



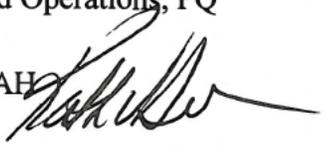
Buildings at Three Public Housing Authorities Did Not Have Flood Insurance Before Hurricane Sandy



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

December 17, 2015

To: Milan Ozdinec, Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE
Unabyrd Wadhams, Deputy Assistant Secretary, Office of Field Operations, PQ

From: Kathryn Saylor, Assistant Inspector General for Evaluation, GAH 

Subject: Buildings at Three Public Housing Authorities Did Not Have Flood Insurance Before Hurricane Sandy, 2015-OE-0007S

Attached is the final report on our evaluation of the U.S. Department of Housing and Urban Development's public housing authorities (PHA) that did not have flood insurance before Hurricane Sandy. We identified three public housing authorities with some buildings in a flood zone that did not have flood insurance before Hurricane Sandy. Our report makes three recommendations designed to help PHAs ensure that all of their buildings in a flood zone are covered by flood insurance.

Your response to the draft report is included in the final report as appendix B. In that response, your office supported our recommendations and provided proposed actions to be taken to implement the recommendations. We concur with your proposed actions for recommendations 2 and 3. However, the proposed actions to satisfy recommendation 1 would not fully meet the intent of the recommendation. We repeat that the Office of Public and Indian Housing (PIH) should develop a flood insurance coverage verification process to be followed by PIH field offices to better prepare PHAs to deal with flooding caused by natural disasters. Within 90 days, please provide an update on the status of your actions, including any revised proposed management decision for recommendation 1.

Attachment

cc:
Peter S. Schmiedel, PIH Financial Management Specialist, PCE



Evaluation Report Number: 2015-OE-0007S

Date: December 17, 2015

Buildings at Three Public Housing Authorities Did Not Have Flood Insurance Before Hurricane Sandy

Highlights

What We Evaluated and Why

We evaluated public housing authorities (PHA) that did not have flood insurance before Hurricane Sandy to determine why some buildings were not insured as required. Flood insurance is necessary to ensure that PHAs remain financially viable, continue to provide safe and habitable housing to low-income residents, and minimize costs to taxpayers for keeping public housing units operational.

What We Found

We identified three PHAs with some buildings in a flood zone that did not have flood insurance before Hurricane Sandy. For two PHAs, not all of the buildings were covered by flood insurance because the PHAs relied upon insurance companies to keep abreast of the Federal Emergency Management Agency's (FEMA) updates to flood plain maps. The third PHA was aware of the need to obtain flood insurance but did not do so. As a result, one PHA incurred debt to pay for Hurricane Sandy-related repairs, and another operated at a loss. FEMA deducted the amount the third PHA would have received from flood insurance from a FEMA grant.

What We Recommend

We recommend that the Office of Public and Indian Housing (1) require field offices to verify that PHAs have flood insurance policies for buildings in a flood zone, (2) establish procedures to obtain updated flood plain maps and distribute them to PHAs, and (3) require the Crisfield, MD, PHA to procure full flood insurance coverage.

Table of Contents

| | |
|---|-----------|
| Background and Objectives | 3 |
| Evaluation Results | 5 |
| Fifty-Three Buildings Did Not Have Flood Insurance at the Crisfield, MD, PHA | 5 |
| Twelve Buildings Did Not Have Flood Insurance at the Carteret, NJ, PHA | 6 |
| Seven Buildings Did Not Have Flood Insurance at the Freeport, NY, PHA | 7 |
| Conclusion | 7 |
| Recommendations | 8 |
| Scope and Methodology | 9 |
| Appendixes | 10 |
| A. States and Territories With PHAs in Flood Zones | 10 |
| B. Comments and OIG’s Response | 12 |

Background and Objectives

Hurricane Sandy

In October 2012, Hurricane Sandy damaged hundreds of thousands of homes, forced tens of thousands of survivors into shelters, and caused billions of dollars in damage to vital infrastructure systems. Further, some public housing residents were displaced from their homes due to flood damage caused by the hurricane.

