



**State of Texas  
Austin, TX**

**State Community Development Block Grant  
Disaster Recovery Program**



Issue Date: July 15, 2014

Audit Report Number: 2014-FW-1004

TO: Tennille Parker, Director, Disaster Recovery and Special Issues Division, DGBD

//signed//

FROM: Gerald R. Kirkland, Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The State of Texas' Contractor Did Not Perform Adequate Hurricane Dolly Damage Inspections and Failed To Meet Critical Performance Benchmarks

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 Texas' Disaster Recovery Program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (817) 978-9309.



July 15, 2014

## **The State of Texas' Contractor Did Not Perform Adequate Hurricane Dolly Damage Inspections for Some Homes and Failed To Meet Critical Performance Benchmarks**

# Highlights

Audit Report 2014-FW-1004

### What We Audited and Why

We audited the State of Texas' Community Development Block Grant Disaster Recovery Program based on a hotline complaint, which alleged mismanagement of the Lower Rio Grande Valley Development Council's Disaster Recovery housing program. The complainant also made allegations concerning excessive home costs and ineligible homeowners.

Our audit objectives were to determine whether the State (1) ensured that the contractor limited the award of Disaster Recovery grant funds to eligible homeowners and homes, (2) ensured that the contractor met critical performance benchmarks in the Development Council's housing programs, and (3) adequately monitored the Development Council's housing programs.

### What We Recommend

We recommend that HUD's Acting Director of the Disaster Recovery and Special Issues Division require the State to repay \$1.6 million for homes not eligible for assistance, ensure that the contractor adequately inspects for and documents Hurricane Dolly damage, monitor its contractor, and continue to withhold payments until the contractor meets benchmarks.

### What We Found

Except for assisting ineligible homes, we could not substantiate the allegations. The State, the Development Council, and its contractor generally ensured that homeowners met most eligibility requirements, and they supported the homes' costs. However, our testing showed the State's contractor did not adequately document Hurricane Dolly damages for 15 assisted homes costing \$1.6 million. The contractor's 15 inspections did not clearly show the damage or identify the repairs needed related to Hurricane Dolly as required. This condition occurred because the State prioritized the funding to affirmatively further fair housing and did not adequately monitor the contractor. In addition, the contractor did not perform its inspections in a timely manner, performed the inspection as the last step in the eligibility process, and did not use the Federal Emergency Management Agency or other sources to verify Hurricane Dolly damage. Projecting the results of our statistical sample to the 700 homes that the State expects to complete by December 31, 2014, showed that the State could fund at least 84 ineligible homeowners, costing at least \$8.6 million, if its contractor does not correct the inspection process.

The State also did not ensure its contractor met critical performance benchmarks. This condition occurred because the State did not establish a policy for implementing the program in a timely manner and its contract lacked penalty provisions. In addition, the contractor appeared to have capacity issues, and its subcontractor did not appear to adequately staff the program. As result, the contractor had missed all of its benchmarks, and it had constructed only 137 (17 percent) of the 815 estimated homes required to be completed.

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## BACKGROUND AND OBJECTIVES

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On September 30, 2008, Congress enacted the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009.<sup>1</sup> The Act appropriated \$6.1 billion through the U.S. Department of Housing and Urban Development's (HUD) State Community Development Block Grant (CDBG) program for necessary expenses related to disaster relief and long-term recovery for presidentially declared disasters occurring during 2008.<sup>2</sup> The State of Texas<sup>3</sup> received more than \$3 billion in State CDBG Disaster Recovery funding authorized by the Act through two allocation rounds.

The State's method of distribution used the Council of Governments to distribute the funds in the areas designated by the Federal Emergency Management Agency (FEMA) and the State as being hardest hit by disasters. In March 2009, the State implemented its \$1.3 billion Round I Action Plan, through which the Lower Rio Grande Development Council received \$55 million. In August 2009, HUD announced the second round of funding; however, HUD rejected the State's amended Round II Action Plan. Before the State provided a revised Round II Action Plan, complainants filed a fair housing complaint with HUD. Ultimately, the State entered into a conciliation agreement with the complainants and HUD. HUD accepted the State's amended Round II Action Plan in June 2010. For Round II, the State's approved method of distribution provided more than \$1.7 billion to affected regions, and the Development Council received more than \$185 million of those funds.

**Table 1:** Total State Disaster Recovery funding provided

<b>Lower Rio Grande Development Council Disaster Recovery funding</b>			
	<b>Housing</b>	<b>Nonhousing</b>	<b>Total</b>
<b>Round I</b>	\$7,479,993	\$47,520,007	\$ 55,000,000
<b>Round II</b>	122,034,387	63,481,528	185,515,915
<b>Total</b>	<b>\$129,514,380</b>	<b>\$111,001,535</b>	<b>\$240,515,915</b>

For Round I, the State notified the City of Brownsville that the Development Council would complete the City's \$1.6 million housing program. The Development Council contracted with URS Corporation (contractor) in December 2011 for management services to complete the City's housing program.

Before the start of Round II, the Development Council contracted with the contractor in September 2011 to prepare a fair housing activity statement form and conduct a needs assessment in accordance with Round II program guidelines and the conciliation agreement. For

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<sup>1</sup> Public Law 110-329

<sup>2</sup> The 2008 presidentially declared disasters that struck Texas included Hurricanes Dolly, Gustav, and Ike.

<sup>3</sup> In 2008, the Governor of Texas designated grant administration to the Texas Department of Rural Affairs, which partnered with the Texas Department of Housing and Community Affairs to administer the grant funds. In July 2011, the Governor changed the responsible agency to the Texas General Land Office.

Round II, the State approved 18 contractors as grant administrators for the Disaster Recovery program. The Development Council selected three grant administrators. The State solicited the three grant administrators, evaluated the two proposals received, and signed a contract with one contractor which became the Development Council's grant administrator. The contractor was responsible for preparing weekly and quarterly reports, preparing the Outreach Plan, taking applications, determining eligibility, performing inspections, conducting damage verifications and environmental reviews, managing housing construction, performing project closeout, and completing project setups in the State's Housing Contract System. For the Round II Program, the contractor reported to the State, and the State was responsible for the oversight of the contractor.

