.

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

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

HUD published a supplemental allocation of $5.1 billion through 78 FR 69104 (November 18, 2013), of which almost $2.1 billion was allocated to the State. To date, the State has received more than $3.8 billion in CDBG-DR funds and obtained HUD's approval for eight amendments to its partial action plan.

The New York Rising Housing Recovery Program, one of six housing assistance programs approved in the initial partial action plan, was designed to help homeowners impacted by the storms to rebuild and repair their homes by providing funds to reimburse approved completed reconstruction and repairs, pay for approved reconstruction or repairs, and provide interim

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

mortgage assistance. Assistance was to be provided for unmet reconstruction or repair needs after accounting for all Federal, State, or local government and private sources of disaster-related assistance. Assistance for repair or reconstruction costs was limited to $300,000, with a potential additional amount of $50,000 each for low- or moderate-income homeowners or for home elevation of properties substantially damaged and within the 100-year floodplain.

When a homeowner eligible to receive assistance incurred costs to reconstruct or repair a home before applying for the program, the amount to be reimbursed was based on an assessment of the homeowner's property damage and inspection of the repairs that were completed. An inspector observed the work that was accomplished, and estimated costs were then assigned using a standardized pricing software. This estimate served as the initial award, subject to reduction by any other funding assistance for which the homeowner would be reimbursed. Similar procedures were used when a homeowner received approval for assistance with reconstruction or repairs that needed to be done. Specifically, an inspector observed the damage and then developed an estimate of the costs required to make necessary repairs. This estimate was made using a standardized pricing software or a $160-per-square-foot figure for reconstruction. Procedures provided for the homeowner to be given half of the award amount at the time a grant agreement was executed, with the remainder paid by State officials upon final inspection and approval of the work.

As of March 31, 2015, from more than $1 billion in CDBG-DR grant funds provided to New York Rising, State officials had obligated $621 million and disbursed more than $600 million to provide assistance to 12,634 homeowners.

The audit objective was to determine whether State officials established and maintained adequate controls to ensure that CDBG-DR funds were disbursed for eligible activities and allowable costs and properly reported in compliance with regulations.

Results of Audit

Finding 1: Funds Were Disbursed for Ineligible and Unsupported Costs

State officials disbursed CDBG-DR funds for ineligible and inadequately supported costs. Specifically, more than $2.2 million was disbursed for ineligible costs, and $119,124 was disbursed for unsupported costs. In addition, documentation was inadequate to support the use of a statewide per-square-foot cost to calculate home reconstruction costs. We attributed these conditions to weaknesses in controls over award calculation, maintenance of file documentation, and the methodology used to develop the square-foot cost figure. As a result, State officials did not have assurance that CDBG-DR funds were always disbursed for eligible costs.

CDBG-DR Funds Disbursed for Ineligible Assistance

State officials approved grants of more than $3.1 million, from which ineligible costs of more than $2.2 million were disbursed to 24 of the 53 assisted homeowners reviewed. The Stafford Act,[2] and 76 FR 71061 (November 16, 2011), requires grantees to ensure that assistance is provided to a person having the need for disaster recovery assistance only to the extent to which this need was not fully met by other assistance. This requirement prevents duplication of disaster recovery benefits. Further, 76 FR 71062 (November 16, 2011) states that other assistance will include all available benefits, via insurance, the Federal Emergency Management Agency (FEMA); the Small Business Administration (SBA); other local, State, or Federal programs; and private or nonprofit charity organizations.

To derive a homeowner's unmet need, Federal regulations and the State's implementing policy require that the amount of CDBG-DR funding issued to a homeowner be determined by deducting other assistance received through documented eligible repair or reconstruction costs. However, as shown in appendixes C and D, the unmet need was not correctly calculated for 20 homeowners who received assistance in excess of their unmet need. We attributed this condition to State officials' not properly recognizing other disaster assistance and inadequately maintaining file documentation to support award calculations. Overall, this error resulted in the award of more than $2.7 million, of which more than $1.8 million was disbursed for ineligible costs, with a remaining undisbursed amount of $884,542.

Recipient	Overpaid amount	Over-awarded amount
1	$40,471	$89,171
2	184,293	

[2] Section 312 of the Stafford Act prohibits receiving assistance for any part of a loss for which financial assistance has been received under any other program or from insurance or any other source.

Recipient	Overpaid amount	Over-awarded amount
3	64,718	
4	224,787	
5		9,921
6		96,904
7	271,823	47,564
8	68,046	
9	198,042	
10	215,000	185,000
11	87,597	87,598
12	47,449	22,448
13	20,533	135,000
14	22,984	
15	29,864	59,530
16	92,390	92,390
17		59,016
18	47,846	
19	250,000	
20	12,000	
Totals	**$1,877,843**	**$884,542**

In addition, contrary to the State's partial action plan and program policy, four homeowners received assistance for properties that were not their primary residence. State officials agreed that these recipients were not eligible for the assistance received. As a result, they stated that they would take action to ensure that one homeowner repays the ineligible assistance and three homeowners are transferred to the rental program[3] since they have eligible rental property. We attributed these conditions to internal control weaknesses as there were insufficient controls in place to ensure that assistance was provided only to owners of properties that were their primary residence during the storm. These weaknesses resulted in the awarding of $378,511 and disbursement of $351,391 for ineligible costs, with $27,120 not disbursed.

CDBG-DR Funds Disbursed for Inadequately Supported Costs

State officials disbursed $119,124 in CDBG-DR funds in 3 of 53 case files reviewed without adequate support that the assistance was for an eligible cost or properly calculated. Specifically,

- Two recipients received $114,287 in flood insurance for damage caused by Hurricane Irene and claimed that their properties were damaged by both Irene and Sandy when they applied for CDBG-DR assistance. However, in determining duplication of benefits, State officials excluded flood insurance proceeds, and all damage observed by the inspectors was attributed to Sandy, thus potentially overstating the unmet need. Section 312 of the Stafford Act requires any program providing financial assistance to a person suffering loss resulting from a major disaster or emergency to ensure that financial assistance was

[3] Rental properties will be assisted under multifamily housing programs.

not provided under any other program, source, or insurance benefit. This condition occurred because State officials did not implement procedures to identify which storm caused damages and assumed that damages were caused by the most recent storm. Therefore, when calculating the unmet need, they considered benefits received for only the most recent storm as a duplication of benefits. As a result, CDBG-DR funds may have been used to fund costs that were assisted with flood insurance proceeds.

- One recipient was awarded $4,837 and received $2,418 in CDBG-DR funds to upgrade electrical service; however, the upgrade was not accomplished, and the recipient returned the funds disbursed. The State later disbursed an additional $4,837 to the same recipient without documentation showing need. The Stafford Act, 76 FR 71061 (November 16, 2011) requires grantees to ensure that each program provides assistance to a person only to the extent the person has an unmet disaster recovery need.

We attributed these deficiencies to a lack of adequate controls to ensure that documents are maintained to support CDBG-DR funds disbursed and State officials' desire to quickly assist homeowners. As a result, the State could not ensure that CDBG-DR funds were always disbursed for eligible costs.

Inadequate Documentation To Support the Cost Rate Used for Reconstruction

As of May 1, 2015, more than $87.5 million in disaster funds had been awarded for reconstruction. State officials determined that reconstruction costs would be awarded based upon a statewide average construction cost of $160 per square foot. However, there was no documentation showing the method of calculation used to determine this square-foot construction cost. In accordance with 2 CFR (Code of Federal Regulations) Part 225, appendix A, there must be adequate supporting documentation for any disbursement of funds for these costs. In an interview with State officials in September 2014, they claimed that the statewide cost of $160 per square foot was based on estimates obtained and consolidated from several construction companies. However, they could not provide supporting documentation. Several months later, they provided this documentation, but the study was conducted by an out-of-State consulting firm with a current date of November 17, 2014. Additionally, this study contained inconsistencies, and the square-foot cost for each property in the study's sample did not reconcile with the detailed breakdown of the elements comprising the cost.

On January 20, 2015, State officials provided an additional study, dated December 19, 2014. It was conducted by the same consulting firm and used a different methodology. Specifically, it assumed a higher markup rate,[4] resulting in an average statewide cost of $155, and unlike the prior study, it concluded that the cost of reconstruction on Long Island was higher than in other parts of the State. When questioned about the differences between the two studies, State officials concluded that both studies were flawed and produced two additional studies completed by other

[4] The original consulting firm study applied a rate of 25.4 percent for general contractor overhead and profit. The rate was increased to 36.89 percent in the revised study.

consulting firms, dated January 16 and January 20, 2015. Both studies were questionable regarding their adequacy to support a statewide figure. For example, one study reported a statewide cost of $164 based upon a reported sample of 70 properties in New York; however, most of these properties were located in New Jersey. The second study concluded that the average reconstruction costs in Suffolk, Nassau, and upstate counties were $165, $168, and $139 per square foot, respectively. Also, use of a statewide $160-per-square-foot cost remained unsupported. We attributed this deficiency to a lack of monitoring of the contractors that prepared the cost studies and State officials' desire to quickly disburse funds to homeowners. As a result, the State could not ensure that more than $55.6 million disbursed from the more than $87.5 million in disaster funds was for necessary and reasonable reconstruction costs or that the remaining undisbursed amount of more than $31.8 million would be put to its intended use.

Conclusion

State officials did not establish adequate controls to ensure that CDBG-DR funds were awarded and disbursed for eligible costs. We attributed this condition to insufficient controls over award calculations, a lack of documentation supporting the methodology used to calculate square-foot costs, and the desire to quickly disburse funds to homeowners. As a result, more than $2.2 million in CDBG-DR funds was disbursed for ineligible costs and $119,124 for unsupported costs. Additionally, the use of a statewide cost figure, by which more than $87.5 million was awarded, was unsupported.

Recommendations

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

1A. Reimburse the line of credit for $2,229,234, which was disbursed to program recipients for ineligible costs.

1B. Deobligate the undisbursed amount of $911,662 to ensure that the funds will be put to their intended use.

1C. Strengthen controls over determining the eligibility of award recipients and substantiate award calculations to ensure that costs charged to the CDBG-DR program are eligible.

1D. Provide adequate documentation to support $119,124 in CDBG-DR funds that was disbursed to three recipients. If any amount cannot be adequately supported, it should be repaid to the State's line of credit.

1E. Strengthen controls over the maintenance of documentation to provide greater assurance that disbursed funds are adequately supported.

1F. Provide adequate documentation for the reasonableness of the cost figure used to disburse $55,672,982 for reconstruction costs. Any amount not adequately supported should be repaid to the State's line of credit.

1G. Provide adequate documentation for the reasonableness of the cost figure used for reconstruction costs, thus ensuring that the undisbursed award balance of $31,831,316 is put to its intended use.

1H. Document the amount paid for the flawed studies used to support the $160-per-square-foot cost figure and take action to recoup the amount paid, thus ensuring that this amount will be available for other eligible costs.

Finding 2: Weaknesses Existed in Program Administrative and Reporting Procedures

Administrative and reporting procedures could be improved. State officials did not always (1) execute grant agreements before disbursing funds, (2) implement adequate procedures to recapture funds disbursed for ineligible costs, (3) classify and report national objective(s), (4) ensure that second homes would not be assisted, (5) require recipients to provide receipts for the amount spent, and (6) ensure that contracts were adequately reported on their public Web site. We attributed these conditions to officials' desire to quickly assist homeowners, not ensuring that grant agreements were signed before disbursing funds, failure to implement recapture procedures, and lack of familiarity with Federal reporting requirements. As a result, State officials did not adequately ensure that funds were disbursed for allowable costs, ineligible costs could be recaptured, and HUD and the public were provided accurate information on grant accomplishments.

Disbursements Made Before Grant Agreements Were Executed

The State's Intelligrants System[5] showed that State officials disbursed more than $2.4 million in CDBG-DR funds in 16 of 32 recipient case files reviewed. These funds were disbursed before grant agreements were executed with the recipients. Section 3.16 of the State's Homeowner Policy Manual requires that homeowners sign a grant agreement before depositing funding received from the program. Section 3.19 requires that projects be completed within 12 months of signing the grant agreement. State officials initially said that the check disbursement date was recorded in the check disbursed date field of the Intelligrants System. However, they later stated that the check disbursed date field was the date on which a grant agreement was emailed to applicants. They changed the dates recorded in the check disbursed date field to reflect that CDBG-DR funds were disbursed after grant agreements were signed. However, as shown in the table below, a review of the Intelligrants System communication log and revised check disbursed date field showed that $805,243 in CDBG-DR funds was disbursed and cleared to four recipients before a grant agreement was signed and in place and $272,236 was disbursed and cleared to two recipients who had not executed a grant agreement. Further, in all six cases, the checks had cleared the bank before a grant agreement was signed.

Recipient	Date check disbursed	Date check cleared	Date grant agreement signed
1	04/08/2014	05/06/2014	08/30/2014
2	04/18/2014 04/25/2014	04/22/2014 04/29/2014	07/13/2014 07/13/2014
3	01/13/2014	01/31/2014	03/04/2014
4	12/23/2013	01/08/2014	01/20/2014
5	12/28/2013	01/06/2014	Not signed
6	03/26/2014	03/27/2014	Not signed

[5] Intelligrants System is the record-keeping system used by the State for New York Rising.

We attributed this deficiency to State officials' desire to quickly assist homeowners. As a result, State officials could not ensure that they could enforce grant requirements, work would be completed within 12 months, and they could recover funds that may have been disbursed for ineligible activities or costs.

Inadequate Procedures To Recapture Funds

State officials had not implemented adequate procedures to recapture funds disbursed for ineligible costs. Regulations at 24 CFR 85.20(b) (5) require that Federal funds be used for allowable costs in accordance with agency program regulations. Further, 78 FR 14329 (March 5, 2013) provides that CDBG-DR funds should be used to meet unmet housing and economic revitalization needs. In addition, the State's Homeowner Procedure Manual (August 6, 2014) provides procedures for recovering funds disbursed to homeowners for ineligible costs. However, State officials did not implement these recapture procedures. As a result, adequate actions were not taken to recapture funds disbursed for ineligible costs in six of the cases we identified. For example, while $224,787 was disbursed to a recipient in December 2013 for ineligible costs, officials had not notified the recipient to repay these funds. In another case, a recipient contacted the State in April 2014 to return unused funds; however, the recipient was told not to do so as recapture procedures were not in place.