The Office of Public and Indian Housing

The U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing (PIH) administers public housing. Its programs are designed to help some of the Nation's most vulnerable households obtain housing for eligible low-income families, the elderly, and persons with disabilities. Public housing comes in all sizes and types, from scattered single-family houses to highrise apartments for the elderly.

PIH oversees and relies on public housing authorities (PHA) to ensure safe living conditions. There are approximately 1.2 million households living in public housing units, managed by some 3,937 PHAs. HUD administers Federal aid to local PHAs that manage the housing for low-income residents at rents they can afford. HUD furnishes technical and professional assistance in planning, developing, and managing these developments. PHAs monitor compliance with the home-ownership program and oversee living conditions in 234,590 public housing buildings.

Federal Emergency Management Agency National Flood Insurance Program

To limit the effects of flooding, the Federal Government established the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program. This program aims to reduce the impact of flooding on private and public structures by providing affordable insurance for property owners and encouraging communities to adopt and enforce flood plain¹ management regulations.

The National Flood Insurance Program requires property owners to purchase flood insurance when they are assisted by Federal programs and the property is located in identified areas having special flood hazards.² PHAs can purchase flood insurance directly from the Federal Government or through an insurance company. FEMA provides high quality flood maps to help communities take action to reduce flood risk. FEMA's Flood Map Service Center is the online location for all flood maps.

Risk to Public Housing

HUD acknowledged the risks of flood events and the importance of flood insurance in its October 2014 Climate Change Adaptation Plan. This plan identifies flooding as an extreme weather event that could affect public housing structures, residents, and administration. It states

¹FEMA defines a flood plain as any land area susceptible to submersion by floodwaters from any source.

²FEMA defines a special flood hazard area as an area having special flood, mudflow, or flood-related erosion hazards and shown on a flood hazard boundary map or a flood insurance rate map zone.

that PIH should evaluate and improve the policy on insurance requirements for PHAs to anticipate a variety of climate change impacts. It further states that PIH should train its staff to evaluate the best way to ensure that PHAs have adequate insurance coverage.

According to the Office of Policy Development and Research (PD&R), approximately 14 percent of PHAs have at least one building located in a flood zone (556 of 3,937), and about 5 percent of public housing buildings are in flood zones (11,591 of 234,590).³ PD&R believes an additional 3,940 buildings may be located in flood zones but has been unable to determine the exact number because PIH does not have geocoded location data for all public housing assets.

Evaluation Objectives

Our objectives were to determine

- How oversight and monitoring of flood insurance requirements for PHAs were carried out,
- How PIH can ensure that PHAs are notified of changes in flood maps,
- The status of flood insurance coverage for PHAs,
- What costs are associated with PHAs needing flood insurance, and
- The primary reasons for PHAs' failure to pay their flood insurance premiums.

³Figures as of June 1, 2015. See Appendix A for a listing of States and territories with PHAs in flood zones.

Evaluation Results

We identified three PHAs with some buildings located in a flood zone that did not have flood insurance before Hurricane Sandy. For two PHAs, not all of the buildings were covered by flood insurance because the PHAs relied upon insurance companies to keep abreast of FEMA's updates to flood plain maps. The third PHA was aware of the need to obtain flood insurance but did not do so. As a result, one PHA incurred debt to pay for Hurricane Sandy-related repairs, and another operated at a loss. FEMA deducted the amount the third PHA would have received from flood insurance from a FEMA grant.

In addition to the National Flood Insurance Program's requirement for flood insurance, HUD required PHAs to purchase flood insurance. HUD's consolidated annual contributions contract, a contract between PHAs and HUD, required flood insurance for properties located in a flood plain as determined by the National Flood Insurance Program.

PIH staff, located at HUD field offices, was responsible for the oversight and management of PHAs. The PHAs provided flood insurance self-certifications and proofs of insurance to PIH field offices. However, PIH did not verify that PHAs had flood insurance policies for all buildings in flood zones. We were unable to determine how much the PHAs would have received from flood insurance claim payments if all buildings had been insured. A flood insurance claim requires a detailed estimate by an insurance adjustor and a proof of loss supporting the damages.

