



# The Lower Manhattan Development Corporation, New York, NY

## Community Development Block Grant Disaster Recovery Funds



**To:** Stanley A. Gimont, Deputy Assistant Secretary for Grant Programs, DG

**//SIGNED//**

**From:** Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

**Subject:** The Lower Manhattan Development Corporation, New York, NY, Generally Administered Its Disaster Recovery-Funded Programs in Accordance With Applicable Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Lower Manhattan Development Corporation's (LMDC) administration of Community Development Block Grant (CDBG) Disaster Recovery funds covering the period April 1, 2016, through March 31, 2017. The review was performed in response to a congressional mandate that HUD OIG continuously audit LMDC's administration of the \$2.783 billion in Disaster Recovery funds awarded to the State of New York in the aftermath of the September 11, 2001, terrorist attack on the World Trade Center in New York City. During the audit period, we reviewed \$6.8 million of the \$11.9 million disbursed for the two programs selected for review.

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 website. 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: 2018- NY-1004**

**Date: May 23, 2018**

**The Lower Manhattan Development Corporation, New York, NY, Generally Administered Its Disaster Recovery-Funded Programs in Accordance With Applicable Requirements**

## Highlights

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### What We Audited and Why

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We performed the 22nd review of the Lower Manhattan Development Corporation's (LMDC) administration of the \$2.783 billion in Community Development Block Grant (CDBG) Disaster Recovery funds awarded to the State of New York in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The objective of the audit was to determine whether LMDC administered its Disaster Recovery-funded Lower Manhattan Housing and Other World Trade Center Area Improvements programs in accordance with applicable requirements. Specifically, we reviewed \$6.8 million of the \$11.9 million disbursed during our audit period for the two programs selected for review.

### What We Found

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LMDC generally administered its Disaster Recovery-funded Lower Manhattan Housing and Other World Trade Center Area Improvement programs in accordance with applicable requirements. For the \$6.8 million in disbursements reviewed, LMDC ensured that disbursements were for eligible and supported costs. In addition, LMDC provided effective subrecipient and contractor oversight for the activities reviewed.

### What We Recommend

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There are no recommendations.

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# Background and Objective

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

The State of New York designated LMDC to administer \$2.783 billion of the \$3.483 billion<sup>1</sup> in Community Development Block Grant (CDBG) Disaster Recovery funds appropriated by Congress in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center to assist with the recovery and revitalization of Lower Manhattan. Planned expenditures of Disaster Recovery funds are documented in action plans that receive public comment and are approved by the U.S. Department of Housing and Urban Development (HUD). As of March 31, 2017, HUD had approved several partial action plans, a final action plan, and amendments, which allocated the \$2.783 billion to various programs and activities (see appendix B for amounts by program), and LMDC had disbursed more than \$2.4 billion, or 87 percent, of the \$2.783 billion appropriated.

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

Lower Manhattan Housing program: HUD approved \$54 million for this program to help achieve a strong and vibrant Lower Manhattan community by creating and preserving affordable housing. The program consisted of four activities, including the rehabilitation of Masaryk Towers, a 1,110-unit development located on the Lower East Side of Manhattan. This cooperative development consisted primarily of low-income tenants, with more than half of the shareholders qualifying for assistance under the Housing Choice Voucher program.<sup>2</sup> The rehabilitation work included repairs to the building façade, replacement of balcony railings, removal and repaving of walkways and parking areas, installation of a secure entry point, perimeter fencing, and landscaping services.

Other World Trade Center Area Improvements program: HUD approved \$204.5 million for this program to assist properties and businesses damaged by and economic revitalization related to the attacks. The program consisted of five activities, including the West Thames Street Pedestrian Bridge activity, which was designed to provide an alternate safe crossing and improved connections between Battery Park City recreational facilities, residences, and commercial buildings and the remaining Lower Manhattan area for foot traffic.

Our audit objective was to determine whether LMDC administered its Disaster Recovery-funded Lower Manhattan Housing and Other World Trade Center Area Improvements programs in accordance with applicable requirements.

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<sup>1</sup> The Empire State Development administers the remaining \$700 million.

<sup>2</sup> HUD's Housing Choice Voucher program provides rental assistance to help very low-income families, the elderly, and the disabled afford decent, safe, and sanitary housing.

# Results of Audit

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## **Finding: LMDC Generally Administered Its Disaster Recovery-Funded Programs in Accordance With Applicable Requirements**

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LMDC generally administered its Disaster Recovery-funded Lower Manhattan Housing and Other World Trade Center Area Improvement programs in accordance with applicable requirements. For the \$6.8 million in disbursements reviewed, LMDC ensured that disbursements were for eligible and supported costs. In addition, LMDC provided effective subrecipient and contractor oversight for the activities reviewed.