In September 2014, after State officials were informed of these cases, they responded that they were drafting procedures and had started a recapture pilot program to be completed by January 2015. However, we later noted that the only action taken under the recapture pilot program was to send notices to those homeowners who had already received funds that they needed to sign grant agreements. State officials had not taken action to recapture these ineligible disbursed funds. As of March 25, 2015, State officials said that they were drafting recapture procedures. We attributed this condition to officials' failure to develop procedures to implement the State's policy for recapturing funds. As a result, $616,650[6] disbursed to six ineligible recipients was not available for other eligible purposes.

National Objectives Inaccurately Classified and Reported

Requirements of 78 FR 14336 (March 5, 2013) provide that at least 50 percent of each CDBG-DR grant must be used for activities that benefit low- and moderate-income persons, which is one of the CDBG national objectives. However, State officials did not always adequately classify and report assistance provided to ensure that it met the national objective. A review of two recipient case files lacked evidence to verify that recipients were qualified as low and moderate income. We attributed this condition to a lack of adequate controls to ensure that national objectives were classified and reported correctly. As a result, State officials could not assure HUD of the reliability of the beneficiary data reported to determine if 50 percent of the CDBG-DR funds would benefit low- and moderate-income persons.

[6] This amount is reported as an ineligible disbursement in finding 1.

Existence of Second Homes Not Always Adequately Verified

State officials had not established adequate controls to ensure that disaster assistance was not provided for second homes. 78 FR 14345 (March 5, 2013) provides that a second home, as defined by Internal Revenue Service Publication 936,[7] is not eligible for rehabilitation assistance, residential incentives, or the buyout program, and State officials included this prohibition in their policy. Section 3.3.5 of the State's Homeowner Policy Manual cites use of several documents to assist in determining whether a property is a homeowner's primary residence, which include a FEMA or insurance letter, a school tax relief exemption, a Federal or State income tax return, government-issued identification (including a driver's license), a vehicle registration or certificate of title issued for a vehicle, utility bills, and other qualified documents. However, in 2 of 32 cases reviewed, documentation was insufficient for determining whether disaster assistance was provided only to primary residences and not second homes. For example, a husband and wife received $317,770[8] for a property they claimed as their primary residence; however, their driver's licenses and tax returns reported a different address as their primary residence. Their file did not contain documentation to support which address was determined to be the primary residence. When informed of the discrepancy, State officials verified and obtained additional documentation to adequately conclude that the property was the homeowner's primary residence. In another instance, the tax return for a recipient awarded $350,000[9] showed that the property was not the primary residence of the recipient during the storm. State officials agreed that the property was a non-owner-occupied rental property and agreed to recapture the $322,880 disbursed to the homeowner. We attributed these conditions to internal control weaknesses in ensuring that assistance was not provided to properties that were second homes or other than primary residences at the time of the storm.

Assistance Payments Made Without Receipts for Amounts Spent

Homeowners provided CDBG-DR assistance were not required to provide receipts for work completed or invoices, contracts, or receipts for costs incurred for work authorized. Also, the inspector did not verify amounts paid. The Disaster Relief Appropriations Act of 2013 requires that CDBG-DR funds be used only for specific disaster-related purposes. Guidance contained in 2 CFR Part 225, Appendix A, Cost Principles for State, Local and Indian Tribal Governments, section (C)(1)(a), requires that costs charged to Federal programs be necessary and reasonable. Further, Office of Community Planning and Development (CPD) Notice CPD-14-017,[10] section

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[7] Internal Revenue Service Publication 936 defines a main home as a home where one ordinarily lives a majority of the time and a second home as a home that one chooses to treat as a second home. IRS Publication 936 further defines a second home as a second home not rented out at any time during the year, regardless if it is used by the household or not, and a home that is rented out part of the year and used by the owner more than 14 days or more than 10 percent of the number of days during the year that the home is rented.

[8] In finding 1, $250,000 is reported as an ineligible disbursement. The State provided CDBG-DR assistance to the homeowner for repair costs due to Hurricane Irene when costs were already assisted by the National Flood Insurance Program.

[9] In finding 1, $322,880 is reported as an ineligible disbursement. The remaining $27,120 is funds put to better use.

[10] Notice CPD-14-017 is entitled Guidance for Charging Pre-Award Costs of Homeowners, Businesses, and Other Qualifying Entities to CDBG Disaster Recovery Grants.

B, requires that costs be adequately documented, and 24 CFR 85.20(b)(6) requires that accounting records be supported by source documents, such as canceled checks, paid bills, payroll and attendance records, contracts, and subgrant award documents. However, State officials awarded homeowners assistance based upon an inspection, during which they estimated costs that had been incurred or funds that were needed to complete reconstruction or when rehabilitation or repairs had been made. We attributed this condition to State officials' desire to quickly assist homeowners and dismissing the administrative burden of requiring receipts.

When a homeowner incurred costs before applying for the program, the amount reimbursed was determined by an inspector, who observed the work that was accomplished. The inspector later assigned estimated costs to the work by using either a standardized pricing software for repair cost or the $160-per-square-foot figure for reconstruction cost. For reconstruction awards, recipients were also provided a demolition amount of $5,000 and an extraordinary site condition[11] award of $25,000. Section 3.4 of the State's Homeowner Policy Manual states that to retain the $25,000 for extraordinary site conditions, applicants must complete and submit an extraordinary site condition form. However, receipts were not required for the work performed. The total estimate served as the initial award, subject to reduction by other assistance, for which the homeowner was reimbursed.

Similar procedures were used when assistance was approved for a homeowner for reconstruction or repairs that needed to be done. Specifically, an inspector would observe the damage and develop an estimate of the costs of necessary repairs using a standardized pricing software. Upon completion of the work, the work was inspected to ensure that it was consistent with the approved work. Homeowners did not need to provide receipts.

As of May 1, 2015, State officials had awarded more than $630 million for completed work and work authorized. They could not ensure that CDBG-DR funds were always used for their intended purpose. While the estimating process used by the State may represent an acceptable method of determining fair and reasonable costs when source documentation of actual costs is not available, it was not acceptable when invoices, receipts, and contracts could be available to verify costs. FEMA[12] requires documentation of costs incurred to receive disaster assistance, and the State of New Jersey[13] requires source documents for costs reimbursed by its CDBG-DR

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[11] An extraordinary site condition award was provided for conditions such as land that had a slope of more than a 7 percent grade, soil that required a non-typical foundation, excavation required, limited access to the site, and sprinklers or construction protections required.

[12] FEMA's Applicant's Guide to the Individuals and Household Program requires recipients to maintain receipts or bills for 3 years to demonstrate how funds received were used in meeting disaster-related need.

[13] New Jersey's Reconstruction, Rehabilitation, Elevation, and Mitigation program requires that before a homeowner's request for additional grant funds can be awarded, proof of work completed is required. This proof may include bills, invoices, and pictures of construction progress.

grant. Requiring homeowners to provide documentation for costs incurred would help ensure that more than $240 million[14] in program funding would be used for eligible costs.

Contracts Not Properly Reported on the Public Web Site

For inspection management and environmental services, the State's CDBG-DR Web site did not include contractors and contract amounts awarded by its subrecipient. According to 79 FR 40134 (July 11, 2014), the State is required to post a summary of all procured contracts to its Web site, to include those by the grantee, recipients, or subrecipients. After being informed of this deficiency, State officials posted the required summary report of contracts to the State's Web site during March 2015, but the information contained errors. For example, while the contract price awarded to one contractor was more than $8.9 million, it was reported as more than $6.9 million; and work auhorizations were awarded to another contractor for more than $8.4 million but was reported as $7 million. Officials stated that they were not familiar with applicable guidance and thought they needed to report only contracts procured directly. As a result, the public and HUD were not fully aware of the amount of CDBG-DR funds spent.

Conclusion

Weaknesses in State administrative and reporting procedures lessened assurance that funds were always properly disbursed and reported. Specifically, these weaknesses caused (1) disbursements to be made before grant agreements were executed, (2) procedures to recapture ineligible disbursed CDBG-DR funds not to be implemented, (3) national objectives to not always be accurately classified and reported, (4) the existence of second homes to not always be adequately verified, (5) assistance payments to be made without receipts for the amount spent, and (6) contracts to not be properly reported on the State's public Web site. This condition occurred due to officials' desire to quickly assist impacted homeowners, not ensuring that grant agreements were signed before disbursing funds, failure to implement recapture procedures, and lack of familiarity with Federal regulations.

Recommendations

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

2A. Strengthen controls to ensure that grant agreements are signed before checks are disbursed to homeowner recipients, thus providing greater assurance that State officials can enforce grant provisions.

2B. Establish and implement procedures to recapture ineligible disbursements to provide greater assurance that funds disbursed for ineligible activities and costs are promptly recovered.

[14] The homeowners were awarded more than $273.1 million, of which more than $31.8 million was for reconstruction purposes and reported as funds to be put to better use in finding 1.

2C. Properly document the low- and moderate-income status of the two homeowners whose status was improperly reported.

2D. Strengthen controls over classifying assisted homeowners as low and moderate income to ensure that CDBG-DR national objectives are accurately reported.

2E. Strengthen controls over the verification of recipient eligibility to ensure that CDBG-DR funds are not used to assist second homes.

2F. Require recipients to provide receipts that support completed reconstruction and repair work to provide greater assurance that assistance is for eligible, reasonable, and necessary costs, thus ensuring that $241,292,921, which has not been disbursed, will be put to its intended use.

2G. Strengthen controls to ensure that all required contracts and amounts are accurately reported on its Web site.

Finding 3: Procurement Actions Did Not Always Comply With Federal and State Requirements

State officials did not always comply with Federal and State procurement requirements when obtaining inspection-related construction management and environmental review services. Specifically, they selected contractors without considering price and ensuring adequate competition, and work authorizations inadequately documented the scope of work and cost basis. We attributed these deficiencies to State officials' lack of familiarity with Federal procurement regulations, the fact that the State's procurement policies did not comply with Federal regulations, and inadequate internal controls to ensure compliance with the subrecipient agreement. As a result, State officials lacked assurance that they received the most competitive value for construction management and environmental review services.

Price and Adequate Competition Not Considered When Procuring Contractors

State officials procured inspection-related construction management and environmental review services without considering price and ensuring adequate competition as required by Federal and State procurement regulations. Before the CDBG-DR grant was executed, in August of 2012, the Dormitory Authority of the State of New York (DASNY), another State agency, selected 7 contractors from among 33 firms in accordance with its own procurement standards. These standards were based upon qualification factors with subsequent negotiation of hourly labor costs for various positions and overhead and profit multipliers. However, regulations at 24 CFR 85.36(d)(3) and section 302(1)(f) of HTFC's procurement policy provide that only architectural or engineering professional service contractors may be selected on the basis of qualification without regard to price. In addition, HUD CDBG procurement guidelines in Basically CDBG, dated July 2012, require that the full request for proposal method[15] be used if an architectural or engineering firm is hired to provide nonarchitectural or nonengineering services. Further, it specifically provides that construction and grant management services are not considered architectural or engineering services. Therefore, since the scope of work in DASNY's term contracts and task orders paid with CDBG-DR funds did not include architectural or engineering services, using the qualification-only procurement, without considering cost, did not comply with Federal and State regulations.

These contractors were to provide full construction management services[16] on an on-call basis for statewide projects having either a construction value of less than $10 million or technical support services[17] that included inspection management services for various projects regardless of construction value. In August 2013, HTFC officials executed a subrecipient agreement with

[15] Under the request for proposal method, both qualifications and price factors should be considered when evaluating proposing firms.

[16] Full construction management services include cost estimating, scheduling and coordination, progress updating and reporting, administering, reviewing, testing and inspection, quality controls, and general administration during the design and construction phase of a project.

[17] Technical support services included scheduling, inspection, office support, and other supportive services listed in work authorizations.

DASNY to provide, either directly or through that agency's subrecipients or subcontractors, inspection-related construction management services for a total amount not to exceed $10 million. The subreceipient agreement was amended six times, and the total budget had increased from $10 million to $127.2 million as of October, 2014. However, neither HTFC nor DASNY conducted a cost analysis or independent cost estimate for the inspection-related construction management and environmental review services. Regulations at 24 CFR 85.36(f)(1) require that grantees and subgrantees perform a cost or price analysis for all procurement actions, to include any contract modifications. Independent estimates are to be made by grantees and subgrantees before solicitiation or before receiving bids or proposals. We attributed these conditions to State officials' lack of familiarity and HTFC's and DASNY's procurement policies not complying with regulations at 24 CFR 85.36.[18] As a result, officials could not ensure that the $82 million obligated as of May 2015 for construction management and environmental review services and the estimated costs in work authorizations were fair and reasonable.

Additionally, while the subrecipient agreement specified that procurement of all materials, property, or services be "in accordance with the requirements in 24 CFR 85.36 and FR 5696-01 (March 5, 2013)," contrary to Federal and State procurement regulations, price factors were not considered when selecting the contractors to provide inspection-related construction management services. The subrecipient agreement further stated that the scope and terms of work should be documented through task orders. On September 23, 2013, and in accordance with the subrecipient agreement, a work authorization was issued to one of the seven contractors to conduct inspection management services. Later, nine more work authorizations were issued to the same contractor, three work authorizations were issued to a second contractor, and one work authorization was issued to a third contractor for inspection management services. The combined cost of the 14 work authorizations was more than $69 million.

In February 2014, State officials applied the same methodology to procure environmental review services. During October 2010, the other State agency completed a solicitation of environmental review services in which it selected 9 contractors solely based on qualification from 21 firms that responded, and subsequently negotiated hourly labor costs for various positions and overhead and profit multipliers. The selection was later narrowed to two of the nine contractors for Sandy work, to which the agency awarded four work authorizations for more than $12.6 million. Its choice of the two contractors was again based on the qualification-only method, with later re-negotiations over hourly labor costs and overhead and profit multipliers. Federal regulations and State guidance require that each proposal price be factored into the selection process for environmental review services. However, according to their own procurement standards, DASNY officials said that they could select the nine contractors based solely on quality characteristics and award the work to any of these nine contractors. Therefore, their choice of the two contractors was based on their having performed inspection-related construction management services, although they were not the most qualified and ranked fourth and ninth

[18] Federal Register Notice 78 FR 14336 (March 5, 2013) required the State to either adopt procurement standards in 24 CFR 85.36 or have equivalent procurement processes and standards.

among the contractors. This selection process may have limited the competition by favoring firms that already worked for the agency, rather than considering price and qualification factors.

