



The City of New York, NY Office of Management and Budget

Community Development Block Grant Disaster
Recovery Funds
Temporary Disaster Assistance Program



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

//SIGNED//

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

Subject: The City of New York, NY, Generally Disbursed Community Development Block Grant Disaster Recovery Funds for Its Temporary Disaster Assistance Program 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 City of New York, Office of Management and Budget's administration of Community Development Block Grant Disaster Recovery funds for its Temporary Disaster Assistance 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 212-264-4174.



Audit Report Number: 2016-NY-1005

Date: March 11, 2016

The City of New York, NY, Generally Disbursed Community Development Block Grant Disaster Recovery Funds for Its Temporary Disaster Assistance Program in Accordance With Federal Regulations

Highlights

What We Audited and Why

We audited the City of New York, Office of Management and Budget's administration of its Temporary Disaster Assistance Program (TDAP) funded with Community Development Block Grant Disaster Recovery (CDBG-DR) funds provided by the U.S. Department of Housing and Urban Development (HUD) to assist in the disaster recovery and rebuilding efforts resulting from Hurricane Sandy. The disaster recovery funds were authorized by Congress under the Disaster Relief Appropriations Act of 2013. This review included the disbursement of approximately \$4 million in CDBG-DR funds pertaining to the City's program. The objectives of the audit were to determine whether the City (1) disbursed CDBG-DR funds for eligible activities in accordance with TDAP guidelines established under the HUD-approved action plan, action plan amendments, applicable Federal requirements, and City policy, and (2) developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed.

What We Found

City officials generally disbursed CDBG-DR funds for TDAP in accordance with guidelines established under the HUD-approved action plan, action plan amendments, and applicable Federal requirements. The City also approved and denied TDAP applications in accordance with the City's policies and procedures for the program. In addition, it developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed.

What We Recommend

There are no recommendations.

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Background and Objectives

The U.S. Department of Housing and Urban Development (HUD), Office of Block Grant Assistance, is responsible for the management and oversight of the Community Development Block Grant Disaster Recovery (CDBG-DR) program. The CDBG-DR program provides flexible grants to help cities, counties, and States recover from Presidentially-declared disasters, especially in low-income areas. CDBG-DR funding is appropriated by Congress as a special CDBG appropriation in response to a disaster. The statutory authority for CDBG-DR funding is made through individual supplemental appropriations that address specific disasters. Funds for damages caused by Hurricane Sandy are found in the Disaster Appropriations Act of 2013 (Public Law 113-2). This appropriation has provided the City of New York access to more than \$4.2 billion in disaster assistance. These funds are to be used in the most impacted and distressed areas for necessary expenses related to disaster relief, long-term recovery and restoration of infrastructure, and housing and economic revitalization. Each recipient must (1) address a disaster-related impact (direct or indirect) in a presidentially declared county for the covered disaster, (2) be a CDBG-eligible activity, and (3) meet a national objective.

On October 29, 2012, Hurricane Sandy made landfall along the eastern seaboard, impacting more than a dozen States. Over a 48-hour span, the storm caused extensive high winds and rainfall in the metropolitan area of New York City. The effect of these forces caused power outages, damaged homes, and destroyed critical public and private infrastructure.

The table below identifies the three allocations made to the City for CDBG-DR funded activities.

According to the Federal Register	Allocation amount
March 5, 2013	\$1,772,820,000
November 18, 2013	\$1,447,000,000
October 16, 2014	\$994,056,000
Total funding through October 2014	\$4,213,876,000

The City received an allocation of \$19 million in CDBG-DR funds to administer its Temporary Disaster Assistance Program (TDAP). Approximately \$4.5 million of these funds had been disbursed as of July 31, 2015. The New York City Department of Housing Preservation and Development administered TDAP for eligible low-income individuals and families impacted by Hurricane Sandy. Housing Preservation and Development was authorized to implement this program using CDBG-DR funds under a waiver granted to it by HUD in April 2013.

TDAP was a rental subsidy program that provided rental assistance to low-income residents displaced by Hurricane Sandy for a period of up to 2 years. The City assisted households in finding apartments in the existing affordable housing portfolio, or participants could identify

their own apartments. Participants signed leases directly with the property owners and were responsible for paying up to 30 percent of their income in rent. The City used CDBG-DR funds to cover the gap between the contract and the tenant's share of the rent. The program was modeled to follow the regulations and procedures of the Section 8 housing program, including the requirement that units meet HUD's housing quality standards.

To be eligible for TDAP, households initially were required to be at or below 50 percent of area median income. After the initial launch of this program, the City expanded the program's eligibility to include households at or below 50 percent of area median income which relocated following Hurricane Sandy and which now pay more than 40 percent of income in rent.