For Round II, the State had to abide by the conciliation agreement before any funds could be used on housing projects. The State's program was delayed for more than a year as it negotiated the complaint and completed the Analysis of Impediments to fair housing for the hurricane-affected communities as required by the conciliation agreement. The conciliation agreement also required the State to implement new programs to further fair housing. The State's analysis and needs assessment redefined the requirements to participate in the program based on concentration of poverty, protected class, and hurricane-damaged areas. These requirements led to the creation of targeted zones where the contractor conducted outreach to the disaster applicants. The analysis restricted the use of funds to only administration and planning expenses until the analysis was accepted or until January 2011, whichever came first. The State also had to train the grant recipients on affirmatively furthering fair housing, complying with civil rights, and reporting their actions to the fair housing advocates.

Our audit objectives were to determine whether the State (1) ensured that the contractor limited the award of Disaster Recovery grant funds to eligible homeowners and homes, (2) ensured that the contractor met critical performance benchmarks in the Development Council's housing programs, and (3) adequately monitored the Development Council's housing programs.

## RESULTS OF AUDIT

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### Finding 1: The State's Contractor Performed Inadequate Hurricane Damage Inspections for Some Homes

The State's contractor did not perform adequate home inspections of 15<sup>4</sup> Disaster Recovery-assisted homes. The inspections did not clearly show Hurricane Dolly damage or identify the repairs needed related to the hurricane as required by the Act or the State's contract. This condition occurred because the State prioritized the funding to affirmatively further fair housing and did not adequately monitor the contractor's inspection process. In addition, the contractor did not perform its inspections in a timely manner due to circumstances beyond its control,<sup>5</sup> performed the inspection as the last step in the eligibility process, and did not use FEMA or other sources to verify Hurricane Dolly damage. As a result, the State must repay \$1.61 million for the 15 ineligible homes. Further, projecting the results of our statistical sample to the 700 homes that the State expects to complete by December 31, 2014, showed that the State could fund at least 84 ineligible homeowners, costing at least \$8.6 million, if its contractor does not correct its inspection process.

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#### Initial Testing Identified Four Ineligible Homeowners

Initial testing of 16 homes showed that the State and the Development Council provided ineligible Disaster Recovery assistance totaling \$403,918 to 4 homeowners. The homes were ineligible because the contractor's inspector did not properly evaluate the homes. All four of the homeowners received FEMA assistance for damages caused by Hurricane Alex in 2010, which was not an eligible storm under the Act. The contractor's inspections stated that Hurricane Dolly caused all of the homes' damage and failed to attribute any damage to Hurricane Alex. However, the contractor knew of the Hurricane Alex damages because it used FEMA's database of Hurricane Alex assistance to calculate duplication of benefits for three of the homeowners. In addition, the three homeowners disclosed in their applications that they received FEMA assistance for Hurricane Alex and provided the contractor FEMA's letters. Further, the contractor's file for one of the three homes contained an invoice for repairs related to Hurricane Alex damages. For the fourth home, the contractor did not properly determine that the homeowner received Hurricane Alex assistance

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<sup>4</sup> The 15 homes consisted of 4 ineligible homes identified during our survey and 11 ineligible homes identified as a result of our statistical sample testing.

<sup>5</sup> The contractor did not start the first inspections until almost 4 years after Hurricane Dolly due to the State's delay in implementing the program. See the Background and Objectives section and finding 2.

because it failed to detect that FEMA provided assistance to the applicant's son, who lived at the same address.

### **The State Funded an Additional 11 Ineligible Homeowners**

The State funded 11 ineligible homeowners of the 50 statistically selected homes reviewed. Initially, we found that the contractor did not adequately document Hurricane Dolly damages for 19 of the 50 homes sampled. For 8 of the 19 homes, we used other sources to verify Hurricane Dolly damage, making the homes eligible even though the contractor performed inadequate inspections. We noted that FEMA had Hurricane Dolly claims for seven of the eight homeowners and a private insurance carrier had paid a claim to the eighth homeowner.

The State provided ineligible assistance totaling \$1.21 million to the 11 homeowners because the contractor's inspectors did not adequately inspect the homes. For example, other storms damaged 2 of the 11 homes, yet the contractor's inspection reports and pictures attributed the damage to only Hurricane Dolly. A tornado damaged one of the two homes on June 30, 2011, and the contractor's file contained a private insurance claim filed by the applicant. The contractor's file showed the homeowner received a check, dated July 2011, for wind damage to the roof and water damage to the ceilings. The contractor inspected the home on October 28, 2013, 2 years after the tornado and 5 years after Hurricane Dolly. The contractor's inspection and pictures attributed all of the roof and ceiling damage to Hurricane Dolly and did not identify any damages caused by the tornado.

For the second home, a hail storm damaged the home on April 20, 2012. The contractor's file showed that the homeowner filed a private insurance claim and received a check in February 2013 to repair the roof, siding, and interior walls and ceilings in the kitchen and laundry room. The contractor inspected the home for Hurricane Dolly damages on August 6, 2013, 1 year after the hail storm, 5 years after Hurricane Dolly, and after a private contractor had replaced the roof (see figure 1). The contractor's inspections stated that Hurricane Dolly damaged the laundry room's ceiling and did not identify any damages that the hail storm caused to the ceiling in 2012. Both applicants acknowledged having homeowner's insurance at the time of Hurricane Dolly, but they did not file a claim for Hurricane Dolly damages.





**Figure 1:** Sample home 4. This home had just received a new roof due to a hail storm. The inspector did not mention the hail storm in his inspection.

In addition, the contractor generalized the hurricane damage to the remaining 9 of the 11 homes in its inspections, pictures, and estimates of costs to repair. The exterior and interior pictures also did not support the inspector's narrative comments regarding the damage. For example, in various instances, the contractor's inspection reports stated that the wind damaged the roof, yet the contractor's files did not include roof pictures, or the inspector took the pictures from a distance so that the damage, if it existed, could not be seen.



**Figure 2:** Sample home 1. The inspection stated that wind damaged the roof covering. This roof picture did not identify the Hurricane Dolly wind damage.



**Figure 3:** Sample home 18. The inspection stated that the home had one foot of water in it from storm surge and that the foundation, piers, and flooring were damaged. This poor-quality picture was the only photo of the foundation and piers, and it did not show hurricane damage.