Scope of Work and Cost Basis Not Adequately Documented in Work Authorizations

Work authorizations for the inspection-related construction management and environmental review services did not always specify the service to be delivered, such as the number of inspections and reviews to be conducted, and how total estimated costs were calculated. DASNY's contracts for construction management and environmental review services listed hourly rates to be charged for specific job positions. However, there were no estimates for the number of labor hours expected or a maximum contract price. State officials explained that a contract price was not specified since DASNY had many clients that each required various work tasks to be performed. Also, since selection was based solely on qualifications, the contractors chosen were not required to submit competing cost proposals. Accordingly, the subrecipient agreement between the State and DASNY stated that work authorizations would be used to procure services. These work authorizations were to specify the number of inspections to be completed and hourly rate for specific job positions and be calculated on a time and material basis.

However, as shown in the table below, 17 of 18 work authorizations executed as of May 2015 did not show the estimated time, material, or per unit cost. Further, 11 of the 17 work authorizations also lacked the quantity of services to be delivered. We attributed this condition to State officials' lack of familiarity with Federal procurement regulations and weaknesses in monitoring the execution of the subrecipient agreement. As a result, HUD and the State could not ensure that nearly $82 million proposed in the 18 work authorizations, of which $69 million had been disbursed, was necessary and reasonable.

Date of work authorizations	Cost	Tasks	Number of deliverables missing	Estimated time & material cost or per unit cost not specified
Inspection-related construction management services				
09/23/2013	$5,027,614	1,650 inspections		X
10/28/2013	5,170,924	1,950 inspections		X
12/24/2013	4,556,462	Inspection management	X	X
02/03/2014	421,169	Job training-staff support	X	X
02/07/2014	17,445,375	Inspection management	X	X
05/09/2014	2,066,601	Inspection management	X	X
05/12/2014	750,000	Job training-staff support	X	X
07/03/2014	11,879,277	Inspection management	X	X
08/12/2014	3,600,000	Inspection management	X	X
08/12/2014	742,320	Job training-staff support	X	X
10/04/2013	4,660,147	1,800 inspections		X
10/28/2013	3,482,735	2,608 inspections		X
02/18/2014	260,000	Information technology services	X	X
10/21/2013	8,970,444	1,700 inspections		X

Date of work authorizations	Cost	Tasks	Number of deliverables missing	Estimated time & material cost or per unit cost not specified
Environmental review services				
02/21/2014	3,000,000	Environmental review	X	X
05/16/2014	5,285,300	6,164 reviews		X
08/29/2014	3,780,000	Environmental review	X	X
02/21/2014	553,000	1,520 reviews		
Totals	**$81,651,368**		**11**	**17**

Conclusion

State officials lacked assurance that they received the most competitive value for the $127.2 million budgeted for construction management and environmental review services, of which $69 million had been disbursed to contractors. This condition occurred because State officials were not familiar with Federal procurement regulations, HTFC's and DASNY's procurement policies did not comply with regulations at 24 CFR 85.36, and controls were inadequate to ensure compliance with a subrecipient agreement.

Recommendations

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

3A. Provide documentation showing that the $127.2 million budgeted for inspection-related construction management and environmental review services is fair and reasonable in accordance with a cost or price analysis as required by regulations at 24 CFR 85.36.

3B. Strengthen controls over work authorization documentation to ensure that information on deliverables and unit cost is provided.

Scope and Methodology

The audit focused on whether State officials established and maintained adequate controls to ensure that CDBG-DR funds were disbursed for eligible activities and allowable costs and properly reported in compliance with regulations. We performed audit fieldwork from June 2014 to March 2015 at the State's office at 25 Beaver Street, New York, NY.

To accomplish our objective, we

- Reviewed relevant CDBG-DR program requirements and applicable Federal regulations to gain an understanding of CDBG-DR requirements.

- Interviewed State officials to gain an understanding of New York Rising.

- Obtained an understanding of the State's management controls and processes through analysis of its responses to a management control questionnaire.

- Obtained an understanding of the control environment and operations through review of the State's organizational chart for administration of its CDBG-DR grant and its CDBG-DR program policies, Homeowner Procedure Manual, Homeowner Policy Manual, and procurement policy.

- Reviewed HUD's monitoring reports related to New York Rising for the period August 2013 to August 2014 to identify deficiencies requiring corrective action.

- Reviewed quarterly performance reports related to New York Rising for the period April 2013 to June 2014 to document the amount spent and activity accomplished.

- Reviewed reports from the Disaster Recovery Grant Reporting[19] system to obtain CDBG-DR expenditure information for the period April to June 2014. Assessment of the reliability of the data in the State's systems was limited to the data sampled, which were reconciled to the auditee records.

- Reviewed the State's Web site to determine compliance with regulations relating to reporting contract information.

[19] The Disaster Recovery Grant Reporting system is used for the CDBG-DR program and other special appropriations. It is used by grantees to draw down funds, report program income, and submit their action plans.

- Reviewed quality assurance reports related to New York Rising for the period August 2013 through May 2014 to gather information on program execution.

- Reviewed the State's audited financial statements for the period ending March 31, 2014, to identify potential irregularities.

- Reviewed the State's board minutes and resolutions relating to New York Rising for the period April 2013 to July 2014.

- Selected and reviewed a sample of 20 recipient case files during the period October 2012 to June 2014, in which more than $4.7 million was disbursed, representing 2 percent of total disbursements. The sample consisted of the largest disbursement in each of the five assistance categories: repair (five cases), reconstruction (five cases), reimbursement and repair (four cases), reimbursement and reconstruction (three cases), and reimbursement (three cases).

- Analyzed the universe of assisted homeowners as of July 11, 2014, to identify potential duplicates and reviewed the 21 cases identified as potential duplicate awards.

- Selected and reviewed a sample of five recipient closed cases and seven cases that were transferred to the New York Rising Buyout and Acquisition program to test whether closeout procedures were conducted properly and duplicate benefit amounts were properly calculated when recipients received assistance from multiple programs.

The audit generally covered the period October 29, 2012, through June 30, 2014, and was extended as necessary to meet the objective of the review.

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.

- 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.

- 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.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- State officials did not implement adequate internal controls to always ensure that the program met its objectives as awards were made in excess of unmet needs (see finding 1).

- State officials did not implement adequate internal controls to always ensure that resources were used consistent with laws and regulations as (1) disbursements were made before grant agreements were executed, (2) the State lacked adequate procedures to recapture ineligible disbursed CDBG-DR funds, (3) national objectives were inadequately classified and reported, (4) the eligibility of recipients was not always adequately verified, (5) the State made assistance payments without requiring receipts for the amount spent, and (6) contracts were inadequately reported on the State's public Web site. In addition, State officials did not implement adequate internal controls to ensure that procurements always complied with Federal and State regulations and the cost of procured services was fair and reasonable (see findings 2 and 3).

- State officials did not implement adequate internal controls to ensure the validity and reliability of data as national objectives were not adequately classified and reported and contracts were inadequately reported on the State's Web site (see finding 2).

- State officials did not implement adequate internal controls to ensure that resources were always safeguarded against fraud, waste, and abuse. The State used CDBG-DR funds for ineligible and unsupported costs and did not recapture ineligible CDBG-DR funds disbursed (see 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	$2,229,234		
1B			$911,662
1D		$119,124	
1F		55,672,982	
1G			31,831,316
2F			241,292,921
3A		127,200,000	
Totals	$2,229,234	$ 182,992,106	$274,035,899

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. To ensure that the $911,662 obligated, more than $31.8 million awarded but not disbursed, and nearly $241.3 million not disbursed will be put to their intended use, HUD should implement the recommendations to (1) deobligate the $911,662 not disbursed,(2) provide adequate documentation for the reasonableness of the cost figure used to award reconstruction costs and ensure that the remaining award of more than $31 million is put to its intended use, and (3) require receipts to support the amount spent.

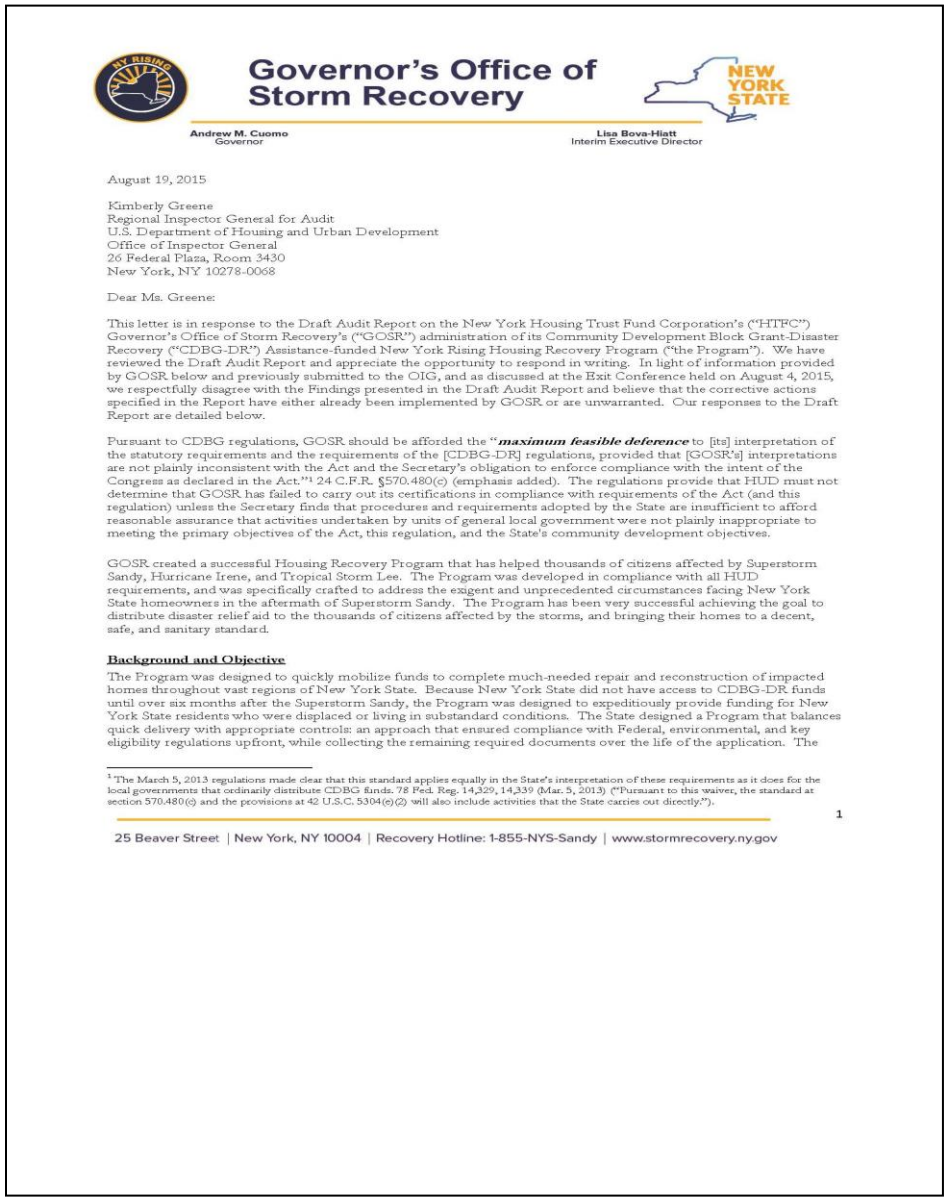
Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



Governor's Office of Storm Recovery

NEW YORK STATE

Andrew M. Cuomo
Governor

Lisa Bova-Hiatt
Interim Executive Director

August 19, 2015

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

Dear Ms. Greene:

This letter is in response to the Draft Audit Report on the New York Housing Trust Fund Corporation's ("HTFC") Governor's Office of Storm Recovery's ("GOSR") administration of its Community Development Block Grant-Disaster Recovery ("CDBG-DR") Assistance-funded New York Rising Housing Recovery Program ("the Program"). We have reviewed the Draft Audit Report and appreciate the opportunity to respond in writing. In light of information provided by GOSR below and previously submitted to the OIG, and as discussed at the Exit Conference held on August 4, 2015, we respectfully disagree with the Findings presented in the Draft Audit Report and believe that the corrective actions specified in the Report have either already been implemented by GOSR or are unwarranted. Our responses to the Draft Report are detailed below.

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

GOSR created a successful Housing Recovery Program that has helped thousands of citizens affected by Superstorm Sandy, Hurricane Irene, and Tropical Storm Lee. The Program was developed in compliance with all HUD requirements, and was specifically crafted to address the exigent and unprecedented circumstances facing New York State homeowners in the aftermath of Superstorm Sandy. The Program has been very successful achieving the goal to distribute disaster relief aid to the thousands of citizens affected by the storms, and bringing their homes to a decent, safe, and sanitary standard.

Background and Objective

The Program was designed to quickly mobilize funds to complete much-needed repair and reconstruction of impacted homes throughout vast regions of New York State. Because New York State did not have access to CDBG-DR funds until over six months after the Superstorm Sandy, the Program was designed to expeditiously provide funding for New York State residents who were displaced or living in substandard conditions. The State designed a Program that balances quick delivery with appropriate controls: an approach that ensured compliance with Federal, environmental, and key eligibility regulations upfront, while collecting the remaining required documents over the life of the application. The

[1] The March 5, 2013 regulations made clear that this standard applies equally in the State's interpretation of these requirements as it does for the local governments that ordinarily distribute CDBG funds. 78 Fed. Reg. 14,329, 14,339 (Mar. 5, 2013) ("Pursuant to this waiver, the standard at section 570.480(c) and the provisions at 42 U.S.C. 5304(e)(2) will also include activities that the State carries out directly.").

1

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awards are adjusted and reconciled at the time of any disbursement using the best available information available to the Program. This design allows the Program to get needed funds to homeowners, who then can commence repair or reconstruction while the Program collects and verifies additional documentation. This process avoids delays in the delivery of these funds, which is critical because such delays impede the recovery of homes and entire communities—a consequence that would have been unconscionable given the grave urgency of disaster recovery. This Program design has also produced tangible results. Less than six months after GOSR was established, the Program issued payments to 2,654 applicants. To date, the Program has awarded 11,471 applicants. Even more remarkably, 1,892 homeowners have completed their recovery and are pending State review to close out of the Program and receive their final payment.

The OIG recognizes that the State designed a Program geared to getting money into the hands of disaster victims as quickly as possible. *See* OIG Report, p. 7. However, rather than recognize this as an achievement, the OIG Report critiques certain aspects of the on the ground disaster recovery work. As discussed below, the State disagrees with the three Findings and recommended corrective actions contained in the OIG's Draft Report.