### **Programs Administered in Accordance With Applicable Requirements**

For the activities reviewed under the Lower Manhattan Housing and Other World Trade Center Area Improvement programs, LMDC generally ensured that disbursements were for eligible and supported costs and provided effective oversight for the activities. We tested more than \$6.8 million of the more than \$11.9 million disbursed for two activities and reviewed documentation related to subrecipient and contractor oversight. We found no material deficiencies.

Specifically, for the more than \$6.8 million in disbursements tested for the activities reviewed, LMDC disbursed funds for eligible costs that were adequately supported and complied with the HUD-approved partial and final action plans, subrecipient agreements, and applicable laws and regulations. For the Masaryk Towers activity under the Lower Manhattan Housing program, disbursements were supported with contractor invoices and architects' certificates for payment. For the West Thames Street Pedestrian Bridge activity under the Other World Trade Center Area Improvement program, disbursements were supported by contractor invoices, timesheets, and relevant pay rate and contractor fee information.

In addition, LMDC adequately monitored its subrecipients and contractors for the activities reviewed in accordance with HUD, Federal, and City requirements. LMDC continuously monitored subrecipient performance against goals and performance standards prescribed in subrecipient agreements, prepared monthly and quarterly monitoring reports, and maintained adequate supporting documentation for each of the projects. Further, procurement files were adequately maintained, and records showed that activities met a national objective.

### **Conclusion**

For the activities reviewed under the Lower Manhattan Housing and Other World Trade Center Area Improvement programs, LMDC generally ensured that the disbursements were for eligible and supported costs and provided effective subrecipient and contractor oversight in accordance with applicable requirements.

### **Recommendations**

There are no recommendations.

# Scope and Methodology

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We conducted our audit from November 2017 through March 2018 at the LMDC office located in Lower Manhattan. The audit covered the period April 2016 through March 2017.

To accomplish our audit objective, we

- Reviewed applicable laws, regulations, and program requirements.
- Reviewed LMDC’s policies, procedures, and internal controls.
- Reviewed audited financial statements for the years ending March 31, 2016 and 2017.
- Reviewed HUD-approved partial and final action plans and amendments.
- Reviewed subrecipient agreements, construction contracts, procurement files, monthly status reports, national objective documentation, and monitoring records related to the activities and disbursements selected.
- Reviewed prior Office of Inspector General (OIG) reports and audit work papers.
- Reviewed HUD monitoring reports and quarterly performance reports.
- Interviewed LMDC officials.

As of March 31, 2017, LMDC had disbursed more than \$2.4 billion, or 87 percent, of the \$2.783 billion appropriated. During the audit period, LMDC disbursed more than \$20.8 million in disaster funds, including \$6 million for its Lower Manhattan Housing program and more than \$5.9 million for its Other World Trade Center Area Improvements program. Our audit focused on these two programs because they had the highest net disbursements during our review period. See appendix B for more details on amounts budgeted and disbursed for each program.

Of the \$11.9 million disbursed for the two programs during our audit period, more than \$9 million was disbursed for the rehabilitation of Masaryk Towers and the construction of the West Thames Street Pedestrian Bridge. We selected these two activities for review because they had the highest amount disbursed for the two programs during our audit period. We then identified 10 disbursement vouchers during our audit period for the activities and selected a nonstatistical sample of the three largest disbursement vouchers for testing. The three sampled vouchers totaled more than \$6.8 million.

Program	Amount disbursed for program (during period)	Activity	Amount disbursed for activity (during period)	Amount sampled
Lower Manhattan Housing	\$6,000,000	Masaryk Towers	\$6,000,000	\$4,950,505
Other World Trade Center Area Improvements	5,914,729	West Thames Street Pedestrian Bridge	3,021,707	1,893,126
<b>Totals</b>	<b>11,914,729</b>		<b>9,021,707</b>	<b>6,843,631</b>

Although this approach did not allow us to make a projection to the entire \$11.9 million disbursed for the two programs, it was sufficient to meet our objective and allowed us to review more than 75 percent of the more than \$9 million in Disaster Recovery funds disbursed for the two activities during our audit period and more than 57 percent of the \$11.9 million disbursed for the two programs during our audit period.

For each of the disbursement vouchers selected, we reviewed documentation to determine whether the amounts disbursed were for eligible and supported costs. For the Masaryk Towers sample, we reviewed contractor invoices with architect certifications for payment, work descriptions, work completed, and drawdown requests for HUD funds. For the West Thames Street Pedestrian Bridge sample, we reviewed contractor invoices with supporting documentation, timesheets, pay rates, and contractor fees.