**Figure 4:** Sample home 18. This picture of the flooring in the living room did not show hurricane storm surge damage. The file did not contain pictures that showed storm surge damage to the flooring or walls.



**Figure 5:** Sample home 44. The inspection stated that Hurricane Dolly damaged the interior ceiling and walls; however, the pictures did not identify the hurricane damage.<sup>6</sup>

Since the contractor demolished and rebuilt the 11 homes, it will not be able to reinspect them to document the Hurricane Dolly damage, making the homes ineligible for Disaster Recovery assistance.

### **The State's Priority Appeared To Meet the Conciliation Agreement Requirements**

Because the State entered into the conciliation agreement, it designed its program guidelines and outreach to prioritize the funding to affirmatively further fair housing. Thus, the State's housing program focused on first finding participants who met certain income brackets as agreed to in the conciliation agreement, and determining whether the home had eligible Hurricane Dolly damage was the last step in the process. However, the Act's purpose was to pay for necessary expenses to areas impacted by Hurricane Dolly, with at least 50 percent of the funds benefiting persons of low to moderate income. Thus, the State's primary emphasis on income targeting appeared to negatively affect its inspection process.

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<sup>6</sup> The file contained several pictures, none of which supported damages to the ceilings or walls.

## **The State Performed Insufficient Monitoring of the Contractor**

The State did not perform sufficient monitoring of its contractor. The State's program manager periodically visited the contractor to provide technical assistance and discuss program progress. However, the State performed only limited reviews of the contractor's inspections and damage assessments. During a technical assistance visit to the contractor's office in March 2013, the State found that a home inspection lacked proper photographic support of hurricane damage. Specifically, the photos did not include captions for hurricane damage or the room locations. The State recommended that each photo should include a caption for the room and identify the hurricane damage. The State provided additional documentation of its monitoring and technical assistance; however, it did not include a follow-up or additional review of the inspections to determine whether the contractor addressed the concerns or implemented the recommendation.

Our reviews performed from September 2013 to January 2014 also determined that the contractor's home inspections and pictures did not adequately document Hurricane Dolly damages. In addition, we identified obvious errors that the State did not detect or correct. For example, one home inspection stated that Hurricane Ike caused the damage, but Hurricane Ike did not impact this area of the Gulf Coast. Further, the contractor's files contained information about other storm damage, but the State did not question why the contractor did not include the other storm damage in the homes' inspections.

## **The State's and Development Council's Perceptions of Contractor Oversight Differed**

The State and the Development Council disagreed about responsibility for the contractor's oversight. The State approved 18 contractors as grant administrators for the Disaster Recovery program. The Development Council selected three grant administrators. The State solicited the three grant administrators, evaluated the two proposals received, and signed a contract with one contractor, which became the Development Council's grant administrator. The Development Council was not a party to the State's contract, and the contract terms did not give it oversight responsibility. However, during interviews with staff from the State and the Development Council, each side said that the other party had oversight responsibility for the contractor.

## **The State Restricted Payment to the Contractor**

The State restricted payment to the contractor. The State's contract required it to pay the contractor a percentage of the administrative fee in incremental amounts with billing caps tied to the benchmarks, including applicants approved, applicants identified, and homes constructed. The contractor did not verify or inspect hurricane damage until the applicant met the first five criteria of eligibility, which were (1) income, (2) ownership at time of hurricane, (3) current on child support, (4) current or on a payment plan on property taxes, and (5) residency at time of hurricane. According to the contractor, it received payment of a percentage of the administrative fee only after an applicant was approved and the home was constructed. Thus, it was in the contractor's best interest to determine that Hurricane Dolly damaged the home. Otherwise, the State would not pay the contractor.

## **The State Must Correct the Process To Avoid Funding Additional Ineligible Homes**

The State must correct the contractor's inspection process to ensure that the contractor properly identifies and documents Hurricane Dolly damages and uses other available sources of damage verification. Projecting the results of our 11 ineligible homeowners to the 700 homes that the State expects to complete by December 31, 2014, showed that if the State does not correct the Hurricane Dolly assessment and inspection progress, it could fund at least 84 ineligible homeowners costing at least \$8.6 million.<sup>7</sup>

## **Conclusion**

The State's contractor did not perform adequate home inspections of 15 Disaster Recovery-assisted homes as required by the Act or the State's contract. This condition occurred because the State prioritized the funding to affirmatively further fair housing and did not adequately monitor the contractor's inspection process. In addition, the contractor did not perform inspections in a timely manner due to circumstances beyond its control, performed the inspection as the last step in the eligibility process, and did not use FEMA or other sources to verify hurricane damage. As a result, the State will need to repay \$1.61 million for the 15 ineligible homes. Further, projecting the results of the statistical sample to the 700 homes that the State expects to complete by December 31, 2014, the State could fund at least 84 ineligible homeowners, costing at least \$8.6 million, if its contractor does not correct the inspection process.

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<sup>7</sup> For information on our sampling methodology and projection, see the Scope and Methodology section.

## Recommendations

We recommend that HUD's Acting Director of the Disaster Recovery and Special Issues Division require the State to

- 1A. Repay \$1,609,580 in State CDBG Disaster Recovery funds spent on ineligible homeowners or use other State CDBG housing program funds to assist homeowners if the homes qualify under the program requirements.
- 1B. Ensure that its contractor adequately inspects homes and documents Hurricane Dolly damage, including using other sources of information such as FEMA data, and documents the specific repairs related to the storm as specified in the contract. This change could result in as much as \$8,624,700 being put to better use.
- 1C. Monitor its contractor to ensure that it adequately documents inspections and detects and corrects errors.
- 1D. Clarify contractor oversight responsibility with the Development Council.

## Finding 2: The State Did Not Ensure That Its Contractor Met Critical Performance Benchmarks

The State did not ensure that its contractor met the critical performance benchmarks for the number of applicants approved and homes completed. This condition occurred because the State did not establish program implementation policies that complied with the conciliation agreement in a timely manner and its contract lacked penalty provisions. In addition, the contractor may not have had the capacity to administer the program, and its subcontractor did not appear to adequately staff the program. As of March 2014, the contractor had completed only 203 (25 percent) of the 815 participants' applications when the contract required 100 percent completion by April 11, 2014. Further, it had constructed only 137 (17 percent) of the 815 estimated homes when the contract required 100 percent to be completed by August 11, 2014.