The objectives of the audit were to determine whether the City (1) disbursed CDBG-DR funds for eligible activities in accordance with the TDAP guidelines established under its HUD-approved action plan, action plan amendments, applicable Federal requirements, and City policy, and (2) developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed.

Results of Audit

Finding: The City Generally Disbursed CDBG-DR Funds for Its Temporary Disaster Assistance Program in Accordance With HUD Regulations

City officials generally disbursed CDBG-DR funds for TDAP in accordance with the guidelines established under the City's HUD-approved action plan and amendments and applicable Federal requirements. Additionally, officials developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed.

Funds Were Disbursed in Compliance With the City's HUD-Approved Action Plan and Federal Requirements

City officials generally disbursed CDBG-DR funds in accordance with the HUD-approved action plan and amendments and applicable Federal regulations. We reviewed and tested approximately \$4 million in CDBG-DR funds disbursed to the City and identified no material deficiencies. These disbursements included more than \$2.9 million for rental assistance, \$734,829 for case management costs, and \$346,959 for staffing costs incurred during the period October 29, 2012, through July 31, 2015. The City established controls to ensure that landlords did not get paid for more than the 2-year rental subsidy period. The City selected a financial management company as the contractor for case management services for all applicants affected by Hurricane Sandy. The case management costs were divided into several categories, which included registration of applicants for the program, identified as renter's deliverable, project management fees which included program design and labor costs, and a customer operations fee. The staffing costs incurred by City employees in administering TDAP included an initial eligibility screening, a final review of the application package for eligibility requirements, and scheduling eligible applicants for a mandatory briefing session. The City provided payroll journals and employee time certifications verifying that employees worked on the TDAP program, and the certifications were signed by the employee and a supervisor. The funds reviewed that were disbursed for TDAP were found to be reasonable, properly supported, eligible, and in compliance with the HUD-approved action plan and amendments and Federal regulations.

We selected and reviewed a sample of 28 TDAP applications and determined that the City approved and denied applicants in accordance with its policies and procedures for TDAP. The application review process had two distinct stages. An initial eligibility screening was conducted by Housing Preservation and Development's Placement Task Force, followed by an eligibility determination conducted by its Division of Tenant Resources. When an applicant submitted an application package to Housing Preservation and Development, it was reviewed by the Placement Task Force to determine whether (1) an applicant was a New York City resident displaced by Hurricane Sandy, (2) the applicant had refused or had access to other rental assistance programs or permanent housing, (3) the reported household income was at or below 50 percent of area median income, and (4) the applicant filed a complete TDAP application. The

Division of Tenant Resources conducted a final review of the application package, which included verifying income eligibility based on documents provided by the applicant and a screening for lifetime sex offender registration status. Upon verification of eligibility, the Division of Tenant Resources notified the applicant of his or her eligibility and scheduled the applicant for a briefing appointment. After an applicant met the eligibility requirements, the City issued a coupon to the applicant, conducted a housing quality standards inspection of the unit, and calculated the correct amount of rental subsidy.

If an applicant was denied eligibility, the Division of Tenant Resources issued the applicant a notice of denial for the program with information on the appeal process and procedures. Our review indicated that the denied applicants had not submitted documentation to prove residency at the damaged address at the time of Hurricane Sandy and did not provide all other required documentation or did not attend the required program workshops. Denied applicants were provided the opportunity to appeal the decision to the TDAP Appeals Department, a separate unit within Housing Preservation and Development. The review of the appeals properly documented whether applicants' appeals were granted. Further, it documented that proof a loss of residency was incurred due to Hurricane Sandy and contained all other required documents.

The City Developed a Housing Plan To Ensure That Residents Would Remain Stably Housed
HUD provided a waiver at 78 FR (Federal Register) 23580 (April 19, 2013) to forgo the requirements for a housing plan. However, City officials developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed. Application files showed that during the 2-year subsidy period, City officials provided ongoing counseling to the TDAP participants to help ensure that they would have a housing plan after their subsidy period expired. Documentation in the application files also indicated that City officials provided participants with an independent living planner resource packet, which included information on eviction prevention, employment, and affordable or supportive housing. In addition, City officials reached out to TDAP participants and encouraged them to apply for Section 8 housing choice vouchers.

Conclusion

City officials generally disbursed CDBG-DR funds for TDAP in accordance with the guidelines established under the HUD-approved action plan and amendments and applicable Federal requirements and developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed.

Recommendations

There are no recommendations.