To achieve our objective, we relied in part on computer-processed data generated by LMDC as well as data maintained in HUD's Disaster Recovery Grant Reporting (DRGR) system<sup>3</sup> for background information and to select a sample of disbursements for review. Our assessment of the reliability of these data was limited to reconciling the data recorded in DRGR during our audit period to LMDC records. We based our conclusions on source documentation obtained from LMDC for the programs and activities selected for 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.

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



# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

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

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

# Appendixes

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## Appendix A

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### Auditee Comments



**LMDC**

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April 24, 2018

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

Dear Ms. Dahl:

The Lower Manhattan Development Corporation (LMDC) has reviewed the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General Draft Audit Report that was provided to us on or about April 19, 2018 covering the period from April 2016 through March 2017. We recognize the importance of this audit and the previous 21 congressionally mandated audits your office has performed; we appreciate the effort you and your staff have put forth.

We are pleased that this report reflects our ongoing efforts to effectively administer Disaster Recovery funds in accordance with applicable requirements and that there are no findings or recommendations to report. LMDC has and will continue to work conscientiously to insure Disaster Recovery funds are disbursed in accordance with approved partial and final action plans and only for eligible HUD approved expenses.

Respectfully,

A handwritten signature in black ink, appearing to read "D. Ciniello", is written over a light blue horizontal line.

Daniel A. Ciniello  
Senior Vice President-Operations/CFO  
Lower Manhattan Development Corporation

## Appendix B

### Schedule of Disbursements as of March 31, 2017

Program <sup>4</sup>	Budget as of Mar. 31, 2017	Audit period disbursement Apr. 1, 2016-Mar. 31, 2017 <sup>5</sup>	Cumulative disbursement as of Mar. 31, 2017	Balance remaining as of Mar. 31, 2017
Business Recovery Program	\$218,946,000	\$0	\$218,728,643	\$217,357
Job Creation & Attraction Program	143,000,000	(25,200)	106,573,201	36,426,799
Small Firm Attraction & Retention	29,000,000	0	27,625,391	1,374,609
Residential Grant Program	236,057,064	0	236,057,064	0
Employment Training Assistance	337,771	0	337,771	0
Interim Memorial	309,969	0	309,969	0
Columbus Park Pavilion	767,406	0	767,406	0
History & Heritage Marketing	4,612,619	0	4,612,619	0
Downtown Alliance Streetscape	4,000,000	0	4,000,000	0
New York Stock Exchange Security Improvements	25,255,000	0	24,891,703	363,297
Parks & Open Spaces	34,381,689	596,391	34,251,435	130,254
Hudson River Park Improvement	72,600,000	0	72,600,000	0
West Street Pedestrian Connection	22,955,811	0	22,361,533	594,278
LM (Lower Manhattan) Communication Outreach	1,000,000	0	1,000,000	0
Chinatown Tourism Marketing	1,160,000	0	1,160,000	0
Lower Manhattan Info	2,548,556	0	2,548,556	0
WTC (World Trade Center) Site	677,053,783	(8,477,081)	627,494,184	49,559,599
Lower Manhattan Tourism Programs	3,950,000	0	3,950,000	0
East River Waterfront	168,000,000	675,159	125,189,374	42,810,626
Lower Manhattan Street Management	9,000,000	0	8,957,942	42,058
East Side K-8 School	23,000,000	0	23,000,000	0
Fiterman Hall	15,000,000	0	15,000,000	0
Chinatown LDC (Local Development Corporation)	7,000,000	0	6,155,543	844,457
Lower Manhattan Business Expansion	2,670,000	240,000	2,670,000	0
Lower Manhattan Housing	54,000,000	6,000,000	41,206,200	12,793,800
Lower Manhattan Public Service Programs	7,857,921	1	7,857,921	0
Planning & Administration	120,922,905	3,955,126	113,441,645	7,481,260
Community & Cultural Enhancements	85,789,823	621,943	77,074,525	8,715,298
Drawing Center	2,000,000	0	2,000,000	0
Fulton Corridor	29,342,328	854,581	29,342,328	0
Economic Development	6,928,418	29,450	5,090,720	1,837,698
Transportation Improvements	15,835,000	568,462	5,849,859	9,985,141
Education – Other	3,000,000	0	3,000,000	0
Utility Restoration and Infrastructure Rebuilding	483,382,087	0	483,382,087	0
Disproportionate Loss	33,000,000	0	33,000,000	0
Other World Trade Center Area Improvements	204,594,000	5,914,730	46,342,200	158,251,800
Settlement Funds	33,741,850	0	0	33,741,850
<b>Totals</b>	<b>2,783,000,000</b>	<b>10,953,562</b>	<b>2,417,829,819</b>	<b>365,170,181</b>

<sup>4</sup> Items appear in the order presented in the HUD-approved quarterly performance reports.

<sup>5</sup> Negative amounts represent net recoveries to the program.