### The Contractor Did Not Meet Its Benchmarks

As of March 31, 2014, the contractor had not met its contractual benchmarks as required by its May 2012 contract with the State. The contract required the contractor to identify 100 percent of the disaster applicants, complete eligibility approval setups, and construct homes in incremental percentages based upon the contractually established period in table 2. In addition, the contract's 22-month benchmark required the contractor to construct 100 percent of the homes by August 11, 2014, but the State and contractor did not anticipate meeting this benchmark.

**Table 2:** Comparison of contract benchmarks to contractor's accomplishments

Benchmark	12 month (October 11, 2013)			18 month <sup>8</sup> (April 11, 2014)		
	Identify disaster applicants	Approve applicants' eligibility	Complete construction of homes	Identify disaster applicants	Approve applicants' eligibility	Complete construction of homes
Goal	100%	50 %	None	None	100%	50 %
Accomplished	78%	25%	2%	100%	25%	17%

### The State's Implementation of the Program Caused Delays

The State, Development Council, and contractor explained that the State's new Housing Opportunity Program caused delays in the implementation of its Disaster Recovery Housing Assistance Program. The State had to develop policies for the complicated Housing Assistance Program, and it did not complete its initial

<sup>8</sup> The contractor's accomplishments were determined using data available as of March 31, 2014.

guidance until October 2012. The Housing Assistance Program was complicated because the State agreed to abide by the conciliation agreement, which contained many requirements. For example, the State had to prepare an analysis of impediments and a needs assessment and use this information to prepare its guidance. In addition, the State had to vet the guidance through the communities to be served and seek approval from housing advocates. Further, the State had to formally instruct its Council of Governments and the contractor on implementation of the guidance. As a result, the State took almost 2.5 years<sup>9</sup> to analyze, develop, and implement its Round II Housing Assistance Program.

However, the State's Housing Assistance Program continued to evolve. To participate, the State required all participants to determine whether they wanted to participate in the Housing Opportunity Program and go through counseling. The State also changed its method of determining eligibility for housing assistance and revised its standard operating procedures to speed up and simplify participation in the Housing Opportunity Program. In August 2013, the State authorized a new method to calculate income qualifications. This change sped up the participants' income calculation process; however, the Housing Assistance Program stalled while the contractor retroactively applied the new income verification process to all participants. In addition, the State implemented requirements for real estate titles and commercial real estate transactions in July 2013 and January 2014, respectively.

### **The State's Contract Lacked Penalty Provisions**

The State was aware of its contractor's inability to meet benchmarks. The State had regular meetings with the contractor, provided technical assistance to the contractor, and withheld payment from the contractor. However, the State's contract did not contain penalty provisions for nonperformance or failure to meet benchmarks. Thus, the State had limited options to enforce its contract benchmarks.

### **The Contractor Appeared To Lack Capacity**

Based on its statements and inability to meet benchmarks, the contractor and its subcontractor appeared to lack the capacity to administer the Program. According to the contractor, it was unable to meet the benchmarks because it did not fully understand how the State's Housing Opportunity Program would impact its ability to carry out the program and the difficulty it would have in obtaining applicants' eligibility documents. The Program's complex rules required the contractor to

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<sup>9</sup> The State signed the conciliation agreement in May 2010 and conducted its first outreach in October 2012, 2 years and 5 months later.



conduct targeted outreach for a certain number of disaster applicants within specific income brackets. Due to cultural and language barriers, the contractor eventually subcontracted with a local subcontractor to speed up outreach. Further, the contractor said that verifying duplication of benefits through commercial entities, such as insurance providers, proved difficult as they did not always respond promptly or provide the requested information. Eventually, the State allowed the applicants to self-certify, which sped up the eligibility process.

In addition, the subcontractor appeared not to have sufficient staff to review the applicants' information. The subcontractor had only four staff members, including its program director, to conduct the eligibility processing of 791 applications obtained in the first 90 days of outreach. Thus, applicants' eligibility determinations appeared to stall after the initial contact.

### **The Contractor Completed Only a Limited Number of Homes**

As of March 31, 2014, the contractor had completed eligibility approval of only 203 (25 percent) applicants, rather than the 815 estimated to be completed. Further, it had constructed only 137 of the 815 (17 percent) estimated homes when the contract required 50 percent to be completed. Also, no applicant had successfully completed the Housing Opportunity Program<sup>10</sup>. Although the contract required construction of all homes to be completed by August 11, 2014, the State and the contractor estimated that they would complete construction of all homes by December 31, 2014<sup>11</sup>.

### **Conclusion**

The contractor did not meet the benchmarks because the conciliation agreement between HUD, the housing advocates, and the State required the implementation of a new program and it contained requirements to further fair housing, which had additional reporting and eligibility requirements that the contractor was unprepared to meet. Therefore, as of March 31, 2014, the contractor had approved only 227 applications for assistance and constructed 137 of the 815 estimated homes to be completed.

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<sup>10</sup> The Housing Opportunity Program is a separate housing program that allows income-qualified applicants who live in a high risk or high poverty concentrated area to relocate to a safer and higher opportunity area or have their home reconstructed or rehabilitated.

<sup>11</sup> The Development Council and the contractor estimated that 815 homes would be assisted. The 815 estimated homes included both homes completed under the Housing Assistance Program and additional homes completed under the Housing Opportunity Program.

## Recommendations

We recommend that HUD's Acting Director of the Disaster Recovery and Special Issues Division require the State to

- 2A. Continue to hold the contractor accountable and continue to withhold payments until the contractor meets its contract requirements.
- 2B. Add penalties to the contract to enforce agreed-upon benchmarks and add realistic goals if it amends the contract.
- 2C. Ensure that future State CDBG Disaster Recovery-funded contracts have clear performance goals and penalties for failure to meet them.

## SCOPE AND METHODOLOGY

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We conducted our audit work at the State's office in Austin, TX; the Development Council's, the contractor's, and the subcontractor's offices in Weslaco, TX; FEMA's office in Denton, TX; and the HUD Office of Inspector General's (OIG) offices in San Antonio and Fort Worth, TX, between August 26, 2013, and April 25, 2014. The audit generally covered the period January 1, 2009, through March 31, 2014.