(1) HUD OIG Finding 1: Funds Were Disbursed for Ineligible and Unsupported Costs

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

GOSR RESPONSE: The State disagrees with this Finding. According to the OIG's "Scope and Methodology," the OIG was to "include an understanding of the control environment and operations through review of the State's organizational chart for administration of its CDBG-DR grant and its CDBG Program policies, Homeowner Procedure Manual, [and] Homeowner Policy Manual[.]" *See* OIG Report, at 20. Despite this critical component of the audit's scope and methodology, the OIG did not give sufficient credence to fundamental processes and controls regularly employed by the State to evaluate duplication of benefits (DOB) and eligibility.[2] Instead, the OIG repeatedly cites to the basic provision of the Stafford Act that prohibits DOB. However, by not sufficiently acknowledging the specific processes and controls that the State developed specifically to account for verified DOB in administering Sandy funding, the audit gives a flawed impression of the Program. The State acknowledges that in the strenuous effort to disburse funding to homeowners, human and procedural errors can occur, especially given the magnitude of this Program. However, the State anticipated that such mistakes could occur and designed a Program that would account for that possibility.

Comment 2

The OIG's "snapshot" assessment ignores the fact that award calculations are not performed once, but instead are adjusted over the life of the application as additional and more reliable information on disbursed, duplicative benefits is collected through various public and private sources. This rigorous, iterative process - which is well-documented and well-implemented through the Program's procedural controls - enables the State to both account for verified DOB as required by the Stafford Act, while also quickly providing critical funding to disaster victims so they can make basic repairs to their homes. Throughout the life of an application, the Program requests and receives from third party entities verified information on applicants' disaster recovery benefits including Federal Emergency Management Administration ("FEMA") assistance, private homeowners and flood insurance, Small Business Administration ("SBA") loans, and other charitable donations.

Comment 3

Despite the impression left by the OIG's Report, the continuous controls employed by the Program are the only practical way to properly account for any actual verified DOBs. The public and private data feeds and

[2] In addition to DOB, the Program conducts an extensive eligibility check for all applicants. This includes checks for primary residency and National Objective, among others. Like DOB, these requirements are also evaluated over the life of the application. Prior to any disbursement of funds and as a part of the grant agreement, applicants must self-certify that the home was their primary residence at the time of the storm. If the primary residence check identifies issues that question an applicant's eligibility for the Single Family Homeowner Program, they are either deemed ineligible or, if applicable, transferred to the Rental Properties Program.

Comment 4

Comment 5

Comment 6

Comment 7

sources available to the State regarding DOB often lack definiteness on the amount, type of funding, and the purpose for which funding is provided. Until the State can verify that the potential DOB was provided to the homeowners for a duplicative purpose, it is not a verified DOB that must be deducted from any CDBG-DR funding provided by the State.[3] As such, the State does not rely on imperfect and unverified data when determining the amount of assistance to provide to suffering New York State homeowners.[4] For example, a DOB source may indicate that the applicant received an insurance check, but that check may have reimbursed the homeowner for lost contents rather than structural repairs. This is not a duplicative purpose and thus not a verified DOB. Rather than waiting the lengthy period for DOB data to become reliable, the State issues partial assistance to homeowners and then continues to monitor DOB feeds over time to update DOB calculations as the better and more reliable data becomes available.[5] Once DOB is verified and the amount is determined to be for a duplicative purpose, the State reconciles the verified DOB amount against any remaining CDBG-DR funding homeowners are eligible to receive from the Program. In the event that verified DOB amounts exceed the remaining unmet need, the State pursues all rights available to it through subrogation.[6]

Instead of considering the overall Program design as required by its own methodology, the OIG Report bases the majority of Finding 1 on twenty-four cases identified in its audit. The underlying theme of the OIG's Draft Audit Report is that the State should have deducted the DOB prior to issuing the payment to the homeowner. However, in making this finding, the OIG ignores other controls and processes that will result in proper reconciliation of the grant before final closeout. In addition, ten of the applicants identified by the OIG do not constitute overpayment cases because the award calculation for each conforms with current policies and procedures, including policies and procedures on the use of pre-storm square footage to calculate reconstruction awards, and DOB policies pertaining to applicants that transfer to the Buyouts and Acquisition or Rental Properties Programs. The following response identifies the status of each case and the action that the State will take under its existing policies and procedures:

Applicant Number	Response to the OIG	Required Action Under GOSR Policies/Procedures
1	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still

[3] Potential DOB amounts are calculated using the best available information regarding disbursed amounts of DOB at the time of the issuance of the CDBG-DR funding to the applicants. The State not only developed this approach to get money to disaster victims more quickly, but also designed this approach in response to two challenges the State encountered in obtaining the DOB information: 1) timing and logistics of obtaining the data and 2) parsing the DOB data to appropriately apply these amounts to the applicant. On the first point, it took the State months to obtain data from other governmental data sources in a format that tied this data to Program applicants. Even more challenging was obtaining verified information from private insurance companies with no vested interest in cooperating. The State was navigating these relationships on its own for the first time and could not delay payment while these onerous data sharing arrangements were navigated.

[4] Section 9.6 of the Procedure Manual states: "The Program uses the best available third party data before issuing awards. The purpose of the Third Party Benefits Review is to collect and check for any verified duplication of benefits (DOB). Award data is continually updated with any verified DOB which may change an award amount."

The Customer Representative Team (the "CR Team") collects and validates DOB data via third party sources, when available. The CR Team collects potential DOB sources and amounts as self-reported by the applicants. For applicants, who report FEMA assistance, NFIP payouts, and/or SBA loans, the Program verifies this data with the data feeds secured through past and current data share agreements. For those applicants who report receiving third party insurance, requests are sent to third party entities to collect verified information on applicants' insurance benefits. Requests are made throughout the life of the application. Once updated information is received from third party sources, the data is captured and populated into the Program database.

[5] For applicants who had repairs to be completed at the time damage inspections were conducted, the Program disbursed 50% of the potential award upon receipt of the threshold application documents, while the remainder of the funds will be disbursed as additional documents are collected and verified during the closeout process. For applicants who had completed their repairs prior to the conduction of damage inspections, the Program disbursed the full award after the applicant has closed out from the Program.

[6] The Program includes subrogation language in all of its grant agreements, which applicants are required to sign prior to receiving any funding.

Comment 7

Comment 7

Comment 8

Comment 7

Comment 7

	necessary reconciliation is conducted prior to final payment. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will rely on its rights pursuant to subrogation.	in progress. The applicant will be notified and will have an opportunity to appeal the State's determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached, they will be subject to subrogation as specified in the executed grant agreement.
2	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any necessary reconciliation is conducted prior to final payment. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will rely on its rights pursuant to subrogation.	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still in progress. The Applicant will be notified and will have an opportunity to appeal the State's determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached, they will be subject to subrogation as specified in the executed grant agreement.
3	The OIG's assessment is derived from its criticism that the State should not use pre-storm square footage to establish reconstruction awards. The State disagrees and stands behind its policy of basing an applicant's award amount on the square footage of the home that existed at the time of the storm for which assistance is being sought. Additionally, pursuant to existing policies and procedures, the applicant's DOB figure is verified through the life of the application, and any necessary reconciliation is conducted prior to final payment.	No action warranted, as use of the pre-storm square footage and verified DOB results in an award amount that does not constitute an overpayment.
4	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any necessary reconciliation is conducted prior to final payment. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will rely on its rights pursuant to subrogation.	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still in progress. The Applicant will be notified and will have an opportunity to appeal the State's determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached, they will be subject to subrogation as specified in the executed grant agreement.
5	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any necessary reconciliation is conducted prior to final payment. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still in progress. The Applicant will be notified and will have an opportunity to appeal the State's determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached, they will be subject to subrogation as specified in the executed grant agreement.

Comment 9

Comment 7

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Comment 7

	rely on its rights pursuant to subrogation.	
6	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any necessary reconciliation is conducted prior to final payment. Additionally, the applicant is eligible for two award cap increases: one for National Objective designation as LMI, and the other for being substantially damaged in the 100 year floodplain.	No action is required by the State. The applicant is eligible for an award cap increase because the property is substantially damaged in the 100 year floodplain. The verified DOB does not exceed the applicant's unmet need.
7	For non-governmental third party DOB (e.g., private insurance proceeds and charitable assistance), the Program relies on self-reported data until verification is completed. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will rely on its rights pursuant to subrogation.	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still in progress. The Applicant will be notified and will have an opportunity to appeal the State's determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached they will be subject to subrogation as specified in the executed grant agreement.
8	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any necessary reconciliation is conducted prior to final payment. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will rely on its rights pursuant to subrogation.	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still in progress. The Applicant will be notified and will have an opportunity to appeal the State's determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached, they will be subject to subrogation as specified in the executed grant agreement.
9	Pursuant to existing policies and procedures, the applicant's DOB figure is verified throughout the life of the application, and any necessary reconciliation is conducted prior to final payment. In this instance, verified DOB exceeded the applicant's unmet need resulting in a potential overpayment. The applicant will be notified and may file a clarification or appeal challenging the purpose of the DOB or other changed condition in this case. If no other resolution is available then the State will rely on its rights pursuant to subrogation.	This file is not yet closed out, as the applicant has not yet completed construction and/or the documentation process. The application is still in progress. The Applicant will be notified and will have an opportunity to appeal our determination and provide information regarding the purpose of the DOB or a changed condition, and if no other resolution can be reached, they will be subject to subrogation as specified in the executed grant agreement.
10 - 14	The applicants have been transferred to the Buyout and Acquisition Program. Prior to November 1, 2014, all applicants that closed in Acquisition were subject to the following award calculation: the post-storm Fair Market Value (FMV) for structure, minus total DOB, including reimbursement from Single Family Housing, plus total eligible receipts, minus any repair payments received from Single Family Housing. (In some instances, the amount deducted exceeded the post-storm	The applicants will be subject to repay any funds they received from Single Family Housing that cannot be offset with receipts for repairs conducted at the time of closing.

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Comment 7

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	FMV for structure, the "excess DOB.") The net amount, if any, was then added to the post-storm FMV for land. In no instance was the "excess DOB" deducted from the post-storm FMV for land as DOB is only duplicative of repairs to the structure.	
15	A Single Family Housing Program check was disbursed between the date of verification for closing and the closing date resulting in an overpayment.	The applicant will be subject to subrogation as specified in the signed grant agreement.
16	A miscalculation was made in the award calculation.	The applicant has been overpaid and is subject to subrogation as specified in the executed grant agreement.
17	The program applied the square footage from the CoreLogic dataset, and was later modified by Pre-Storm Tax Assessor TLA7. The applicant provided documentation from the municipality to challenge the Pre-Storm Tax Assessor TLA square footage and the award was adjusted based on submitted permissible documentation.	No action is warranted, as the current square footage does not result in an overpayment for the applicant.
18	The OIG's assessment derives from its criticism that the State should not use pre-storm square footage to establish reconstruction awards. The State stands behind its policy of basing an applicant's award on square footage of the home that existed prior to the storm.	No action warranted, as use of the pre-storm square footage results in an award amount that does not constitute an overpayment.
19	OIG criticizes New York State for not establishing whether funding provided to homeowner after Hurricane Irene constitutes a DOB for damages/elevation deemed necessary during a damage inspection where Hurricane Sandy caused further damage to the home.	No action is warranted, as program policy establishes scope of repairs at the time of the post-Sandy damage inspection. The Program did not yet exist during the aftermath of Hurricane Irene and damage assessments could only be performed starting in 2013. A damage inspection was conducted for damages the applicant claimed they received from Sandy, and thus the DOB from the respective storm was applied.
20	Homeowner received additional DOB which resulted in four months of overpayment in the Interim Mortgage Assistance (IMA) Program. The IMA Program has three methods to approaching overpayments: withholding future payments of eligible months, reducing the final Single Family Housing award by the overpayment amount, or being subject to subrogation as specified in the executed grant agreement.	The Program recalculated the applicant's eligible months of assistance based on DOB and submitted documentation. The Program determined that assistance for the overpaid months had been appropriately withheld from subsequent IMA payments, and submitted documentation for additional months of eligibility. No further action is warranted.
Four Primary Residence Cases	The Program checks for primary residence throughout the life of the application. For	No further action is warranted with respect to three of these applicants, as they have been

[7] Three of the twenty applicants received funding to fully reconstruct their homes due to the extensive damage caused by Hurricane Sandy. The OIG's assertion that New York State overpaid these applicants is a result of a disagreement on how the State estimated the square footage of the original residence in order to determine the award amount. If the DOB analysis was conducted on the award amount using the square footage determined by New York State, these three homeowners would not be considered overpayments. In the immediate aftermath of Hurricane Sandy, the State used the best available information to size reconstruction awards when the home was demolished or beyond repair. The Program used CoreLogic, a tool that draws the best available information from the municipality to get taxable square footage. The Program has determined that if the homeowner used the funds to build a code compliant decent, safe, and sanitary home, there would be no subsequent adjustment to the award.

Comment 7

Identified on Page 6 of the OIG Report	several applicants, because the Rental Program was not established by GOSR until April 2014, some rental property owners applied for assistance under the Single Family Housing Program, as many rental properties in Long Island are actually single family homes. The applicants have been notified that they are ineligible for the Single Family Program. Three of these four applicants were later determined to be rental properties and have been transferred to that Program. The remaining applicant is exercising their right to appeal the Program's determination of ineligibility.	properly transferred to the Rental Properties Program. The ineligibility determinations and subsequent transfers to the Rental Program is a demonstration of the Program's controls to verify primary residence throughout the life of the application.

In conclusion, while the OIG believes that these twenty-four cases require repayment of $2.2 million, this belief ignores the existing controls that New York State has established to identify and manage these applicants.

Comment 5

Comment 13

With regard to the OIG recommendations:

1A. No action should be taken until each of the recipient cases is complete and closed out.

1B. No action should be taken until each of the recipient cases is complete and closed out.

1C. GOSR has updated its policies, procedures, and controls since the disbursements reviewed by the OIG took place. The current policy manual dated May 2015 is available on the GOSR website at https://www.stormrecovery.ny.gov/funding/policy-manuals.

Comment 14

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

GOSR RESPONSE: The State disagrees with the OIG's position that the State excluded flood insurance proceeds for damage potentially caused by Hurricane Irene. As stated in prior responses to the OIG, the Program did not exist during previous storms and could only perform damage assessments starting in 2013. Accordingly, the damage assessment could only take into account the most recent storm for which an applicant claimed losses. The Program deducts DOB only associated with the claimed storm.

Comment 7

Regarding the applicant who was awarded $4,837 without documentation showing need, the State acknowledges that the inspector made a technical error. The applicant is subject to subrogation as specified in the executed Grant Agreement.

Comment 5
Comment 13

With regard to the OIG recommendations:

1D. No action should be taken until each of the recipient cases is complete and closed out.

