The State of Rhode Island

Community Development Block Grant Disaster Recovery Assistance Funds

Office of Audit, Region 1
Boston, MA

Audit Report Number: 2016-BO-1001
March 09, 2016
To: Marion Mollegen McFadden  
Deputy Assistant Secretary for Grant Programs, DG

From: Edward Jeye  
Regional Inspector General for Audit, 1AGA

Subject: The State of Rhode Island Generally Administered Its Community Development Block Grant Disaster Recovery Assistance Grant in Accordance With Federal Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General’s (OIG) final results of our review of the State of Rhode Island’s Community Development Block Grant Disaster Recovery assistance grant.

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 contact John Harrison, Acting Assistant Regional Inspector General for Audit, at 212-264-4174, or me at 617-994-8380.
Highlights

What We Audited and Why
We audited the Community Development Block Grant Disaster Recovery (CDBG-DR) assistance grant provided to the State of Rhode Island by the U.S. Department of Housing and Urban Development (HUD) to assist in disaster recovery and rebuilding efforts resulting from damages caused by Hurricane Sandy. The audit objective was to determine whether State officials obligated and disbursed the grant funds in a timely manner in accordance with HUD rules and regulations.

What We Found
State officials generally obligated and disbursed Sandy funds in a timely manner in accordance with HUD rules and regulations. A review of approximately $7.5 million, representing 71 percent of the more than $10.5 million in CDBG-DR funds awarded, disclosed that the funds were budgeted for eligible and HUD-approved activities, disbursed for eligible costs, and properly supported. However, State officials obligated $127,750 for one project without performing an adequate duplication of benefits analysis and cost analysis before procuring rehabilitation services.

What We Recommend
We recommend that HUD instruct State officials to ensure that any insurance proceeds are included in the revised duplication of benefits analysis for the questioned project for which $127,750 was obligated, deobligate any amount found ineligible, and perform a cost analysis to adequately justify project costs. Additionally, we recommend that HUD instruct the State to develop and implement policies and procedures to ensure that subgrantees comply with rules and regulations related to procurements.
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In response to Hurricane Sandy, Congress made available $16 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) assistance funds through the Disaster Relief Appropriations Act of 2013\(^1\) for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. The funds were to be allocated to areas most impacted by a major disaster declared under the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974 in calendar years 2011, 2012, and 2013.

Before providing funds to a grantee, 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. The Act requires that all funds be obligated by September 30, 2017, and disbursed within 2 years of obligation unless a waiver is obtained.

On July 18, 2013, State of Rhode Island officials submitted to HUD a certification of sufficient controls, processes, and procedures. HUD approved $19.9 million in CDBG-DR funds for the State in three separate allocations as of February 2015. As shown in the table below, HUD had awarded the State more than $10.5 million, and State officials had disbursed approximately $2.9 million as of September 30, 2015.

<table>
<thead>
<tr>
<th>Grant funds awarded</th>
<th>Award execution date</th>
<th>Grant funds disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>$625,612</td>
<td>9/3/2013</td>
<td>$625,612</td>
</tr>
<tr>
<td>$2,692,595</td>
<td>7/10/2014</td>
<td>$1,170,180</td>
</tr>
<tr>
<td>$7,254,929</td>
<td>5/12/2015</td>
<td>$1,101,660</td>
</tr>
<tr>
<td>$10,573,136</td>
<td></td>
<td>$2,897,452</td>
</tr>
</tbody>
</table>

Our audit objective was to determine whether State officials obligated and disbursed Sandy funds in a timely manner in accordance with HUD rules and regulations.

\(^1\) Public Law 113-2
Results of Audit

Finding 1: The State of Rhode Island Generally Administered Its Community Development Block Grant Disaster Recovery Assistance Grant in Accordance With Federal Regulations

For the funds audited, the State generally obligated and disbursed its CDBG-DR funds for eligible activities in a timely manner in accordance with HUD rules and regulations. However, one subgrantee did not ensure that a duplication of benefits was properly considered and that the procurement complied with Federal and State requirements. This deficiency occurred because the subgrantee lacked adequate monitoring controls over its subrecipient and the subrecipient was unfamiliar with federal procurement requirements. As a result, HUD lacked assurance that $127,750 in CDBG-DR funds was made available for eligible and reasonable costs.