Initially, we reviewed and summarized the information provided by the complainant to identify the issues. The complainant's issues mainly focused on mismanagement of the program, participant eligibility, and excessive costs incurred for home rehabilitation and reconstruction. Based on prior contracting problems found with the State, we reviewed the Development Council's procurement of its grant administrator for the Round I Program. We also reviewed the State's procurement of the various grant administrators and builders for Round II. Since we did not find any deficiencies with the contract awards, we did not include contracting as part of our audit objectives. For the survey, we selected 16 homes out of 58 homeowners approved for funding obtained from the State's database. We focused on selecting homes for which FEMA's data indicated that the homes either had other storm damage or insufficient damage. We reviewed the Development Council's housing project electronic files in the State's Housing Contract System and the hardcopy format files for the 16 homes to determine whether the homes were eligible for assistance. We also performed a site visit to five of the homes.

To accomplish our objectives, we performed the following steps as they related to the State's CDBG Disaster Recovery Program contracts with its contractor and grants with the Development Council:

- Reviewed relevant public laws, regulations, and HUD guidance.
- Reviewed the State's and the Development Councils' Disaster Recovery Program guidelines.
- Reviewed the State's Action Plans, the State's conciliation agreement, the Development Council's needs assessment, and other documents related to the State's Disaster Recovery Program.
- We conducted data validation and reliability testing of the State's Disaster Recovery general ledger, which contained expense transactions for HUD's 2008 Disaster Recovery grant funds. Based on that testing, we concluded that the expense data were generally reliable for the purposes of our audit objectives.
- Selected and reviewed a statistical sample of 50 housing projects to determine eligibility as explained below in our sampling methodology.
- Reviewed 50 housing project electronic files in the State's Housing Contract System.
- Reviewed 50 sample housing project electronic files in the contractor's management system.
- For the 50 sample homes, we entered the home address and the assisted family's name into the State's database, which checked the information against FEMA's database of homes that received FEMA assistance for Hurricanes Dolly and Alex. If FEMA assisted a home, we obtained the determination letter from FEMA.

- For the 50 sampled homes, we visited each home and contacted the homeowner if the homeowner was present. For 13 homes that the contractor had not demolished, we performed a visual inspection of the home. For the remaining 37 homes, which the contractor had rebuilt, we observed the exterior of the home.
- We interviewed 25 of the 50 sample homeowners to discuss the damage to the home and the impact caused by various storms.
- We projected our sample results to the universe as detailed in the sampling methodology below.
- We interviewed the State’s Disaster Recovery Program, Development Council’s, contractor’s, subcontractor’s, HUD’s, and FEMA’s staff.

### **Sampling Methodology**

Our audit universe, as of January 14, 2014, consisted of 120 households (contracts) that had received or were approved to receive more than \$12.8 million in Disaster Recovery Program funds from the Development Council as a result of Hurricane Dolly damage. We obtained the universe of 120 homes and the corresponding household data from both the State’s Housing Contract System (101 homes) and the Development Council’s construction activity reports (23 homes). The State’s Housing Contract System data included the approved amounts for the Disaster Recovery funds for 101 homes that the contractor had already demolished. We selected an additional 23 homes from the Development Council’s data, which included homes that were not demolished or reconstructed and could be inspected for hurricane damage. However, we removed four homes from the audit universe as we had already questioned these homes’ eligibility in the survey. The 120 households either had (1) a housing contract signed, (2) been assigned a building contractor, (3) a pending notice to proceed, (4) a home under construction, or (5) a home completed. The Development Council expected to serve 700 contracts by December 31, 2014.<sup>12</sup> Therefore, we determined that the universe for making a statistical projection was 700 contracts.

We obtained records for 50 households that received funds as a result of damage caused by Hurricane Dolly. We used a 6-strata sample design to control for variance based on the dollar amount of the CDBG contract.

We found a sample size of 50 to be the best size for providing meaningful audit results without an unnecessary risk of spurious error. With the frequent occurrence of null values in audits, possible audit findings follow a lognormal distribution, which approximates a bell curve. We used replicated sampling to proof-test the sample design and model the true sampling distribution, thereby confirming the performance of the sample design. The data were sampled using a computer program written in SAS<sup>®</sup> using the survey select procedure with a random-number seed value of seven. The sample design was stratified as shown in table 3.

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<sup>12</sup> The contractor provided the 700 home completion number in an interview, and it was used for our universe. Note that the 700 Housing Assistance Program home figures did not equal the 815 estimated homes in the contract.

**Table 3: OIG’s sample stratification**

Strata	Contract amount per household	Sampling frame count	Sample count	Probability of selection	Sampling weight
0-10pct	<\$88,308	12	5	0.4167	2.40
10-10pct	≥88,308 to < 103,076	24	10	0.4167	2.40
30-50pct	≥103,076<105,798	24	10	0.4167	2.40
50-70pct	≥105,798<111,740	24	10	0.4167	2.40
70-90pct	≥111,740<121,806	24	10	0.4167	2.40
90-100pct	≥121,806	12	5	0.4167	2.40
<b>Total</b>	<b>NA</b>	<b>120</b>	<b>50</b>	<b>NA</b>	<b>NA</b>

There were no spares used, hence the sampling weights did not need to be recalculated. The measures provided in this report were projected based on traditional means or proportions and their standard errors, and we used the survey means and survey frequency procedures provided by SAS®. A traditional Taylor series was used to estimate the variance. We reduced the average amount of the CDBG contract that was found to have inadequate documentation showing that Hurricane Dolly caused property damage by the margin of error (that is, the standard error) associated with this sample design and then extended that to the expected contract count of 700. The formulas for our calculations are in table 4:

**Table 4: OIG’s sample calculations**

Calculations	
$Amount_{LCL}$	$= N * (\mu - t_{\alpha/2} SE_{\$})$
$Count_{LCL}$	$= N * (pct - t_{\alpha/2} SE_{\%})$
Definitions	
$Amount_{LCL}$	= Total audit finding amount after deducting a margin of error.
$Count_{LCL}$	= Total number of sampling units with the error after deducting a margin of error.
$N$	= Number of sampling units in the universe
$\mu$	= Average value of the error per unit.
$pct$	= Weighted percent of sampling units with the error in the sampling frame.
$SE_{\$}$	= Standard error per unit, as applies to projecting dollars.
$SE_{\%}$	= Standard error per unit, as applies to projecting proportions.
$t_{\alpha/2}$	= Student’s - $t$ for projecting a one-sided confidence interval for a sample of this size.