1E. GOSR has updated its policies, procedures, and controls since the disbursements reviewed by the OIG took place. The current policy manual dated May 2015 is available on the GOSR website at https://www.stormrecovery.ny.gov/funding/policy-manuals.

c. HUD OIG COMMENT: Inadequate Documentation to Support the Cost Rate Used for Reconstruction

GOSR RESPONSE: The State disagrees with the OIG and believes that there is more than adequate

Comment 15

documentation to support the Program's pricing method for reconstruction. The Program engaged construction professionals to conduct surveys of construction prices in the storm-impacted region. The construction professionals determined that for the vast majority of the impacted region, construction prices ranged from $160 to $180 per square foot. These surveys were conducted by Program staff in October of 2013 and again in January of 2015. The Program also utilized real estate and construction professionals to confirm that the construction price was reasonable for applicants requiring reconstruction. The supporting studies confirmed that $160 per square foot was generally *lower* than the construction costs for the vast majority of the region, and using weighted averages, the studies showed that it cost *more* than $160 per square foot for over 90% of the Program's reconstruction applications. The OIG generically questions the validity of the multiple surveys and studies the Program engaged to determine its reconstruction pricing, without naming specifically what makes these reports inadequate or their findings unreliable. The State supports the results of the studies conducted by construction professionals and believes the methodology is sound and that the State's pricing method for reconstruction is both cost reasonable and conservative.

With regard to the OIG recommendations:

1F. The State believes that the studies it conducted provide adequate documentation of the reasonableness of its methodology for calculating disbursements.

(2) HUD OIG Finding 2: Weaknesses Existed in Program Administrative and Reporting Procedures

a. HUD OIG COMMENT: Disbursements Made Before Grant Agreements were Executed

GOSR RESPONSE: The State disagrees with this Finding because it has already implemented new and adequate controls to ensure that grant agreements are signed prior to award disbursement. In December of 2013 and for most of the first quarter of 2014, the Program issued grant agreements at the time awards were disbursed. This may have resulted in award checks being cashed before the grant agreements were signed. The check had a legal disclaimer under the endorsement line stating "Endorsement of this check acknowledges receipt of enclosed Grant Agreement and acceptance of its terms and conditions," which informed the homeowner they were agreeing to all there terms of the Program.

Comment 16

However, as the Program evolved, procedures were modified in early 2014 to require that applicants sign the grant agreement prior to check disbursement. To achieve this goal, the Program routinely trains the customer representatives on the procedures for receiving and uploading the executed grant agreements before checks are distributed. The Program also routinely scans the files to ensure that all the grant agreements are in place and engages in a process to execute any missing grant agreements if needed. The issues mentioned in the OIG's Draft Report are ones that the Program had previously become aware of through existing controls. A process is in place to identify and rectify missing grant agreements, and the potential risk is minimal. The current policy manual dated May 2015 is available on the GOSR website at https://www.stormrecovery.ny.gov/funding/policy-manuals.

Comment 17

Of the six cases noted in the Draft Report as showing that a check was disbursed or cleared date before a grant agreement was signed:

Applicant Number	Response to the OIG	Required Action Under GOSR Policies/Procedures
1	The executed copies of the grant agreement on file were obtained prior to the check disbursement date, but due to a scanning error, only the first page and signature pages were	No further action warranted.

Comment 17

Comment 17

Comment 17

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Comment 7

	uploaded. A complete executed grant agreement was obtained at a later date.	
2	The applicant received a check as part of the first wave of payments when checks were disbursed with grant agreements. The checks stated: "Endorsement of this check acknowledges receipt of enclosed Grant Agreement and acceptance of its terms and conditions." The Program's routine check for missing grant agreements identified this file was missing an executed grant agreement and the applicant executed a grant agreement at a later date.	No further action warranted.
3	The applicant received a check as part of the first wave of payments when checks were disbursed with grant agreements. The checks stated: "Endorsement of this check acknowledges receipt of enclosed Grant Agreement and acceptance of its terms and conditions." The Program's routine check for missing grant agreements identified this file was missing an executed grant agreement and the applicant executed a grant agreement at a later date.	No further action warranted.
4	The applicant received a check as part of the first wave of payments when checks were disbursed with grant agreements. The checks stated: "Endorsement of this check acknowledges receipt of enclosed Grant Agreement and acceptance of its terms and conditions." The Program's routine check for missing grant agreements identified this file was missing an executed grant agreement and the applicant executed a grant agreement at a later date.	No further action warranted.
5	The applicant received a check as part of the first wave of payments when checks were disbursed with grant agreements. The checks stated: "Endorsement of this check acknowledges receipt of enclosed Grant Agreement and acceptance of its terms and conditions." The Program's routine check for missing grant agreements identified this file was missing; however, the applicant has remained unresponsive.	Applicant has been non-responsive to Program outreach to obtain an executed copy of the grant agreement. If the applicant remains to be unresponsive, they will be subject to repayment.
6	The applicant received a check as part of the first wave of payments when checks were disbursed with grant agreements. The checks stated:	Applicant has not executed a grant agreement. If the applicant remains to be unresponsive, they will be subject to repayment.

Comment 13

Comment 18

	"Endorsement of this check acknowledges receipt of enclosed Grant Agreement and acceptance of its terms and conditions." The Program's routine check for missing grant agreements identified this file was missing; however, the applicant has not executed their grant agreement.	

With regard to the OIG recommendations:

2A. GOSR has updated its policies, procedures, and controls since the disbursements reviewed by the OIG took place. The current policy manual dated May 2015 is available on the GOSR website at https://www.stormrecovery.ny.gov/funding/policy-manuals.

b. HUD OIG COMMENT: Inadequate Procedures to Recapture Funds

GOSR RESPONSE: The State has been in the process of developing a draft Recapture policy since the summer of 2014. The drafted policy and procedures have changed drastically over the past year due to complex issues in development and execution. At the time of the audit, the State had broadly outlined internal Program efforts (including sending letters to homeowners), and had identified a need to structure a Recapture Unit that would make legal collection efforts after all attempts had been made to mitigate non-compliance through the Programs.

Recapture policy had not been finalized at the time of the audit because it would have been premature. Although several homeowners had been identified as overpaid, accounting needed to be verified and resources were not yet in place to adequately handle disputes and potential legal action.

Since the audit, the State continues to develop a core infrastructure to handle the demands of such a collection effort. This includes: 1) meeting regularly with the Program to discuss how to accurately identify applicants, 2) verifying correct amounts that need to be recaptured, 3) complying with Federal debt collection rules and regulations, 4) developing an appeals process, and 5) hiring resources to support communication with applicants, as well as any attempt to collect. Exhausting this internal process will be required before legal collections efforts can be made.

Additionally, the State has met with HUD's Office of Community Planning and Development ("CPD") for technical assistance on the process, as well as for guidance regarding write-off policies. The State is still in discussions with HUD regarding these issues. It is the State's desire to proactively address as many concerns as possible before implementing such an extremely sensitive process. Additionally, the State continues to work closely with HUD OIG's criminal team to pursue any overpayments that were a result of fraud.

With regard to the OIG recommendations:

2B. The State anticipates that the internal process, including notification, communications, tracking payments and attempts for collection, will be operational within the next six months.

c. HUD OIG COMMENT: National Objectives Inaccurately Classified and Reported

GOSR RESPONSE: Over the life of the application, the Program relies on self-reported data until the

Comment 19

verified information is obtained and/or completed. Verification of Benefits review is completed for applicants prior to closing out from the Program, at which time the Program will be able to verify an applicant's National Objective.

With regard to the OIG recommendations:

2C & D. If necessary, the Program will reclassify the National Objectives in a draw voucher after the Program issues its final payments to report the most complete and accurate National Objectives. For the two applicants referenced in the OIG's Draft Report, the Program relied on self-reported data at the time of payment. This information will be updated upon verification of the correct National Objective classification.

d. HUD OIG COMMENT: Primary Residency not Always Adequately Verified

GOSR RESPONSE: Over the life of the application, the Program reviews eligibility documentation, including primary residence, and if necessary, will pursue repayment if an owner signed their primary residency certification erroneously. The Program routinely sends out ineligibility notifications to applicants deemed ineligible and for applicants that have received a previous payment from the Program, repayment instructions are sent as well.

Comment 7

Comment 20

The OIG's Draft Report references two applicants for whom "documentation was insufficient for determining whether disaster assistance was provided only to primary residences." One of these applicants proceeded to submit additional documentation to prove that the damaged residence was their primary residence. For the other recipient, the State agrees that the property is non-owner-occupied and has sent a letter altering the applicant to their ineligibility, with a notice that repayment is due to the Program. The applicant is exercising their right to appeal the Program's determination, and based on additional documentation submitted to the Program, may be eligible for assistance.

Comment 13

With regard to the OIG recommendations:

2E. GOSR has updated its policies, procedures, and controls since the disbursements reviewed by the OIG took place. The current policy manual dated May 2015 is available on the GOSR website at https://www.stormrecovery.ny.gov/funding/policy-manuals.

e. HUD OIG COMMENT: Assistance Payments Made Without Receipts for Amounts Spent

GOSR RESPONSE: In order to disburse funds to victims of Superstorm Sandy in a quick and efficient manner, the State used a cost estimation pricing system, Xactimate, to determine the cost of repairs in affected homes. When determining the award amounts for applicants receiving assistance for the repairs, the State utilized Xactimate, supported by a market analysis to create the line item prices and reflect post-storm construction market conditions. The Xactimate methodology used for estimating cost was driven by construction costs on Long Island, where over 93% of the Program's expenditures occur. As noted above, for reconstruction activity, the State determined, using surveys of construction professionals and cost estimates from three firms, that an average square foot construction cost of $160 per square foot was a reasonable basic standard for establishing awards for home reconstruction.

Comment 21

The State has had conversations with HUD CPD regarding this issue. The State's use of estimated cost was the subject of a Finding from HUD's August 2014 monitoring visit. This Finding has since been closed by HUD CPD, in the April 2015 Monitoring Report previously provided to the OIG by GOSR.

Comment 7

With regard to the OIG recommendations:

2F. The State is currently awaiting further guidance from HUD CPD regarding this issue.

f. OIG COMMENT: Contracts not Properly Reported on the Public Website

GOSR RESPONSE: A summary of all procured contracts, including those procured by GOSR's subrecipients, has been posted on GOSR's website. In addition, revised work authorizations reflecting any changes to the original executed work authorizations have been provided to the OIG. The amounts of these revised work authorizations now align with the amounts as posted on GOSR's website.

With regard to the OIG recommendations:

2G. GOSR will ensure that the contracts and amounts reported on its website matches the amount of the relevant contracts and revised work authorizations, if any.

(3) HUD OIG Finding 3: Procurement Actions did not Always Comply with Federal and State Requirements

GOSR RESPONSE: Finding 3 is comprised of two primary sub-findings: 1) that GOSR, through another state agency (the Dormitory Authority of the State of New York ("DASNY")), failed to provide for adequate competition and consider price when it procured inspection-related construction management and environmental review services; and 2) that GOSR, through DASNY, failed to adequately document the professional consultants' scope of work and cost basis. As discussed herein, and notwithstanding GOSR's repeated explanations, which are entitled to deference, the OIG has read requirements into the applicable regulations that do not exist and has misinterpreted supporting documentation. Moreover, as detailed herein, GOSR received an abundance of high-value services and information through professional consultants rendering critical services under considerable time constraints at rates that were determined to be fair and reasonable through a competitive request for proposal process. Accordingly, for the following reasons, GOSR rejects the OIG's findings and believes the associated recommendations are rendered moot.

a. HUD OIG COMMENT: Price and Adequate Competition not Considered when Procuring Contractors

GOSR RESPONSE: The OIG's findings with respect to the selection of consultants relate to competitive procurements conducted by DASNY for the provision of Term Construction Management Consultants and Asbestos/Environmental Services Term Consultants. The OIG asserts that the selection of these consultants was made on the basis of qualifications only, with no regard to price. This is incorrect as the OIG mischaracterizes these procurements, and as a result, erroneously finds that they do not satisfy the applicable requirements.

Comment 22

Under the CDBG-DR regulations, state grantees are to follow "their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in [24 CFR § 85.36]." 24 CFR § 85.36(b)(1); *see also* 24 CFR § 570.502(a) (making applicable 24 CFR § 85.36 "except paragraph (a)"). 24 CFR § 85.36(d) provides various methods of procurement that a grantee may use, including procurement by competitive proposals. In relevant part, 24 CFR § 85.36(d)(3) provides that a grantee may conduct a procurement by competitive proposals under the following conditions:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered[.]

As discussed below, DASNY's procurement of Term Construction Management Consultants and Asbestos/Environmental Services Term Consultants satisfied those conditions.

In accordance with its own requirements adopted in accordance with New York State Public Authorities Law, DASNY advertised the procurement of a Term Construction Management Consultant panel in both the New York State Contract Reporter and on the DASNY website. In response to that advertisement, thirty-three firms submitted proposals detailing their qualifications and cost proposals. DASNY reviewed the qualifications of those thirty-three firms and narrowed the field to seven that best met DASNY's requirements. Thereafter, DASNY evaluated the cost proposals of those seven firms and further negotiated the costs therein to ensure reasonable pricing. Ultimately, the panel consisted of all seven firms, each of which had been evaluated for both the adequacy of their qualifications and the reasonableness of their pricing.

Comment 22

DASNY's procurement of Asbestos/Environmental Services Term Consultants proceeded in a similar fashion. Pursuant to DASNY procurement requirements, DASNY advertised the procurement of an Asbestos/Environmental Services Term Consultants panel in both the New York State Contract Reporter and on the DASNY website. Forty-one firms responded to those advertisements expressing interest in the procurement. After evaluating those responses, DASNY requested proposals from twenty-one. All twenty-one firms submitted proposals, detailing their qualifications and pricing. DASNY then reviewed the proposals and narrowed the field to nine firms that best met DASNY's requirements. Thereafter, DASNY evaluated the nine firms' cost proposals and further negotiated the costs therein to ensure reasonable pricing. As with the Term Construction Management Consultant panel, the Asbestos/Environmental Services Term Consultants panel ultimately consisted of all nine firms, each of which had been evaluated for both the adequacy of their qualifications and the reasonableness of their pricing.[8]

Given the foregoing, it is clear that DASNY's procurements satisfied each requirement of 24 CFR § 85.36(d)(3):

- DASNY advertised both procurements in the New York State Contract Reporter and on the DASNY website, thereby satisfying 24 CFR § 85.36(d)(3)(i)'s requirement to publicize the procurement.