Fifty-Three Buildings Did Not Have Flood Insurance at the Crisfield, MD, PHA

All of the Crisfield, MD, PHA's 105 buildings were in a flood plain when Hurricane Sandy hit, but it only maintained flood insurance on 52. The PHA's executive director believed the Crisfield PHA was sufficiently insured based on a 1983 FEMA letter that identified buildings located in the flood zone. Since receiving the letter, the Crisfield PHA had maintained flood insurance on the buildings. Following Hurricane Sandy, the Maryland Emergency Management Agency informed the Crisfield PHA that it was not fully insured due to an updated flood plain map, which broadened the flood plain to include 53 additional PHA buildings. The executive director relied on FEMA to send flood plain map update notifications to the PHA and for its insurance company to update it on flood insurance needs.

In Maryland, there are 120 public housing buildings containing 540 units in flood zones. [As of June 1, 2015]

In accordance with requirements of the annual contributions contract, the Crisfield PHA self-certified that it had obtained the necessary flood insurance and provided flood insurance policies to the PIH Baltimore field office. The PIH Baltimore field office reviewed the flood insurance documentation but did not verify its adequacy. Following Hurricane Sandy, the Crisfield PHA increased the policy limits to the required amounts on the buildings that it insured before the hurricane but had not obtained insurance for the newly identified buildings because funds were

not available. The executive director estimated that it would cost an additional \$24,000 per year to insure the remaining buildings.

While waiting for flood insurance payments and grants, the Crisfield PHA acquired a 5-year recovery loan to pay for Sandy-related repairs. The PHA used a portion of its Public Housing Capital Fund to repay the loan. Capital funds are used for improvements and debt service payments. PHAs may borrow private capital to make improvements and pledge a portion of their future year annual capital funds to make debt service payments for a conventional bank loan transaction. In total, the Crisfield PHA had more than \$8.5 million in flood-related damages and received more than \$4.7 million from flood insurance claims, FEMA grants, and HUD grants. The PHA required nearly \$3.8 million to bring its housing up to standards. In the past, the PHA used capital funds to renovate housing. Now, the housing improvement funds will repay the loan while tenants live in unrenovated units.

Twelve Buildings Did Not Have Flood Insurance at the Carteret, NJ, PHA

The Carteret, NJ, PHA had insured 1 of its 13 buildings located in a flood zone. The executive director relied on a risk management company to identify buildings located in a flood zone and acquire flood insurance for those buildings. The Carteret PHA's Edward J. Dolan Homes and Jeanette Smith Village properties had buildings in a flood zone. The risk management company identified 10 of the 13 buildings as being in the flood zone but wrote the policy to cover 1 building. Since it sustained the Hurricane Sandy damages, Carteret has insured 10 of the 13 buildings in the flood zone. The remaining three buildings were condemned as a result of damages caused by Hurricane Sandy.

In New Jersey, there are 358 public housing buildings containing 5,808 units in flood ZONES. [As of June 1, 2015]

In accordance with the requirements of its annual contributions contract, the Carteret PHA self-certified that it had obtained flood insurance and provided a flood insurance policy to the PIH Newark field office. The PIH Newark field office reviewed the flood insurance documentation but did not verify its adequacy.

The Carteret PHA sustained more than \$1 million in flood-related damages and received \$96,359 from flood insurance claims. As a result of Hurricane Sandy damage, the Carteret PHA operated at a loss and was unable to rebuild three condemned buildings estimated to cost at least \$8 million in the Edward J. Dolan Homes. Tenants relocated to other housing authorities, found housing through the Housing Choice Voucher program,⁴ or left without HUD assistance. The Carteret PHA laid off employees so it could reallocate funds. Eventually, the PHA will lose subsidies for the vacant units, which will lead to a greater financial burden.

⁴HUD previously referred to the Housing Choice Voucher program as Section 8.

To mitigate future flood losses, the PHA submitted a Rental Assistance Demonstration Program⁵ proposal to rebuild the condemned buildings in a location outside the flood zone. According to the executive director, the Carteret PHA's financial situation would improve if it received a Rental Assistance Demonstration Program subsidy. If HUD and the City of Carteret do not accept the proposal, the Carteret PHA may not be able to maintain operations, and as a result, HUD will have to determine the future of the PHA.