We found that in 11 of the 50 statistically selected contracts, the contractor inadequately documented that the Disaster Recovery-assisted homes had damage caused by Hurricane Dolly as required by the Act. This amounts to an average of \$24,113 per CDBG contract. Deducting for statistical variance to accommodate the uncertainties inherent in statistical sampling, we can still say – with a one-sided confidence interval of 95 percent – that this amounted to at least \$12,321 per CDBG contract, and it could be more. Extrapolating this amount to the 700 contracts that the disaster assistance funds are expected to serve by December 31, 2014, we can say that at least \$8.6 million in disaster assistance funds could be disbursed for contracts on homes that inadequately documented Hurricane Dolly damage. Additionally, this deficiency was

found across many CDBG contracts, and we can also say – with a one-sided confidence interval of 95 percent – that at least 84 CDBG contracts could be affected, and it could be more.

$$\begin{aligned} \text{Sample projection:} & \quad \$24,113 - 1.68 \times \$7,018.33 = \$12,321_{\text{LCL}} \\ \text{Universe projection:} & \quad 700 \times \$12,321 = \$8,624,700_{\text{LCL}} \\ \text{Contracts affected:} & \quad 700 \times (22\% - (5.927\% \times 1.680)) = 84.298_{\text{LCL}} \end{aligned}$$

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.

# 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.

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## Relevant Internal Controls

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

- Contracting
- Damage assessments and inspections
- Monitoring

We assessed the relevant controls identified above.

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

## Significant Deficiencies

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

- The State's contractor did not perform adequate home inspections of 15 Disaster Recovery-assisted homes (see finding 1).
- The State did not monitor the contractor to ensure that the home inspections supported Hurricane Dolly damage and the contractor met the contract benchmarks (see findings 1 and 2).

## FOLLOW-UP ON PRIOR AUDITS

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### **The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With Disaster Recovery Program Funds, 2012-FW-1005**

Our previous audit, issued on March 7, 2012, found that the State did not follow Federal and State requirements and best practices for its infrastructure and revitalization professional services and project management service contracts. The following recommendations are still open:

- Reimburse the Disaster Recovery program from non-Federal funds \$919,570, which was improperly paid to the contractor for amounts billed using the ineligible cost plus a percentage of cost payment method.
- Reimburse from non-Federal funds or provide support for the estimated \$74,599,747 in unsupported inflated labor costs.
- Reimburse from non-Federal funds or provide support for the \$542,477 paid for unnecessary and unreasonable inflated labor costs.

We are continuing to work with HUD in an attempt to resolve these recommendations.



## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$1,609,580	
1B		\$8,624,700

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if HUD implements our recommendation, it could help to ensure that funds incurred by the State are only for homes damaged by Hurricane Dolly. Our estimates reflected only the costs that the State could incur for homes approved for Disaster Recovery assistance by December 31, 2014.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



June 27, 2014

Gerald R. Kirkland  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Audit, Region 6  
819 Taylor Street, Suite 13A09  
Ft. Worth, Texas 76102

RE: Response to OIG Findings

Dear Mr. Kirkland:

Below is the Land Office's response to the two findings in the HUD OIG Review of the State of Texas' Disaster Recovery Program.

#### Finding No. 1

The Land Office strongly disagrees with the OIG's Finding that its contractor performed inadequate hurricane damage inspections, and consequently with the OIG's recommendations. The OIG's Finding hinges on the inadequacy of the inspections and/or our damage assessment process. The Land Office believes that its process is much more than adequate; it exceeds all regulations or guidance provided by HUD. Further, we believe that the OIG came to its conclusion of inadequacy based on invalid assumptions.

#### **Why Does the OIG Assert that Our Process is Inadequate?**

In its report, the OIG asserts that the Land Office's Process was inadequate for multiple reasons and, as a result, that it repaired homes for ineligible applicants. The OIG cited the following reasons:

- i. the Land Office failed to use FEMA data to verify damage;<sup>1</sup>
- ii. the Land Office's pictures were inconclusive and failed to prove damage;<sup>2</sup>
- iii. the Land Office's Process was not conducted in a timely manner;<sup>3</sup> and
- iv. the Land Office failed to attribute damage to a specific disaster.<sup>4</sup>

#### **What is the Process?**

The Land Office would like to point out that there are no federal guidelines for assessing and documenting damage caused by a disaster. The only federal requirement is in the federal register and it states that expenses have to be "related" or "affected" by the event.<sup>5</sup> It, however, does not define how to document the damage. The Land Office had to establish its own process. This process was adopted by the subrecipient that is the subject of this report.

<sup>1</sup> OIG Audit Report (*Draft*) No. 2014-FW-xxxx, at 1 and 5 (N/A).

<sup>2</sup> *Id.* at 7, 8, 9.

<sup>3</sup> *Id.* at 1, 9

<sup>4</sup> *Id.* at 5, 6

<sup>5</sup> 74 Fed. Reg. 7244 (February 13, 2009); 74 Fed. Reg. 41146 (August 14, 2009).

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Comment 1

Comment 2

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**Comment 1**

The methodology for determining eligibility is made up of six components that must be established in whole for an applicant to be assisted. One of those components is the process for establishing that a household's damage was "related" or "affected" by the natural disaster. Specifically, our Housing Guidelines state hurricane damage can be documented as follows:

- i. FEMA, SBA or Insurance award letters.
- ii. In the event that the above-referenced documentation is not available, an inspection report (complete with photos of the damage and a written assessment of the damage) from a damage assessment conducted by a qualified inspector supplied by the subrecipient that certifies that the damage occurred as a result of the hurricane will be acceptable.
- iii. In the event that FEMA, SBA or Insurance award letters are not available and an inspection report is inconclusive as to the cause of the damage, the subrecipient may provide alternative evidence, such as neighborhood-level media reports or documentation of damage by disaster response/relief organizations on a case-by-case basis to TDHCA for review and approval.
- iv. If an applicant was denied assistance by FEMA, assistance through the CDBG Disaster Recovery Program may still be available. Subrecipients are prohibited from refusing housing assistance to applicants solely on the basis that the applicants were denied assistance by FEMA.<sup>6</sup>

The Land Office believes that this process more than reasonably proves up storm damage as required by the federal register in the absence of any federal guidance.