- DASNY also requested proposals, stating the basis on which those proposals would be evaluated, which satisfies 24 CFR § 85.36(d)(3)(i)'s requirement to "identify all evaluation factors and their relative

Comment 23

[8] The OIG erroneously concludes in its draft report that DASNY further narrowed the panel to two firms, at which point it first reviewed cost proposals. As discussed herein, this understanding is incorrect. DASNY reviewed costs proposals of all nine firms and determined it most advantageous to the agency to award contracts to all nine firms. This material factual error alone renders this portion of the purported finding meritless.

Comment 24

Comment 25

importance."

- DASNY requested proposals from thirty-three and twenty-one firms, respectively, and accordingly satisfied 24 CFR § 85.36(d)(3)(ii)'s requirement to solicit proposals "from an adequate number of qualified sources."

- In accordance with DASNY's Procurement Contract guidelines and New York State Public Authorities Law, DASNY evaluated those proposals received through a competitive procurement, thereby satisfying 24 CFR § 85.36(d)(3)(iii)'s requirement to "have a method for conducting technical evaluations of the proposals received and for selecting awardees."

- DASNY made awards only after evaluating the technical qualifications and proficiency of each firm as well as the reasonableness of each firm's pricing, including negotiations with each firm to further ensure the reasonableness of that pricing. That is in keeping with 24 CFR § 85.36(d)(3)(iv)'s requirement to make awards to firms whose proposals are "most advantageous to the program, with price and other factors considered."

In Finding 3, the OIG erroneously states that DASNY conducted these procurements based on qualifications alone, without regard to price. The OIG's characterization is directly contradicted by the facts. As both GOSR and DASNY have made clear, DASNY considered price in determining which consultants would be awarded a place on each panel, and furthermore, solicited pricing competitively and engaged in further negotiations with each firm to ensure the reasonableness of its pricing. Moreover, to the extent that the OIG's position relies on the notion that pricing was not considered before award of the specific work to be performed under DASNY's subrecipient agreement, the OIG ignores that the work to be performed under DASNY's subrecipient agreement is the same work as that to be performed under DASNY's panel procurements. DASNY ensured the reasonableness of each firm's pricing as part of the panel procurements, and it therefore follows that it also ensured the reasonableness of pricing for the work to be performed under the subrecipient agreement. Accordingly, the OIG's concerns are misplaced.

Furthermore, the use of consultants already procured through an open, competitive procurement process for the same services is in keeping with 24 CFR § 85.36(b)(5), which encourages grantees "to enter into State and local intergovernmental agreements for procurement or use of common goods and services" for the purpose of "foster[ing] greater economy and efficiency." GOSR, through its subrecipient agreement with DASNY, did just that. By relying upon a competitive procurement already conducted by DASNY for the same services, GOSR was able to more efficiently obtain those services than if it had conducted new procurements from scratch. This enabled a far more efficient and timely delivery of much needed services to the citizens of New York recovering from Hurricane Sandy.

Indeed, GOSR utilized DASNY in order to tap into a New York State agency with deep knowledge of procurement of design, construction and project management services and the State and local processes that were going to be necessary to mobilize a Housing Recovery Program. The mobilization was needed to quickly implement recovery Programs that could start providing assistance to homeowners. Through July 2015, DASNY arranged for a total of 18,711 damage assessments to be performed for the Program. This included 14,298 damage assessments performed by LiRo, 1,779 damage assessments performed by McKissack, and 2,634 damage assessments performed by URS. Additionally, D&B Engineers completed approximately 15,000 Tier 2 reviews, which are detailed, site-specific technical reports which HUD requires as part of its environmental review process *for every single individual home* before receiving federal funds. *See* 24 C.F.R. Part 58. LiRo also completed 28,327 environmental inspections for lead, asbestos, and radon, as well as final site visits, scope changes and other adjustments and call center services.

In addition to these services, professional consultants retained by DASNY and their subcontractors and subconsultants, were involved with project management (such as the development of a Program to timely perform all damage assessments), oversight of grant administration, and compliance. Further, these consultants provided construction management services, created mechanisms and a database for the collection and reporting of data, and created a pricing book to support pricing guidelines.

Accordingly, DASNY's procurement of these consultants satisfied the procurement requirements applicable to CDBG-DR funds and GOSR received tremendous value and benefit from such consultants. As a result, this finding should be rejected and Recommendation 3A is rendered moot as the State has provided sufficient documentation demonstrating that pricing for inspection-related construction management and environmental review services were fair and reasonable in accordance with a price analysis as required by regulation.[9]

Comment 26

b. **HUD OIG COMMENT: Scope of Work and Cost Basis Not Adequately Documented in Work Orders**[10]

GOSR RESPONSE: The second key issue raised by the OIG under Finding 3 is whether DASNY specified the work and expected cost under various work orders to the above-referenced consultants. Again, the OIG mischaracterizes the facts and reaches a flawed conclusion. In fact, DASNY's work authorizations did include detailed scopes of services, which did include total numbers of activities (i.e., inspections) expected and the period of time during which the services needed to be delivered, as well as actual expense pricing at not-to-exceed amounts.

In the preparation of the work authorizations issued to its consultants, DASNY communicated the range of required services based on the Program requirements described by GOSR. Using this information, the consulting teams were able to develop a cost proposal that for reasons explained below could not necessarily be measured on a unit cost basis, but did incorporate the consultant's understanding of the requirements in terms of total numbers of activities (i.e., inspections) expected and the period of time during which the services needed to be delivered. While not included as part of the actual work authorization, the consultants did submit cost proposals that included estimates of hours and numbers of inspections that were evaluated by both DASNY Program/project management and DASNY procurement staff for cost reasonableness based on expected resource utilization, schedules and overall budget management. As previously communicated to the OIG, the staff rates which formed a significant basis of the work authorization value were analyzed by DASNY procurement staff to be fair and reasonable in the context of other similar consultants and professional standards. Therefore, and contrary to the OIG's contentions that no constraints or estimates were placed on the consultants, rather than being unit priced based, the work authorizations were developed on a not-to-exceed actual expense basis[11].

Comment 26

[9] In addition to the above-addressed Finding, the OIG also states that "neither HTFC nor [DASNY] conducted a cost analysis or independent cost estimate for the inspection-related construction management and environmental review services." This is incorrect. As discussed in the subsequent section of this response, DASNY went through great efforts to obtain cost proposals and set not-to-exceed amounts for each work order. These proposals then served as the basis for the amendments to the subrecipient agreement between HTFC and DASNY. Therefore, for those reasons, this alleged finding should also be rejected as baseless.

Comment 27

[10] While the OIG references both "work orders" and "work authorizations," using the terms interchangeably in its draft report, under the instant subrecipient agreement, these contracting mechanisms were "work authorizations," which are distinctly different than "work orders." A "work authorization" is the specific contract mechanism used by DASNY to engage a consultant under an existing term contract that details the specific scope of services to be performed. Conversely, a "work order" is the mechanism used under a different HTFC/DASNY subrecipient agreement pursuant to which HTFC engages DASNY to perform a particular scope of work for a specific budget.

[11] The OIG attempted to illustrate its point in a table, however, while the OIG takes issue with the various Work Orders not including specific information that was simply unknown at the time due to the disaster context, each of the referenced Work Orders were supported with scopes of services and were issued at not-to-exceed amounts, and were then managed by DASNY to ensure that the consultants performed within their contractual and budget limitations.

Comment 28

Recall, the context of GOSR's engagement of DASNY was in response to a disaster of unprecedented proportions in the Northeast. Consequently, during the time that GOSR engaged DASNY, the scope of services to be performed by DASNY and its consultants could not be sufficiently identified and defined and the multitude of tasks that needed to be performed were of such a varying nature that it was not feasible to seek or evaluate per unit costs. For example, programmatically there were significant variations in individual housing damage assessment factors that made the calculation of a uniform fixed price by the proposed consulting teams wildly unpredictable and subject to significant variations, including, but not limited to, the following:

- size of home to be inspected;
- nature and extent of damage requiring inspection;
- repair versus reconstruction damage assessment;
- geographical distribution of homes throughout New York State;
- variation in the clustering of homes that required inspection; and
- the evolving nature of the scope of services required to deliver damage assessment.

Similarly, there were significant variations in the Tier 2 scope of services and development that made the calculation of a uniform fixed price by the proposed consulting teams unpredictable and subject to variations, including, but not limited to, the following:

- status of the associated Tier 1 document;
- municipality the home was located in;
- nature and extent of damage assessment for which the Tier 2 was being prepared;
- repair versus reconstruction;
- geographical distribution of homes throughout New York State;
- variation in the clustering of homes that required Tier 2's;
- historic status (i.e., Section 106);
- wetland permit status and other required local regulations (different code requirements in each municipality);
- environmental factors (radon, lead, asbestos) during closeout;
- elevation – either required or optional;
- uncertainty as to the number of applications that were going to be received for processing or moved to different Programs or eliminated;
- programmatic policies being created and amended while Tier II assessments were underway; and
- the evolving nature of the scope of services required to deliver Tier 2 reviews.

Given these and other factors, much of which was explained to the OIG, DASNY's ability to assess any uniform fixed price proposals for cost reasonableness would have been wildly speculative and unrealistic. In fact, to cover the risk associated with the tremendous uncertainty surrounding the work, those consultants that choose to provide proposals likely would have included significant premiums in their proposed price points. Accordingly, DASNY mitigated the risk to the greatest extent possible by issuing work

Comment 29

authorizations on an actual expense basis using rates that were negotiated in connection with the award of the subject term contract and were determined to be fair and reasonable through a competitive RFP process. Subsequent tracking of expenses on a time and material basis allowed for a more accurate accounting of the actual level of activity and true expense of the services being performed.

In addition to the variables in the scope of the inspections, as is often the case in the disaster response and recovery context, the nature of what was required of the consultants under the grant Program evolved over time. Procedures and directives for the Program, which was unprecedented for the State, took time to develop. Given the need to respond quickly to the homeowners who were impacted by the storms, consultants were authorized to proceed as quickly as possible to perform inspections under the directions that were available at the time. As the Program matured, different compliance requirements and details emerged resulting in other cost variations, further supporting the reasonableness of DASNY's qualification based competitive procurement process approach for the subject consultants.

The use of the time and material approach allowed for DASNY and GOSR Program and audit staff to monitor the reasonableness of the consultants' work effort against the negotiated contract rates and required the consultant to disclose the actual number of hours expended for the particular activities performed. This enabled DASNY to analyze outliers in terms of variations in the performance of what otherwise appeared to be like services among consultants performing similar services, which resulted in greater accountability for work performed. The time and material/not-to-exceed basis also required detailed reporting of all activities and documentation of expenses through timesheets and expenses as per the contracts terms and conditions. Costs that were not in accordance with the contract terms were disallowed by DASNY and GOSR.

As a consequence of the reality on-the-ground and the need to provide much needed services, DASNY took an approach that better enabled DASNY and GOSR to monitor performance and costs. Indeed, the services the OIG has taken issue with were scoped and assigned actual expenses in not-to-exceed amounts, and through both the DASNY and GOSR pre- and post-audit processes associated with these procurements, they were delivered in a cost effective manner. Accordingly, the OIG's finding in this regard should be rejected and Recommendation 3B is rendered moot as the controls over documentation that existed at the time that DASNY work was authorized were sufficient for the time and situation. Further, subsequent to that time period, the State has awarded a significant amount of competitively procured, unit cost based inspection work. This was made possible in large part because of the experience gained by DASNY, GOSR and the consultants during the initial phase of the work.

New York State stands by its Program design and believes it contains the programmatic controls needed to ensure compliance with Federal regulations and statute. This Program has quickly delivered much needed resources for over 10,000 homeowners and preserved the fabric of our storm impacted communities. These results fully realize the goal intended by the Federal allocation.

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

Sincerely,

Lisa Bova-Hiatt
Interim Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The report represents a snapshot in time based upon the results of sampled disbursements and assisted homeowners and does not project results across the program. The review of the sampled items disclosed weaknesses in various controls, which lessened assurance that CDBG-DR funds were always spent in accordance with Federal regulations.

Comment 2 State officials maintained that OIG did not give sufficient credence to fundamental processes and controls regularly employed by the State to evaluate duplication of benefits and eligibility. They acknowledged that in an effort to disburse funding to homeowners, human and procedural errors can occur, and they had anticipated such mistakes and designed a program that would account for that possibility. The report notes and State officials acknowledged that ineligible and unsupported assistance was provided, which OIG attributes to the State's failure to properly account for other disaster assistance in calculating awards and weaknesses in maintaining file documentation. Further, as noted later in the report, procedures to recapture assistance mistakenly provided had not been implemented.

Comment 3 State officials explained that the OIG "snapshot" assessment ignores the fact that award calculations are not performed once but, instead, are adjusted over the life of the application as additional and more reliable information on disbursed, duplicative benefits is collected through various public and private sources. The report acknowledges that the State's procedures provide for determining and deducting other disaster assistance received before calculating an unmet need as required by the Stafford Act. However, the report notes that based upon the sampled cases, the unmet need was not always correctly calculated based upon information available at the time of award disbursement or was unsupported.

Comment 4 State officials stated that until they can verify that a potential duplication of benefits was provided to the homeowners for a duplicative purpose, it is not a verified duplication of benefits that must be deducted from CDBG-DR funding provided by the State. However, review of the sampled cases disclosed that there was duplication of benefits that should have been deducted at the time of the award calculation. Further, any doubt about whether insurance claim reimbursements were a duplication of benefit should be resolved with the homeowner before assistance is disbursed rather than ignoring any of the reimbursement as a duplication of benefit.

While State officials noted that if the verified duplication of benefit exceeds the remaining unmet need, the State will pursue all rights available to it through subrogation. However, prevention controls are always more effective than detection controls, and the State had not established a recapture program to

implement its subrogation policy. In a recent monitoring report, HUD expressed concern that the State was overly reliant on a policy and process that provide a full duplication of benefit check at grant closeout rather than a more robust check before funds are disbursed.

Comment 5 State officials stated that OIG ignores other controls and processes that will result in proper reconciliation of the grant before closeout. However, as noted in comment 4, preventive controls are preferable to detection controls, and HUD has expressed concern about the State's reliance on a full check upon grant closeout.