Seven Buildings Did Not Have Flood Insurance at the Freeport, NY, PHA

The Freeport, NY, PHA did not have flood insurance for seven buildings in a flood zone, located at its Moxey A. Rigby property. This property had flood damage from Hurricane Irene in 2011. After Hurricane Irene, the PIH New York field office instructed the PHA's executive director and board to purchase the required flood insurance, but the board and executive director did not do so.⁶ When Hurricane Sandy hit the property in 2012, buildings were again damaged by flooding and were not covered by flood insurance.

In New York, there are 244 public housing buildings containing 19,863 units in flood zones. [As of June 1, 2015]

In March 2014, the PHA hired a new executive director and a HUD-approved agent and broker for flood insurance. The executive director purchased the appropriate flood insurance, which became effective in May 2015. He also relocated the decommissioned administrative building. The PHA is seeking a long-term solution to flooding by relocating the property to a higher elevation. This action will require approvals from local authorities, HUD, and FEMA. The PHA applied for a FEMA grant of more than \$6.2 million to build the new property. FEMA approved this grant but deducted \$667,750 because the Freeport PHA did not have flood insurance before Hurricane Sandy.

Conclusion

Seventy-two buildings at three PHAs were located in flood zones but did not have flood insurance before Hurricane Sandy. While PHAs are responsible for buying necessary flood insurance, PIH field offices should review policies to determine whether all buildings in flood zones are covered by a PHA's insurance policy.

HUD also believes PIH can do more to ensure flood insurance coverage. In its October 2014 Climate Change Adaptation Plan, HUD identifies flooding as an extreme weather event that could affect public housing structures, residents, and administration. The plan states that PIH should evaluate and improve the policy on insurance requirements for PHAs to anticipate a

⁵The Rental Assistance Demonstration Program was created to give PHAs a tool to preserve and improve public housing properties. The program also gives owners of three HUD "legacy" programs (Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation) the opportunity to enter into long-term contracts that facilitate the financing of improvements.

⁶Our Office of Audit reported this issue in December 2014 in Audit Report 2015-NY-1002, The Freeport Housing Authority, Freeport, NY, Did Not Administer Its Low-Rent Housing and Homeownership Programs in Accordance With HUD's Regulations.

variety of climate change impacts. It further states that PIH should train its staff to evaluate the best way to ensure that PHAs have adequate insurance coverage.

There are 556 PHAs with 11,591 buildings in flood zones. We did not determine how many of these buildings were covered by a flood insurance policy. These three PHAs are examples of what can occur when a PHA does not have flood insurance coverage for all necessary buildings. Flood insurance is necessary to ensure that PHAs remain financially viable, continue to provide safe and habitable housing to low-income residents, and minimize costs to taxpayers for keeping public housing units operational.

Recommendations

We recommend that the Principal Deputy Assistant Secretary for Public and Indian Housing

1. Require field offices to review PHA-provided flood insurance documents to verify that PHAs have flood insurance policies for those buildings in flood zones.
2. Establish procedures to obtain updated flood plain maps and distribute them to PHAs.
3. Require the Crisfield, MD, PHA to procure full flood insurance coverage to protect itself and HUD's investments from financial loss.

Scope and Methodology

While researching the disaster-related needs of PHAs, we identified 15 PHAs with unmet needs after receiving insurance payments and FEMA assistance. Through interviews, we determined that three PHAs had some buildings located in a flood zone that did not have flood insurance before the hurricane. We evaluated why these buildings did not have flood insurance.

We interviewed staff from

- HUD PIH;
- HUD PD&R;
- Baltimore, Newark, and New York field offices;
- Crisfield, MD, Carteret, NJ, and Freeport, NY, PHAs;
- FEMA's New York regional office; and
- FEMA's National Flood Insurance Program.

We reviewed and analyzed the following documentation:

- Consolidated annual contributions contracts;
- Flood insurance policies, statements of loss, and claim settlements;
- HUD's Climate Change Adaptation Plan, October 2014; and
- PD&R flood zone data.