**Why are the OIG's Assumptions Invalid?**

The Land Office uses a belts and suspenders approach to assess hurricane damage. To determine damage, we utilize multiple tools when demonstrating connections between the natural disaster and the impacted homeowners. The State developed a needs assessment study (Attachment A) that, in part, identifies the largest concentrations of storm damage to assist in targeting hurricane damaged neighborhoods. The limited FEMA data and High Risk maps (Attachments B and C) were used to identify flood and storm surge by geographic location. Between these two processes, we targeted homes that were assuredly "affected" by the disaster. But we did not stop there. The Land Office also used the limited FEMA data, inspection reports, and self-certification to perform an even more thorough damage assessment of all its eligible applicants. As described below, the OIG's assumptions did not adequately take the full process and the circumstances on the ground into consideration.

**Comment 2**

**FEMA Data.** The OIG asserts that the Process is inadequate because we did not utilize FEMA data.<sup>7</sup> This assumption is invalid for several reasons. First, the FEMA data was limited, so the Land Office was unable to take full advantage of data that is typically available. In Lower Rio, which was the focus of this report, FEMA spent a short time in the region, but had to leave to respond to Hurricane Ike. Even if it were required to use FEMA data, the Land Office would have been unable to do so.

**Comment 3**

<sup>6</sup> Round 2 Disaster Recovery Program Housing Guidelines at 8. (see also, [http://www.glo.texas.gov/GLO/\\_documents/disaster-recovery/housing/subrecipients/ike-round2-housing-program-guidelines.pdf](http://www.glo.texas.gov/GLO/_documents/disaster-recovery/housing/subrecipients/ike-round2-housing-program-guidelines.pdf))

<sup>7</sup> OIG Audit Report, at 1 and 5

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**Comment 3**

Second, there are no federal regulations or processes that require the use of FEMA data for damage assessments. Our process allows for the use of alternative means of documentation, which is even more adequate when the data is unavailable.<sup>8</sup> Ironically, the OIG initially found 19 homes that they say the Land Office did not adequately document Hurricane Dolly damage. They were able to reduce that number to 11 by finding "other sources"<sup>9</sup> to verify the damage. Surely, if the OIG is allowed to use "other sources" in the absence of federal regulations, then the Land Office may use them as allowed by their documented process.

**Comment 4**

**Pictures and Inspections.** The OIG asserts that the Process is inadequate because the Land Office's pictures were inconclusive and failed to prove damage.<sup>10</sup> The OIG report states that our pictures did not support the damage assessment, were not included, or were of poor quality.<sup>11</sup> This assumption is invalid for several reasons. First, our pictures serve multiple purposes. The pictures in each file are not solely to prove storm damage but serve as additional support for environmental needs, scope of construction, and ensuring homes are safe and sanitary. Thus, a picture may not show damage because it was taken for other reasons. The damage assessment itself, which are conducted by qualified inspectors, serves that purpose.

Second, one may not be able to assess damage via a picture. An assessment of a roof would require measuring the thickness of a tile, which is done with a tool not a camera. Water damage may not be visible because the homeowner may have painted the area. This is why pictures are taken in tandem with an actual hands-on assessment.

Third, the Land Office's process allows for the use of alternative means of documentation when the report is inconclusive.<sup>12</sup> Again, the Land Office's process is a belts and suspenders approach. It is comprehensive and has been proven specifically useful in a community like Lower Rio where FEMA data is limited, damage is not easily evaluated, and subsequent disasters have occurred. Our studies, in conjunction with our maps, assure that the areas we are targeting suffered hurricane damage. The maps and studies supplement the report. And, if the report is inconclusive, they also supplement the use of self-certification.<sup>13</sup>

**Comment 5**

**Process not Timely.** The OIG asserts that the Process is inadequate because the Land Office focuses first on finding eligible applicants and last on determining whether a home has eligible damage.<sup>14</sup> This assumption is invalid for several reasons. First, conducting damage assessments before determining eligibility would result in assessing many ineligible homes. Lower Rio had nearly 3,000 applicants, but only 877 will be served. The cost to the Land Office to assess homes not served would be over an additional \$700,000.

Second, assessing a home that is ineligible transfers the cost from project delivery funds to administrative funds. Thus, the State would have \$700,000 less to manage the program. Third, conducting assessments

<sup>8</sup> Housing Guidelines at 8.

<sup>9</sup> OIG Audit Report, at 6.

<sup>10</sup> Id. at 7, 8, 9.

<sup>11</sup> Id. at 7, 8, 9.

<sup>12</sup> Housing Guidelines at 8.

<sup>13</sup> Self-certification is allowed by HUD on specific occasions. See attachment A.

<sup>14</sup> OIG Audit Report, at 1, 9.

**Comment 6**

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before eligibility would not necessarily speed up the process but could actually slow it down. The GLO inspections are used to establish hurricane damage, but also to determine what is necessary to bring homes up to State's Uniform Construction Code, the International Residential Building Code, HUD Housing Quality Standards, windstorm, and ADA compliance. It is a lengthy and important process that would substantially postpone the applicant eligibility process. The Land Office disagrees with the OIG and feels that its process is not only efficient but effective. We have the filters in the right order.

**Subsequent Weather Events:** In the report, the OIG implies that the Land Office failed to document damage from subsequent weather events; that the Land Office attributed some or "all" damage to Hurricane Dolly from homes that also had subsequent weather event damage; and that there was proof that the damage to some homes was solely caused by subsequent weather events and not Hurricane Dolly. These assumptions are all invalid for several reasons.

First, there is no requirement to document damage from "each" weather event. The Land Office must simply establish that a household's damage was "related" or "affected" by Hurricane Dolly. Except for duplication of benefits, whatever damage was caused by the subsequent weather events is inconsequential, so long as Dolly caused some of the damage. The "Dolly damage" is confirmed and the house is either rehabbed or reconstructed, depending on the extent of the Dolly damage. This next fact is an important thing to note - the State is required to bring all homes, whether rehabbed or reconstructed, up to par with the State's Uniform Construction Code, the International Residential Building Code, HUD Housing Quality Standards, windstorm, and ADA compliance. Consequently, damage caused by subsequent weather events or even deferred maintenance may end up getting repaired.