Comment 6 State officials explained that 10 of the applicants identified by OIG are not overpayment cases because the award calculation for each conforms to current policies and procedures. However, the State's policy during the time of the review, as prescribed in the homeowner policy before May 2015, stated that a homeowner who has a reconstruction award and builds a home smaller than the home at the time of the damage will receive an award based on the final square footage of the reconstructed home. Therefore, award should be calculated based on the square footage of the reconstructed home if a homeowner builds a new home that is smaller than the damaged home. Further, the State's action plan amendments 6 and 8 provide that the reconstruction award was to pay for the eligible cost of reconstruction. If State officials have amended the policy to calculate an award based upon the square footage of a larger prestorm home, they will need to discuss with HUD the effect of this change upon previously awarded amounts and whether such policy would comply with regulations at 76 FR 71062 (November 16, 2011), which provide that a grantee should first determine the applicant's total postdisaster need in the absence of duplicative benefits or program caps.

Comment 7 State officials' planned actions are responsive to OIG's recommendation.

Comment 8 State officials supported the policy that an applicant's award is based on the square footage of the home that existed at the time of the storm, an applicant's duplication of benefit is verified through the life of the application, and any necessary reconciliation is conducted before final payment. OIG disagrees because the policy in effect during the audit, as prescribed in the State's homeowner policy before May 2015, stated that a homeowner who has a reconstruction award and builds a home smaller than the home at the time of the damage will receive an award based on the final square footage of the reconstructed home. As noted in comment 6, if State officials now use a policy manual updated in May 2015, the effect upon previously awarded assistance will need to be considered to ensure consistent treatment of homeowners, as well as whether the current policy complies with regulations at 76 FR 71062 (November 16, 2011). In addition, at the time of the award calculation, duplication of benefit information was available but was not deducted in determining unmet need.

Comment 9 State officials believed that the applicant was eligible for an award cap increase because of substantial damage to the property and low- and middle-income status. OIG disagrees because the calculated unmet need was $275,761, which is lower than the $300,000 cap; thus, an award in excess of the unmet need would not comply with regulations at 76 FR 71061 (November 16, 2011) that prohibit assistance in excess of the unmet need. In addition, based upon information in the file, this applicant did not qualify as low and middle income and, thus, would not be eligible for the low- and middle-income allowance.

Comment 10 State officials concluded that the current square footage does not result in an overpayment. OIG disagrees because calculation of the award based upon a 3,000-square-foot property was not supported. After many requests, State officials were not able to provide supporting documentation and confirmed that this property was not listed in the CoreLogic database that was used to support square footage. In addition, we obtained a county record showing that the property was 1,944 square feet, and State officials had agreed that this number should have been used for the award calculation. Although State officials now say that the applicant submitted documentation from the municipality supporting the larger square footage, this document was not provided during the audit. Therefore, State officials will have to provide this documentation to HUD during the audit resolution process.

Comment 11 State officials concluded that no action is warranted because the program's current policy establishes scope of repairs at the time of the post-Sandy damage inspection, the program did not exist during the aftermath of Hurricane Irene, and damage assessments could only be performed starting in 2013. OIG disagrees because 76 FR 71061 (November 16, 2011) requires grantees to ensure that assistance is provided to a person having the need for disaster recovery assistance only to the extent to which this need was not fully met by other assistance. Contrary to this requirement, the State's policy ignores any monetary assistance homeowners received for damage caused by the storms before the most recent one. Documentation for this case clearly indicated that elevation work needed as a result of Hurricane Irene had been paid for by National Flood Insurance Program proceeds after Hurricane Irene and no additional elevation work was incurred after Hurricane Sandy. Further, while State officials said that an inspection was conducted for damages the applicant claimed were incurred as a result of Hurricane Sandy, documentation in the file noted that the applicant certified that the damages were caused by both Irene and Sandy. However, State officials intend to follow their current policy and award CDBG-DR funds for the same elevation cost assisted by the National Flood Insurance Program.

Comment 12 State officials claimed that the overpaid Interim Mortgage Assistance payments had been appropriately recovered by withholding later Interim Mortgage Assistance payments. However, despite many requests for documentation to support that the funds had been recovered, State officials did not provide

documentation. Therefore, they will have to provide such documentation to HUD during the audit resolution process.

Comment 13 State officials said that they have updated their policies, procedures, and controls since the disbursements reviewed by OIG took place. Since OIG has not had the opportunity to assess whether these changes would have prevented the deficiencies noted in the report, HUD will have to make this assessment during the audit resolution process and in some cases, as noted in comment 6, determine whether the changes comply with applicable regulations.

Comment 14 As noted in comment 11, State officials maintained that the program did not exist during the aftermath of Hurricane Irene and damage assessments could only be performed starting in 2013 and, therefore, could take into account only the most recent storm. OIG disagrees because 76 FR 71061 (November 16, 2011) requires grantees to ensure that assistance is provided to a person having the need for disaster recovery assistance only to the extent to which this need was not fully met by other assistance. Contrary to this requirement, the State's policy ignores any monetary assistance homeowners received for damage caused by the storms before the most recent one.

Comment 15 State officials believed that the studies adequately supported the reasonableness of using the rate of $160 per square foot to calculate the reconstruction cost for the properties in the State and state that OIG questions the validity of the multiple surveys without naming specifically what makes them unreliable. OIG disagrees because, as stated in the report, State officials were not initially able to provide documentation to support a survey that developed $160 per square foot as the single rate for the reconstruction cost of all properties across the State. After repeated inquiries, State officials provided four studies conducted by consulting firms to support the figure. However, OIG informed State officials that the first two studies contained inconsistent information, and they agreed that these studies were flawed and later provided an additional two studies conducted by two other consulting firms. However, OIG informed State officials that it questioned the reliability of the third study because it used properties located in New Jersey instead of New York State; however, State officials did not respond. OIG noted that the fourth study concluded that the average reconstruction costs in Suffolk, Nassau, and upstate counties were $165, $168, and $139 per square foot. Therefore, OIG maintains the position that the first three studies used to derive the square foot figure were unreliable and that the fourth study supports OIG's position that it was not adequate to apply a single rate to calculate the reconstruction cost for all of the properties throughout the State.

Comment 16 State officials said that they have implemented new and adequate controls to ensure that grant agreements are signed before award disbursement. Since these policies, procedures, and controls were not provided to or reviewed by OIG, they will have to be provided to HUD for verification during the audit resolution process. In addition, some of the cases sampled in which disbursement was made

before a grant agreement was signed occurred after the new controls were reported to have been implemented.

Comment 17 State officials said that grant agreements have been executed for the questioned cases; however, since these were not made available at the time of the audit, they should be provided to HUD during the audit resolution process.

Comment 18 State officials said that they have been drafting the recapture procedures since the summer of 2014, are in discussions with HUD about them, and anticipate that the internal process will be operational within 6 months. Accordingly, this issue will have to be addressed with HUD during the audit resolution process.

Comment 19 State officials said that they relied upon self-reported data at the time of payment to two applicants and will update the data upon verification of the correct national objective classification. However, one applicant was reported as not being low and moderate income but was mistakenly classified as such by State officials. As a result, OIG maintains that controls over classifying assisted homeowners should be strengthened, especially since low- and moderate-income applicants are eligible for an additional $50,000 in CDBG-DR assistance, which if mistakenly provided, may result in a lengthy recapture. In addition, OIG recommends that State officials obtain and verify recipient income information in a timely manner instead of deferring the process to when final payment is made.

Comment 20 The report noted that one of the homeowners later provided additional documentation to support that the assisted home was not a second home. State officials agreed during the audit that this homeowner was ineligible for assistance and notified the homeowner. However, they said that the homeowner is appealing and may be determined to be eligible. State officials will need to provide HUD any additional documentation that resolves this homeowner's eligibility during audit resolution process.

Comment 21 State officials explained that they discussed this issue with HUD since it was a finding from a HUD monitoring visit and that the finding had been closed (in July 2015) by HUD. However, HUD had informed State officials that it would likely monitor implementation of the State's methodology going forward and will issue clarifying guidance on the use of cost estimation in the near future. OIG maintains that State officials should require homeowners to provide documentation for costs incurred when readily available, especially when costs were incurred before the homeowner's determination of eligibility for assistance. Guidance in 2 CFR Part 225, Appendix A, Cost Principles for State, Local, and Indian Tribal Governments, paragraph (C)(1)(a), requires that costs charged to Federal programs be necessary and reasonable. Further, Office of Community Planning and Development (CPD) Notice CPD-14-017, section B, requires that costs be adequately documented, and 24 CFR 85.20(b)(6) requires that accounting records be supported by source documents, such as canceled checks, paid bills, payroll and attendance records, contracts, and subgrant award documents. In

addition, FEMA requires documentation of costs incurred to receive disaster assistance, and the State of New Jersey requires source documents for costs reimbursed by its CDBG-DR grant.

Comment 22 State officials believed that their procurement of inspection-related construction management services and environmental review services complied with Federal and State requirements because the procurements were advertised, proposals received from responding firms were evaluated, the cost proposals of the firms were evaluated, and the costs were further negotiated to ensure reasonable pricing. OIG maintains that these procurements did not comply with the subrecipient agreement between DASNY and HTFC because that agreement required DASNY to use HTFC's procurement policies (which were stricter than DASNY's policies). However, as State officials noted, the three contractors[20] were procured in accordance with DASNY's procurement policy, which allowed the use of the qualification-only methodology to acquire architectural-engineering, construction management, and surveying services, while HTFC's policy provided that only architectural-engineering or legal services could be selected on the basis of qualification and performance data. OIG also maintains that these procurements did not comply with Federal regulations because regulations at 24 CFR 85.36 (d)(3)(v) provide that the method in which price is not used as a selection factor and final award is subject to later negotiation of fair and reasonable compensation may be used only in the procurement of architecture-engineering services, and these services did not qualify as architecture-engineering services.

Comment 23 State officials said that OIG mistakenly concluded that DASNY further narrowed the panel to two firms from the original nine firms for the environmental review service procurement. The report correctly stated that before its subrecipient agreement for Hurricane Sandy work, DASNY selected 9 of 21 firms that had submitted proposals for referral to a panel and negotiation of hourly rates. DASNY later selected two of the nine firms and renegotiated hourly rates to conduct CDBG-DR-funded environmental review work.

Comment 24 State officials maintained that DASNY considered price in determining which firms would be considered for further price negotiations. However, regulations at 24 CFR 85.36(d)(3)(iv) provide that awards will be made to the responsible firm with the proposal that is most advantageous to the program, with price and other factors considered, and regulations at 24 CFR 85.36 (d)(3)(v) provide that the method in which price is not used as a selection factor and final award is subject

[20] DASNY initially selected 7 firms from the 33 that submitted proposals for construction management services and later selected 3 of the 7 to conduct inspection-related construction management services. Additionally, DASNY selected 9 firms from the 21 that submitted proposals for environmental review services and awarded Sandy work to 2 of them. State officials said that these two firms were awarded environmental review services because they were also among the three firms performing inspection-related construction management services.

to further negotiation of fair and reasonable compensation may be used only in the procurement of architecture-engineering services, and these services did not qualify as architecture-engineering services.

Comment 25 OIG acknowledges that regulations at 24 CFR 85.36(b)(5) encourage grantees to enter into State and local intergovernmental agreements for procurement or use of common goods and services for the purpose of fostering greater economy and efficiency. However, as noted in comment 22, OIG maintains that these procurements did not comply with State or Federal requirements as they were not procured under HTFC regulations or in compliance with regulations at 24 CFR 85.36(d)(3)(iv).

Comment 26 State officials claimed that they had conducted a price analysis because DASNY went through great effort to obtain cost proposals and set not-to-exceed amounts for each work order. However, regulations at 24 CFR 85.36(f)(1) provide that grantees must make independent estimates before receiving bids or proposals. OIG does not consider the use of cost proposals submitted by the proposing firms to be an independent analysis conducted before receiving bids or proposals. In addition, DASNY officials said that the firms were not required to submit competing cost proposals to secure work and the cost proposals submitted by the firms were generally composed of staff rates, fringes, and overhead fees. State officials stated that the firms submitted cost proposals that included estimated hours and number of inspections, but they were not included as part of work authorizations. Since State officials did not provide this supporting documentation, they will need to provide such documentation to HUD during the audit resolution process.

Comment 27 The terms work "orders" and work "authorizations" were used interchangeably in the subrecipient agreement between HTFC and DASNY, as it stated that HTFC would authorize DASNY and its procured subcontractors or subrecipients to perform work through a system of task orders that explain the number of inspections to be completed at the HTFC-approved rates, calculated on a time and material basis. State officials now distinguish the two terms -- "work orders" between HTFC and DASNY and "work authorizations" between DASNY and its subrecipients. To avoid confusion, OIG revised the report to rename the 18 task orders between DASNY and the 3 contractors as work authorizations.

Comment 28 State officials explained that due to the complexity of the program, they were not able to measure the cost on a unit-cost basis; therefore, the work authorizations were developed on a not-to-exceed actual expense basis. OIG acknowledges the complexity of the program. However, instead of leaving scope of service unspecified, State officials should have explained how the not-to-exceed ceiling amount in the work authorization was derived (for example, estimated number of inspections or reviews to be delivered, estimated time or staff hours), and the State can amend the original work authorizations when the situation changes. As

discussed in comment 26, State officials said that the firm's cost proposals included estimated hours and the number of inspections to be conducted, although these were not included as part of the work authorizations. However, documentation to support this explanation was not provided during the audit and will need to be provided to HUD during the audit resolution process.

Comment 29 State officials stated that they awarded a significant amount of competitively procured unit cost based inspection work because in large part, they had gained experience during the initial phase of the work. However, as the audit report indicated, the work authorizations issued in the earlier phases of the services provided had more specific information on the scope of the work than those issued later.

Appendix C

Summary of Case File Deficiencies

Application number	Incorrect calculation of duplicate benefit	Incorrect calculation of award	Inaccurate square footage used	Ineligible interim mortgage assistance	Ineligible low and moderate allowance
059-HA-11332-13	X				
103-HA-50645-2013	X				
059-HA-48172-2013	X		X		
059-HA-45363-2013	X				
103-HA-41956-2013	X				
103-HA-7618-13	X				X
103-HA-11555-13	X				
095-HA-43737-2013	X				
059-HA-46756-2013	X				
059-HA-45389-2013		X			
103-HA-9147-13		X			
059-HA-1073-13		X			
103-HA-7064-13		X			
059-HA-109-13		X			
103-HA-40609-2013		X			
103-HA-10964-13		X			
095-HA-40979-2013			X		
095-HA-43274-2013			X		
059-HA-47176-2013	X				
059-HA-43147-2013				X	
Totals	**10**	**7**	**3**	**1**	**1**

Appendix D

Case Summary Narratives

Application number: 059-HA-11332-13
Questioned amount: $40,471 overpaid, $89,171 over-awarded
Deficiency: Incorrect calculation of duplicate benefit

The homeowner received $129,642 from the National Flood Insurance Program (NFIP) for damages caused by Hurricane Sandy. However, while State officials deducted this amount as a duplicate benefit in calculating the homeowner's unmet need for the initial award on October 12, 2013, it was not deducted in calculating a revised unmet need for which $296,042 was awarded on February 10, 2014. Section 312 of the Stafford Act prohibits payment of CDBG-DR funds for any loss for which financial assistance was paid under any other program or from insurance or any other source. After deducting the $129,642, the unmet need becomes $166,400. Since $206,871 was disbursed to the homeowner, $40,471 was an overpayment, and the remaining $89,171 was obligated but not disbursed.