Scope and Methodology

The review generally covered the period October 29, 2012, through July 31, 2015, and was extended as needed. Audit fieldwork was performed onsite from September 2015 through February 2016 at City and Housing Preservation and Development offices located at 255 Greenwich Street, New York, NY, and 90 Gold Street, New York, NY.

To accomplish our audit objectives, we

- Reviewed applicable laws, regulations, HUD handbooks, Federal Registers, the Code of Federal Regulations, public laws, and the City's policies and procedures for TDAP.
- Obtained an understanding of the City's disbursement and financial controls.
- Interviewed officials of the City, Housing Preservation and Development, and the New York City Mayor's Office of Housing Recovery Operations.
- Reviewed the City's action plan and amendments.
- Reviewed the grant agreement between HUD and the City.
- Reviewed the memorandums of understanding between the City and New York City Mayor's Office of Housing Recovery Operations and between the New York City Mayor's Office of Housing Recovery Operations and Housing Preservation and Development.
- Evaluated the City's internal controls and reviewed application and disbursement files to identify potential weaknesses related to our objectives.
- Reviewed data in HUD's Disaster Recovery Grant Reporting system.¹
- Reviewed HUD monitoring reports.
- Reviewed the City's comprehensive annual financial reports for the years ending in June 2013 and June 2014.
- Reviewed the City's single audit report for the year ending in June 2014.
- Reviewed an audit report on the administration of the New York City Build It Back Single Family Program by the New York City Mayor's Office of Housing Recovery Operations dated March 31, 2015.

¹ 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. Data from the system are used by HUD staff to review activities funded under these programs and for required quarterly reports to Congress.

The universe of TDAP disbursements contained 20 voucher drawdowns totaling more than \$4.5 million, which included more than \$2.9 million for rental assistance, \$734,829 for case management costs, and \$895,898 for staffing costs during the review period of October 29, 2012, through July 31, 2015. We selected a nonstatistical² sample of 16 of the 20 voucher drawdowns totaling more than \$4 million to gain a general understanding of City's internal controls and included all three cost categories. The sample included more than \$2.9 million for rental assistance, \$734,829 for case management costs, and \$346,959 for staffing costs. The universe of TDAP applications contained 646 applicants, of which 241 applicants were ineligible, 3 applicants declined assistance, 113 applicants' coupons had expired, 224 applicants were leased up, and 65 applicants were pending approval because additional information was required. We selected a nonstatistical sample of 28 application files for review, which included 5 eligible, 4 ineligible, 6 appeal denied, 10 appeal granted, and 3 declined.

While we used the data obtained from HUD's Disaster Recovery Grant Reporting system for information purposes, our assessment of the reliability of the data in the system was limited to the data reviewed. Therefore, we did not assess the reliability of this system. We performed a minimal level of testing and found the data to be adequate for our purposes.

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 objectives.

² A nonstatistical sample is appropriate when the auditor knows enough about the population to identify a relatively small number of items of interest. The results of procedures applied to items selected under this method apply only to the selected items and must not be projected to the portion of the population that was not tested.

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 objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

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

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to

provide assurance regarding the effectiveness of the internal structure as a whole. According, we do not express an opinion on the effectiveness of the City's internal controls as a whole.

Appendix

Appendix A

Auditee Comments



The City of New York
Office of Management and Budget
255 Greenwich Street, 6th Floor
New York, New York 10007

February 25, 2016

Ms. Kimberly Greene
Regional Inspector General for Audit, 2AGA
U.S. Department of Housing and Urban Development
Office of the Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Re: Draft Audit Report concerning the CDBG-DR Administration of the Temporary Disaster Assistance Program

Dear Ms. Greene:

The City of New York's Office of Management and Budget is in receipt of the Draft Audit Report concerning administration of the Community Development Block Grant Disaster Recovery Assistance (CDBG-DR) funds awarded to the City as a result of damages caused by Hurricane Sandy.

We would like to express our gratitude to your audit team for their due diligence in reviewing the City's administration of approximately \$4 million in CDBG-DR funds disbursed to the City during the period October 29, 2012, through July 31, 2015.

We support your finding, which states that the disbursed CDBG-DR funds for TDAP were spent in accordance with guidelines established under the HUD-approved action plan, action plan amendments, and applicable Federal requirements. The City also approved and denied TDAP applications in accordance with the City's policies and procedures for the program. In addition, the City developed a housing plan to ensure that at the end of the 2-year subsidy period, residents would remain stably housed.

Again, the City of New York's Office of Management and Budget appreciates the efforts of your audit team and looks forward to more successful audits in the future.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Johnson".

Calvin Johnson,
Assistant Director, CDBG-DR