CDBG-DR Funds Were Generally Obligated and Spent in Accordance With Federal Regulations

A review of 20 (refer to Appendix C) of the 59 activities, for which State officials had obligated approximately $7.5 million and spent $2.1 million in CDBG-DR funds, disclosed that the funds were obligated spent for eligible activities in a timely manner and in accordance with applicable regulations. However, they did not conduct an adequate duplication of benefits analysis or ensure compliance with Federal and State procurement regulations for one activity for which $127,750 was obligated and $9,550 was disbursed.

State officials obligated $127,750 for the rehabilitation of a nonprofit-owned four-unit residential property damaged by Hurricane Sandy. In determining the amount of CDBG-DR assistance to be provided, the State’s subgrantee officials did not include estimated future insurance proceeds in the calculation of the owner’s unmet need. Section 312 of the Stafford Act prohibits the 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, while documents in the file indicated that there was private insurance on the property, the State’s subgrantee officials did not document whether a claim had been filed or insurance proceeds had been received. Thus, there was a potential for a duplication of benefits. We attributed this deficiency to the State’s subgrantee officials’ unfamiliarity with the regulations. Upon being informed of this deficiency, the officials filed an insurance claim; however, payment was not received during the audit period. Subsequent documentation showed that an insurance payment was received by the subrecipient in December 2015.

Also, these subrecipient officials awarded contracts for the rehabilitation without completing a cost analysis and ensuring adequate competition. Regulations at 24 CFR (Code of Federal Regulations) 85.36(d)(4)(ii) provide that if competition is determined to be inadequate after a solicitation, a cost analysis is required to verify the proposed cost data. There was no supporting documentation showing that a cost analysis had been performed. In addition, State of Rhode Island Procurement Regulations, section 5.2 (37-2-2(2)(f)), provide that the chief purchasing
An officer must ensure that all State agency procurement activities foster effective competition to ensure that costs are economical. A competitive environment is considered to exist when certain conditions are met, including the comparison of two or more items or offers to determine their relative merit. However, while officials advertised for bids for a general contractor, only one contractor responded, and the procurement documentation did not support why this contractor was awarded the contract without an adequate number of respondents. An adequate number of respondents is required by State regulations to ensure that a competitive environment exists. The contractor was later released due to unsatisfactory performance and was paid $9,550 for the work completed.

**Conclusion**
While State officials generally obligated and disbursed the audited CDBG-DR funds in accordance with HUD regulations, one subgrantee lacked adequate monitoring controls over its subrecipient and was unfamiliar with Federal procurement regulations. As a result, HUD lacked assurance that $127,750 in CDBG-DR funds was made available for eligible and reasonable costs.

**Recommendations**
We recommend that HUD’s Deputy Assistant Secretary for Grant Programs instruct State officials to

1A. Ensure that any insurance proceeds received for the $127,750 project rehabilitation in question are included in a revised duplication of benefit analysis and any ineligible amount is deobligated.

1B. Ensure that a cost analysis is performed to adequately justify the costs of the project rehabilitation in question.

1C. Ensure that subgrantees have adequate controls to ensure that duplication of benefit analyses are adequately performed and procurement actions comply with Federal and State requirements.
Scope and Methodology

The audit generally covered the period October 1, 2012, through May 31, 2015, and was extended as needed. Audit fieldwork was performed in June and July 2015 at the State’s Office of Housing and Community Development located at One Capitol Hill, Providence, RI. We used data from HUD’s Disaster Recovery Grant Reporting system\(^2\) and verified the data with State documentation.