We conducted our fieldwork from April to July 2015. We conducted this evaluation under the authority of the Inspector General Act of 1978, as amended, and according to the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Appendixes

Appendix A

States and Territories With PHAs in Flood Zones

The following table lists the States and territories with properties in flood zones as of June 1, 2015. PD&R believes an additional 3,940 buildings may be located in flood zones but has been unable to determine the exact number because PIH does not have geocoded location data for all public housing assets.

| State or territory ⁷ | Field office(s) | Buildings in flood zones | Building units in flood zones |
|---------------------------------|---|--------------------------|-------------------------------|
| NY | New York City, Albany, and Buffalo | 244 | 19,863 |
| FL | Jacksonville and Miami | 1,157 | 6,795 |
| LA | New Orleans | 1,934 | 6,673 |
| NJ | Newark | 358 | 5,808 |
| PR | San Juan | 192 | 3,106 |
| TX | Fort Worth, Houston, and San Antonio | 830 | 2,985 |
| PA | Philadelphia and Pittsburgh | 221 | 2,816 |
| AL | Birmingham | 718 | 2,555 |
| CA | Los Angeles, San Francisco, and Santa Ana | 739 | 2,263 |
| NC | Greensboro | 837 | 2,061 |
| SC | Columbia | 333 | 1,456 |
| AR | Little Rock | 501 | 1,385 |
| KY | Louisville | 247 | 1,212 |
| IL | Chicago | 230 | 1,207 |
| CT | Hartford | 66 | 1,139 |
| GA | Atlanta | 315 | 1,051 |
| MS | Jackson | 391 | 958 |
| TN | Knoxville, Memphis, and Nashville | 412 | 915 |
| HI | Honolulu | 103 | 804 |
| RI | Providence | 13 | 772 |
| OH | Cleveland | 153 | 763 |

⁷ Some States have multiple field offices.

| | | | |
|---------------|-------------------------|---------------|---------------|
| VA | Richmond | 94 | 688 |
| MI | Detroit | 59 | 604 |
| MN | Minneapolis | 42 | 561 |
| MD | Baltimore | 120 | 540 |
| WI | Milwaukee | 117 | 498 |
| AZ | Phoenix | 271 | 479 |
| MA | Boston | 52 | 474 |
| NM | Albuquerque | 217 | 467 |
| NE | Omaha | 49 | 410 |
| VT | Burlington | 18 | 317 |
| KS | Kansas City | 142 | 297 |
| CO | Denver | 65 | 244 |
| IA | Des Moines | 4 | 219 |
| OR | Portland | 49 | 203 |
| MO | St. Louis | 47 | 196 |
| SD | Sioux Falls | 10 | 188 |
| NV | Las Vegas | 36 | 153 |
| OK | Oklahoma City and Tulsa | 67 | 140 |
| WV | Charleston | 19 | 137 |
| DE | Wilmington | 21 | 104 |
| WA | Seattle | 32 | 101 |
| IN | Indianapolis | 25 | 81 |
| ME | Bangor | 2 | 50 |
| MT | Helena | 19 | 50 |
| ID | Boise | 1 | 47 |
| WY | Casper | 6 | 21 |
| NH | Manchester | 3 | 19 |
| ND | Fargo | 7 | 14 |
| DC | Washington, DC | 3 | 6 |
| Totals | | 11,591 | 73,895 |

Source: OIG analysis of flood zone data received from PD&R

Appendix B

Comments and OIG's Response

Reference
to OIG
Response

Office of Public and Indian Housing Comments

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

PRINCIPAL DEPUTY ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

NOV 12 2015

MEMORANDUM FOR: Kathryn Saylor, Assistant Inspector General for Evaluation
Office of Inspector General, GAH

THROUGH:  Milan Ozdinec, Deputy Assistant Secretary, Office of Public
Housing and Voucher Programs, PE

FROM:  Unabyrd Wadhams, Deputy Assistant Secretary, Office of Field
Operations, PQ

SUBJECT: Proposed Management Decision Memorandum for the OIG
Evaluation Report on Three Public Housing Authorities That Did
Not Have Adequate Flood Insurance Before Hurricane Sandy

This memorandum contains the three proposed management decisions for the above-mentioned
OIG Evaluation Report submitted to the Office of Field Operations for consideration:

Recommendation 1. Require field offices to review PHA-provided flood insurance
documents to verify that PHAs have adequate flood insurance policies for those
buildings in flood zones.