Application number: 103-HA-50645-2013
Questioned amount: $184,293 overpaid
Deficiency: Incorrect calculation of duplicate benefits

Information available to State officials showed that the homeowner received $232,000 from the NFIP and $117,300 as an SBA loan. Section 312 of the Stafford Act prohibits payment of CDBG-DR funds for any loss for which financial assistance was paid under any other program or from insurance or any other source. However, the applicant was awarded $184,293 without the $232,000 and $117,300 being deducted as duplicate benefits as required. As a result, the homeowner was overpaid $184,293.

Application number: 059-HA-48172-2013
Questioned amount: $64,718 overpaid
Deficiency: Incorrect calculation of duplicate benefits and inaccurate square footage used

Information available to the State on December 10, 2013, showed that the homeowner received a $26,000 SBA loan. Section 312 of the Stafford Act prohibits payment of CDBG-DR funds for any loss for which financial assistance was paid under any other program or from insurance or any other source. However, on February 12, 2014, State officials awarded the homeowner $350,000 without deducting the SBA loan proceeds before calculating the unmet need. In addition, while the homeowner's reconstructed home consisted of 2,299 square feet and the allowable activities report noted that the reconstructed home was smaller than the previous home, the award calculation was based on 2,770 square feet. Section 3.12.2 of the State's Homeowner Policy Manual states that the award should be calculated based on the square footage of the reconstructed home if a homeowner builds a new home that is smaller than the damaged home. Therefore, the allowance based upon square footage should have been $367,840 ($160 x 2,299), plus $25,000 and $5,000 for an extraordinary site conditions award and

demolition award, respectively, less $26,000 for an SBA loan, resulting in an unmet need of $285,282. However, the homeowner received $350,000, resulting in the homeowner's being awarded $64,718 too much.

Application number: 059-HA-45363-2013
Questioned amount: $224,787 overpaid
Deficiency: Incorrect calculation of duplicate benefit

While the homeowner received a $203,300 SBA loan and $190,833 from the NFIP, State officials did not deduct these amounts when calculating the unmet need and awarded the homeowner $224,787. Section 312 of the Stafford Act requires that no person may receive assistance for any part of a loss for which he or she has received financial assistance under any other program or from insurance or any other source. After deducting these benefits, the homeowner was ineligible to receive assistance from the CDBG-DR program.

Application number: 103-HA-41956-2013
Questioned amount: $9,921 over-awarded
Deficiency: Incorrect calculation of duplicate benefits

State officials calculated an unmet need of $422,718 after deducting other benefits of $20,847 and awarded the homeowner $350,000 (the State's policy capped the award for low- and moderate-income recipients at $350,000). However, State officials later learned that the homeowner received $172,811 from insurance proceeds and, thus, revised the award amount to $238,981. However, the award amount should have been $229,060 (unmet need of $422,718 minus other benefits of $193,658). Therefore, the homeowner's award was overfunded by $9,921.

Application number: 103-HA-7618-13
Questioned amount: $96,904 over-awarded
Deficiency: Incorrect calculation of duplicate benefit and ineligible low and moderate income

When calculating the unmet need to repair the primary residence, the State mistakenly deducted insurance proceeds of $24,347, which the homeowner received for a rental property, rather than the $121,251 in insurance proceeds received for the primary residence. As a result, the homeowner was over-awarded $96,904. In addition, State officials incorrectly provided the homeowner a $50,000 allowance, which is made available to households classified as low and moderate income. Section 3.11 of the State's Homeowner Policy Manual provides that the award cap for home repair and reconstruction is $300,000, with an increase to $350,000 for a homeowner who qualifies as low and moderate income. The homeowner's annual income was $79,431, which exceeded the State's area low- and moderate-income threshold of $75,700 for a three-person household. The case was correctly reported as addressing the urgent need national objective. As a result, the homeowner was over-awarded $22,665, which is included in the $96,904.

Application number: 103-HA-11555-13

Questioned amount: $271,823 overpaid, $47,564 over-awarded
Deficiency: Incorrect calculation of duplicate benefits

State officials mistakenly recorded $300,000 charitable assistance as a negative amount when calculating the unmet need, thereby inappropriately awarding the homeowner $338,774, of which $271,823 had been disbursed. Section 312 of the Stafford Act prohibits payment of CDBG-DR funds for any loss for which financial assistance was paid under any other program or from insurance or any other source. In addition, 76 FR 71061 (November 16, 2011) states that to comply with the Stafford Act, grantees should ensure that each program provides assistance to a person only to the extent to which the person has a disaster recovery need not fully met. State officials agreed that this was an error and confirmed that the correct award should have been $38,774. The $271,823 disbursed to the homeowner was an overpayment, of which $47,564 was obligated but not disbursed.

Application number: 095-HA-43737-2013
Questioned amount: $68,046 overpaid
Deficiency: Incorrect calculation of duplicate benefit
The homeowner received a $200,000 SBA loan on October 21, 2011, for damages caused by Hurricane Irene. The homeowner later applied for CDBG-DR assistance for the same damage and explained that the SBA loan was not a benefit but a loan, which had to be repaid. State officials awarded the homeowner $300,000 in CDBG-DR funds for the unmet need of $431,954 without deducting the $200,000 SBA loan. Therefore, this should be considered a duplication of benefit. Section 312 of the Stafford Act prohibits payment of CDBG-DR funds for any loss for which financial assistance was paid under any other program or from insurance or any other source. After deducting the $200,000 SBA loan, the applicant should have been eligible for only $231,954; thus, the homeowner was overpaid $68,046.

Applicant number: 059-HA-46756-2013
Questioned amount: $198,042 overpaid
Deficiency: Incorrect calculation of duplicate benefits

In an initial award on February 3, 2013, State officials deducted property insurance proceeds of $154,840 from the homeowner's allowed damages of $216,446. In calculating the homeowner's unmet need, the State awarded and disbursed $61,606. However, the records showed that the actual property insurance payment was $198,042, resulting in an over-award of $43,202. In a revision to the award on April 4, 2014, State officials again awarded the homeowner $216,446 and disbursed $154,840 but excluded the property insurance proceeds from the award calculation. Section 312 of the Stafford Act prohibits payment of CDBG-DR funds for any loss for which financial assistance was paid under any other program or from insurance or any other source. The unmet need should have been $216,446 less $198,042. As a result, $198,042 was an overpayment.

Application number: 059-HA-45389-2013
Questioned amount: $215,000 overpaid, $185,000 over-awarded
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $400,000 from New York Rising, of which $215,000 was disbursed at the time the homeowner applied for the New York Rising Buyout and Acquisition program. Section 3.3.3 of the State's Homeowner Policy Manual states that reimbursement and repair payments are treated as duplication of benefits and deducted from any amount paid from the New York Rising Buyout and Acquisition program. However, the $215,000 was not deducted from the amount paid from the program. Therefore, the homeowner was overpaid $215,000, and the over-awarded $185,000 was obligated but not disbursed.

Application number: 103-HA-9147-13
Questioned amount: $87,597 overpaid, $87,598 over-awarded
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $175,195 from New York Rising, of which $87,597 was disbursed at the time the homeowner applied for the New York Rising Buyout and Acquisition program. Section 3.3.3 of the State's Homeowner Policy Manual states that reimbursement and repair payments are treated as duplication of benefits and deducted from any amount paid from the New York Rising Buyout and Acquisition program. However, the $87,597 was not deducted from the amount paid from the program. Therefore, the homeowner was overpaid $87,597, and $87,598 was over-awarded but not disbursed.

Application number: 059-HA-1073-13
Questioned amount: $47,449 overpaid, $22,448 over-awarded
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $69,897 from New York Rising, of which $47,449 was disbursed at the time the homeowner applied for the New York Rising Buyout and Acquisition program. Section 3.3.3 of the State's Homeowner Policy Manual states that reimbursement and repair payments are treated as duplication of benefits and deducted from any amount paid from the New York Rising Buyout and Acquisition program. However, the $47,449 was not deducted from the amount paid from the program. Therefore, the homeowner was overpaid $47,449, and $22,448 was over-awarded but not disbursed.

Application number: 103-HA-7064-13
Questioned amount: $20,533 overpaid, $135,000 over-awarded
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $300,000 from New York Rising, of which $165,000 was disbursed at the time the homeowner applied for the New York Rising Buyout and Acquisition program. Section 3.3.3 of the State's Homeowner Policy Manual states that reimbursement and repair payments are treated as duplication of benefits and deducted from any amount paid from the New York Rising Buyout and Acquisition program. However, the $20,533 was not deducted from the amount paid from the program. Therefore, the homeowner was overpaid $20,533, and $135,000 was over-awarded but not disbursed.

Application number: 059-HA-109-13
Questioned amount: $22,984 overpaid
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $22,984 from New York Rising, of which $22,984 was disbursed at the time the homeowner applied for the New York Rising Buyout and Acquisition program. Section 3.3.3 of the State's Homeowner Policy Manual states that reimbursement and repair payments are treated as duplication of benefits and deducted from any amount paid from the New York Rising Buyout and Acquisition program. However, the $22,984 was not deducted from the amount paid from the program. Therefore, the homeowner was overpaid $22,984.

Application number: 103-HA-40609-2013
Questioned amount: $29,864 overpaid, $59, 530 over-awarded
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $119,059 from New York Rising, of which $59,530 was disbursed. The homeowner had spent $29,666 of the $59, 530 to repair the property when applying for the New York Rising Buyout and Acquisition program. Section 3.3.3 of the State's Homeowner Policy Manual states that reimbursement and repair payments are treated as duplication of benefits and deducted from any amount paid from the New York Rising Buyout and Acquisition program. However, $29,864 of the remaining balance of disbursement was not deducted from the amount paid from the program. Therefore, the homeowner was overpaid $29,864, and $59,530 was over-awarded but not disbursed.

Application number: 103-HA-10964-13
Questioned amount: $92,390 overpaid, $92,390 over-awarded
Deficiency: Incorrect calculation of award

State officials awarded the homeowner $184,780 for estimated repair costs, of which $92,390 was disbursed. However, when the homeowner transferred from New York Rising to the New York Rising Buyout and Acquisition program, the $92,390 was deducted as a duplication of benefits when calculating the amount for the property buyout. Section 3.12 of the State's Buyout and Acquisition Policy Manual states that the property purchase price should be reduced by other assistance unless the homeowner demonstrates through receipts that the funds received were spent on eligible costs. However, the file did not document receipts for the expenditure of the $92,390. As a result, the homeowner was overpaid $92,390. The remaining $92,390 needs to be deobligated from New York Rising.

Application number: 095-HA-40979-2013
Questioned amount: $59,016 over-awarded
Deficiency: Inaccurate square footage used in grant calculation
An inaccurate square footage was used to calculate the estimated cost of reconstruction. While the county's property records reported that the home contained 1,944 square feet, State officials used 3,000 square feet in the inspection report to calculate an award. Section 3.12.2 of the State's Homeowner Policy Manual states that the reconstruction cost is computed on the taxable square

footage. However, the State mistakenly used 3,000 square feet and awarded the homeowner $400,000, while the unmet need should have been $340,984 based upon 1,944 square feet. As a result, the unmet need was overstated, and the homeowner was overfunded $59,016 ($400,000 - $340,984).

Application number: 095-HA-43274-2013
Questioned amount: $47,846 overpaid
Deficiency: Inaccurate square footage used in grant calculation

An inaccurate square footage was used to calculate the estimated cost of reconstruction. While the damaged home contained 2,240 square feet, the reconstructed home contained 1,568 square feet as the County's property records showed. Section 3.12.2 of the State's Homeowner Policy Manual states that the reconstruction cost should be computed based on the taxable square footage. However, the State mistakenly used 2,240 square feet and awarded the homeowner $300,000, while the unmet need should have been $252,154 based upon 1,568 square feet. As a result, the homeowner was overpaid $47,846 ($300,000 - $252,154).

Application number: 059-HA-47176-2013
Questioned amount: $250,000 overpaid
Deficiency: Assistance provided for damages assisted by another source

The homeowner's property was damaged by both Hurricanes Irene and Sandy, and the homeowner had received $250,000 from the NFIP to elevate the home and repair the damages caused by Hurricane Irene. Section 312 of the Stafford Act requires that no person may receive assistance for any part of a loss for which he or she has received financial assistance under any other program or from insurance or any other source. However, the State's policy assumed that all damages were caused by the most recent storm. Therefore, State officials did not deduct any of the $250,000 when calculating the unmet need and awarded the homeowner $317,770. Receipts provided by the homeowner showed that the elevation work was started in February 2012, which was after Irene and before Sandy, and State officials confirmed that additional elevation work was not undertaken as a result of Sandy. Thus, the elevation cost incurred was due to Irene. So it is not reasonable that the repair cost of $317,770, which included the $207,847 for elevation, was due to Sandy. Thus, the $250,000 in NFIP proceeds should have been considered as a duplicate benefit. As a result, the repair cost was overfunded under the CDBG-DR program when part of the cost was funded under the NFIP. Since $294,434 from the $317,770 award had been disbursed, $250,000 should be recaptured from the homeowner.

Application number: 059-HA-43147-2013
Questioned amount: $12,000 overpaid
Deficiency: Ineligible interim mortgage assistance provided

The homeowner received $12,000 in interim mortgage assistance for 4 months (October 2013 to January 2014), during which the homeowner also received rental assistance from private insurance. Section 6 of the State's Homeowner Policy Manual provides that a homeowner is not eligible for interim mortgage assistance for any month in which other temporary housing

assistance was received from another source. Instead of recapturing the overpayment or deducting the overpaid amount from the interim mortgage assistance payments, State officials removed the payment history for the 4 months from their record system and concluded that the recipient was not overpaid. After discussing the matter with HUD OIG auditors, State officials acknowledged the overpayment and said that the $12,000 had been recovered through withholding later payments from the homeowner. However, State officials did not provide documentation to support that the $12,000 had been recovered.