To accomplish our audit objective, we

- Reviewed the Disaster Relief Appropriations Act of 2013, the implementing regulations and HUD guidance pertaining to the use of CDBG-DR funds, and the State’s policies and procedures for administering the CDBG-DR grant.
- Obtained an understanding of the State’s financial controls over CDBG-DR funds’ obligation and disbursement.
- Interviewed State employees responsible for administering the disaster grant to document the State’s policies and procedures for administering the CDBG-DR funds.
- Reviewed the State’s action plan and amendments, quarterly disaster reports, and grant agreements with HUD to identify the CDBG-DR grant requirements.
- Reviewed HUD’s monitoring report dated October 27, 2014.
- Reviewed the State’s financial statements ending June 30, 2013, and June 30, 2014.
- Reviewed a sample of 20 of the 59 activities to which State officials had obligated $7.5 million, representing approximately 71 percent of the funds awarded. Sample selection was based on the budgeted dollar value, nature of the project, grantee, and funds disbursed. In addition, this sample represented 94 percent of the $2.1 million disbursed as of July 2015. We did not perform a statistical sample and therefore our results were not projected.

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.

\(^2\) The Disaster Recovery Grant Reporting system was developed by HUD’s Office of Community Planning and Development for the CDBG-DR program and other special appropriations, such as the Neighborhood Stabilization Program. Grantees use this system to draw down funds and report program income.
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:

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- 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.

We evaluated internal controls related to our audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control as a whole.
### Appendix A

#### Schedule of Questioned Costs

<table>
<thead>
<tr>
<th>Recommendation number</th>
<th>Unsupported 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A</td>
<td>$127,750</td>
</tr>
</tbody>
</table>

1/ 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.
Appendix B

Auditee Comments and OIG’s Evaluation

Ref to OIG Evaluation

Auditee Comments

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Executive Office of Commerce (EOC)
Office of Housing and Community Development (OHCD)
One Capitol Hill, 3rd Floor
Providence, RI 02906-5873

February 24, 2016

Edward J. Rey, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit, Boston Region 1
Thomas P. O’Neill, Jr. Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Rey:

The R.I. Office of Housing and Community Development (OHCD) has reviewed the recently
completed draft audit report number 2016-BO-10XX (Draft Report) relative to the State’s
Hurricane Sandy Community Development Block Grant, Disaster Recovery (Sandy CDBG-DR)
grant.

We are pleased that the Draft Report states that “…funds were budgeted for eligible and HUD-
approved activities, disbursed for eligible costs, and properly supported.” This is reflective of
OHCD’s efforts to support local recovery efforts and administer the Sandy CDBG-DR funds in
compliance with all applicable federal and state regulations.

The Draft Report identified three recommendations related to duplication of benefits and
procurement pertaining to the rehabilitation of a four-unit residential property. At this time, we
believe the State has fully implemented these recommendations. The State A) revised the
duplication of benefits analysis and deobligated the amount of insurance proceeds within 30 days
of the subrecipients’ receipt of such proceeds; B) reviewed the cost analysis; and C) modified
policies and procedures, and provided technical assistance to subgrantees.

Duplication of Benefits:

Only a portion of the four-unit residential rehabilitation scope of work, the roof repair, was
eligible for insurance proceeds. No CDBG-DR funds were disbursed for roof repairs. In
December 2015, subsequent to the audit period, the subrecipient received $10,700 in insurance
proceeds. The State promptly revised its duplication of benefits analysis and reduced the
obligation and contract award to the subgrantee by $10,700.

The State has modified its duplication of benefits policies and procedures in accordance with
HUD Field Office guidance, assuring analyses are comprehensive.

Comment 1

Comment 2

Comment 3
Auditee Comments and OIG’s Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

Procurement:

OHCD has clarified its procurement processes as they relate to the receipt of a single bid after a competitive solicitation process. Systems are in place to guarantee full and open competition in accordance with federal and state requirements.

The State will work with the HUD Field Office to resolve the questioned disbursement of $9,550, used to compensate a single bidder for CDBG-DR eligible expenses. OHCD has reviewed the procurement action, including bid documents, and determined that the procurement action was not restrictive of competition. A cost estimate was completed prior to the issuance of bid documents. The single bid received did not exceed the cost estimate. The contract was awarded to the single bidder, in accordance with federal regulations. OHCD recognizes that at the time of the procurement action, the non-profit subrecipient was experiencing a significant organizational and staffing transition. OHCD has worked closely with the subrecipient’s new staff, the subgrantee, and other subgrantees to ensure knowledge of procurement requirements and compliance with federal and state regulations.