PIH Response to Rec. 1. PIH supports a recommendation that field offices review flood
insurance documents to verify that the policy is in force.

While field offices can improve the review of PHA's flood insurance policies to verify
coverage, the determination of coverage level is an obligation of the PHA. PIH field staff
do not have the insurance industry/risk management expertise to determine whether the
insurance is adequate for buildings located in flood zones.

In an effort to introduce additional controls into this process, in October 2015, PIH
submitted a request to OMB that verification of adequate flood insurance coverage be
included as a part of the OMB Compliance Supplement to be effective beginning with
FY2015 independent audits. To date, PIH has not received a response from OMB on
whether this recommendation will be accepted.

Target Action Date: August 31, 2016

www.hud.gov espanol.hud.gov

Comment 1

Comment 2

Appendix B – continued

Comments and OIG's Response

Reference
to OIG
Response

Office of Public and Indian Housing Comments

Comment 3

2

Recommendation 2. Establish procedures to obtain updated floodplain maps and distribute them to PHAs.

PIH Response to Rec. 2. PIH supports the goal of this recommendation to ensure that PHAs have access to updated floodplain maps. FEMA provides a website that allows users to subscribe and receive access and updates to floodplain maps. Because FEMA's website contains floodplain maps that can be customized by the user, it is more feasible and would be more effective for the PHAs to directly access and obtain this information. The Deputy Assistant Secretary for the Office of Field Operations (OFO) previously sent an email blast with a link to FEMA's website to the Executive Directors at Public Housing Authorities (see attachment). OFO will also provide guidance to PHAs through its POST website on how it can subscribe to FEMA's website to receive notifications.

Target Action Date: January 31, 2016

Recommendation 3. Require the Crisfield, MD, PHA to procure full flood insurance coverage to protect the Authority and HUD's investments from financial loss.

PIH Response to Rec. 3. PIH supports the recommendation that the Crisfield Housing Authority (CHA) should obtain full insurance coverage. CHA has previously indicated that it did not have the funds to obtain full flood insurance coverage. PIH is working directly with the PHA to see if there are other ways to receive the funds needed to purchase flood insurance. PIH will present options that will enable the PHA to obtain the proper insurance.

Target Action Date: January 31, 2016

Comment 4

For all the above-mentioned management decisions, PIH will work with the OIG to complete the management actions as expeditiously as possible. PIH will also request closure if the recommendations can be completed earlier than the final action target date.

Appendix B – continued

Comments and OIG’s Response

OIG’s Response to Comments

- Comment 1 PIH supported a recommendation that field offices review flood insurance documents to verify that a flood insurance policy is in force. We agree that PIH field staff does not have the expertise to determine whether the level of insurance coverage is adequate. The intent of our recommendation is to ensure each building in a flood zone is covered by a flood insurance policy, not to ask PIH to determine how much coverage is needed. Therefore, we removed the word “adequate” from recommendation 1.
- Comment 2 PIH requested that the Office of Management and Budget add flood insurance verification to its Circular A-133 Compliance Supplement. While we agree that this measure would add valuable controls, a proactive verification by PIH field offices would better prepare PHAs to deal with flooding caused by natural disasters. To fully meet the intent of recommendation 1, we repeat that PIH should develop a flood insurance coverage verification process to be followed by PIH field offices.
- Comment 3 On September 29, 2015, the Deputy Assistant Director of the Office of Field Operations sent an email to PHA executive directors discussing disaster preparedness. This email reminded PHAs to check the most recent flood zone maps and submit flood insurance policies to the field office. It also noted that the field office will verify that the policy provides adequate coverage. The email contained a link to FEMA’s Web site for the National Flood Insurance Program. PIH also says it will add instructions for subscribing to FEMA notifications on its Web site. Once these instructions are posted, PIH’s actions will satisfy the intent of recommendation 2.
- Comment 4 PIH said it will present options that will enable the Crisfield Housing Authority to obtain the proper flood insurance. Recommendation 3 will be satisfied when policies are in place to cover all of the Crisfield Housing Authority’s buildings in a flood zone.