Conclusion:

The State believes that its policies and procedures for duplication of benefits and procurement are sufficient to document compliance with applicable laws and regulations. Furthermore, the State has adequate documentation to demonstrate that the procurement actions taken by the subrecipient for the four-unit residential rehabilitation project were in accordance with federal regulations. We will make all of these materials available to you and/or the HUD Field Office.

Thank you for the opportunity to comment on the recently completed draft audit report. Please extend our appreciation to your staff for their professional, fair and thorough review. We value our partnership with HUD and appreciate HUD and OIG guidance in program administration. Should you have any questions or require additional information, please do not hesitate to contact this office at 401-222-6490.

Sincerely,

[Signature]

Michael Tendra
Chief, Office of Housing and Community Development

CC: Stefan Pryor, Commerce
**OIG Evaluation of Auditee Comments**

Comment 1  State of Rhode Island officials believe that they have fully implemented the recommendations in the audit report. Verification of such will be made by HUD during the audit resolution process.

Comment 2  State of Rhode Island officials reported that the subrecipient received $10,700 in insurance proceeds in December 2015, and as a result, they revised the duplication of benefits analysis and reduced the obligation and contract award to the subgrantee. The State of Rhode Island actions appear responsive to recommendation 1A and will be verified by HUD.

Comment 3  State of Rhode Island officials reported that they modified the State’s duplication of benefits policies and procedures in accordance with HUD field office guidance. The State of Rhode Island actions appear responsive to recommendation 1C and will be verified by HUD.

Comment 4  State of Rhode Island officials reported that they have clarified its procurement process related to the receipt of a single bid after a competitive solicitation process. The State of Rhode Island actions appear responsive to recommendation 1C and will be verified by HUD.

Comment 5  State of Rhode Island officials reported that a cost estimate was completed prior to the issuance of the bid documents and that the contract was awarded to the single bidder in accordance with federal regulations. However, since the contract was awarded to the single bidder, a cost analysis should have been done in accordance with federal regulations. Since a cost analysis was not provided during the course of our audit, State officials will have to provide HUD with evidence of compliance with federal regulations during the audit resolution process.
## Schedule of Sampled Projects

<table>
<thead>
<tr>
<th>Activity title</th>
<th>Activity budget</th>
<th>Activity disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Camp Cronin Fishing Area</td>
<td>$523,209</td>
<td>$523,209</td>
</tr>
<tr>
<td>2 Camp Cronin Fishing Area P2</td>
<td>2,883,137</td>
<td>1,069,910</td>
</tr>
<tr>
<td>3 Intrepid Drive Sewers</td>
<td>1,465,000</td>
<td>0</td>
</tr>
<tr>
<td>4 Westerly Old Town Beach Facility</td>
<td>350,463</td>
<td>97,926</td>
</tr>
<tr>
<td>5 Westerly Old Town Beach Facility P2</td>
<td>244,033</td>
<td>0</td>
</tr>
<tr>
<td>6 State Administration</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>7 State Administration</td>
<td>200,000</td>
<td>168,466</td>
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<tr>
<td>8 Administration</td>
<td>350,000</td>
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</tr>
<tr>
<td>9 Green Infrastructure Job Training</td>
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</tr>
<tr>
<td>10 Churchwoods Phase I</td>
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</tr>
<tr>
<td>11 Welcome House, Repairs to Housing</td>
<td>23,611</td>
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</tr>
<tr>
<td>12 Welcome House, Repairs to Scattered Site Housing</td>
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<td>9,442</td>
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<tr>
<td>13 Water Infra Design &amp; GI Policy Analysis_NPT</td>
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<td>14 Water Infra Design &amp; GI Policy Analysis_SK</td>
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<td>15 Senior Citizens Resiliency Project_NC</td>
<td>100,000</td>
<td>8,255</td>
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<td>16 Col. John Gardner Road</td>
<td>62,500</td>
<td>61,496</td>
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<tr>
<td>17 Chariho Regional Shelter Improvements</td>
<td>33,000</td>
<td>6,800</td>
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<td>18 Charlestown Debris Removal Tipping Fees</td>
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<td>19 Westerly Senior Center Improvements</td>
<td>75,149</td>
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<td>20 Middletown Police/Fire Overtime</td>
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<td><strong>Totals</strong></td>
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<td><strong>$2,095,128</strong></td>
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