Second, the Land Office did not wrongly attribute subsequent weather damage to Hurricane Dolly. The OIG argues that if a homeowner did not file a claim or apply for assistance for Dolly, but did so for a subsequent weather event, then they must not have suffered damage under Dolly.<sup>15</sup> Correlation does not imply causation; implying so, is a questionable-cause logical fallacy. Not everybody affected by a disaster knows or wants to apply to a grant. Further, people often do not want to or cannot apply to their insurance because of the deductible. It could be the case that the subsequent weather event made the home completely unlivable, and the owners had no choice but to apply for assistance. Whatever the case may be, there is insufficient evidence for the OIG to come to the conclusion that there was no Hurricane Dolly damage. Third, the OIG states that we knew about the subsequent weather damage and that our DOB calculations are proof that not all the damage was Hurricane Dolly damage. As stated above, the damage does not "all" have to be Hurricane Dolly damage; the damage must simply relate to the storm. The DOB calculations, however, are further proof that the Land Office's process correctly proves up damage, as it relates to Dolly.

**Conclusion**

The Land Office is confident in the housing program structure and documentation that supports CDBG assistance. Unless there is clear and convincing proof that contradicts our program files, we ask the HUD OIG reconsider its position.

The Land Office is always looking for ways to improve its disaster recovery program. Although we disagree with the OIG's Finding and the recommendations, we do want to inform the OIG that we are

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<sup>15</sup> OIG Audit Report, at 6.

**Ref to OIG Evaluation**

**Auditee Comments**

1

Comment 7

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further improving our monitoring plan. This is not based on any current weaknesses but because of our policy of continuous and systemic improvement. In addition, we will work with our subrecipients and grant administrators to provide oversight guidance based on our updated monitoring plan.

**Finding No. 2**

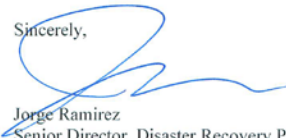
The Land Office also disagrees with the OIG's Finding that we did not ensure that our contractor met critical performance benchmarks. The OIG's finding is based on original Land Office contractual benchmarks that have been revised and are no longer applicable. Moreover, the "timely expenditure of funds requirement" is not applicable to our CDBG allocation.<sup>16</sup>

Although the funds do not have a deadline, the Land Office found it practical to include performance goals and benchmarks to ensure progress, accountability, and program completion. In February 2014, however, program staff conducted a benchmark analysis (Attachment 2A) to ensure the reasonableness of established benchmarks. As a result of the analysis, it was determined that our benchmarks were no longer reasonable. As pointed out in the OIG's report, the Conciliation Agreement substantially slowed the progress of the program. Therefore, benchmarks were revised for all subrecipients to account for additional Conciliation Agreement requirements.

In its review of the benchmarks, HUD OIG did not evaluate the benchmark analysis and tracking methodology used by program staff. As of May 2014, Lower Rio is targeted to meet their amended benchmarks (Attachment 2B and 2C).

If you have any questions, please feel free to contact me at (512)475-5015.

Sincerely,



Jorge Ramirez  
Senior Director, Disaster Recovery Program

Attachments

<sup>16</sup> 74 Fed. Reg. 7244 (February 13, 2009); 74 Fed. Reg. 41146 (August 14, 2009).

## OIG Evaluation of Auditee Comments

- Comment 1** The State said its process was more than adequate and exceeded all regulations and guidance provided by HUD. The State provided additional attachments including the Lower Rio Grande Valley Needs Assessment and various maps, which are not included in this report, but are available upon request. We agree the State had a process and policy, which required that eligibility for assistance include documenting the actual hurricane damage with photos in its files. However, as indicated in the report, some of the files reviewed did not have adequate photos or a description of the hurricane damage to support eligibility.
- Comment 2** The State said there are no Federal guidelines for assessing and documenting disaster damage. It stated that the only Federal requirement was in the Federal register, which stated that expenses had to be “related” or “affected” by the event. We agree there are no Federal guidelines; however, the State’s comments concerning expenses be related to or affected by an event take the guidance provided by both the statute and register out of context. Both the statute and register require that the funds be used “for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure, housing, and economic revitalization in areas affected by hurricanes, floods, and other natural disasters occurring during 2008.”
- Comment 3** The State asserted that it was not improper for them not to use FEMA data because FEMA’s data was limited and its use was not required by Federal regulations. We agree using FEMA data was not a requirement; however, such data could have provided the State and its contractor a starting point for identifying impacted but unassisted homeowners. Additionally, we noted that the State’s contractor was using this information for duplication of benefits calculations for later storms, but it was not using the information to determine if Hurricane Dolly or another storm caused the damage while performing its inspections, which appeared problematic.
- Comment 4** The State said that its pictures are used for more than documenting hurricane damage. It stated that damage might not be able to be evaluated by a picture and admitted that subsequent disasters have occurred. Further, the State indicated it relied on studies and maps to target those who suffered hurricane damage. Although we agree that pictures can be used for more than documenting hurricane damage, the primary purpose of the Disaster funding and the State’s program was to assist homeowners with damage caused by Hurricane Dolly. Thus, the questioned files should have contained pictures that identified the damage, clearly showed that Hurricane Dolly caused the damage, or used an inspection technique that correlated the damage to Dolly. Merely relying on a map to show an area is affected is not sufficient as assistance may not be needed if the homeowner had no damage or had already made repairs.
- Comment 5** The State argued that conducting damage assessments before determining eligibility would result in assessing many ineligible homes and it would be costly

to inspect homes not served. The State misinterpreted our concern. We believe that the inspection should be a concurrent part of eligibility. However, our primary concern was that the inspection process was not performed until after a family was eligible and the State limited payment to its contractor only to approved homes. Thus, the State created a risk that the contractor might perform a less than adequate damage assessment.

**Comment 6** The State said it was not required to document damage from subsequent weather events as long as they can show that the home was related to or affected by Hurricane Dolly. It further stated OIG lacked sufficient evidence to reach the conclusion that there was no Hurricane Dolly damage. We agree that only Hurricane Dolly damage needed to be documented. However, if the State's contractor had documentation that attributed a home's damage to a subsequent storm, the file needed to contain information that clearly correlated damage to Hurricane Dolly. The State's position that if a home was in a mapped area, then the home was assuredly damaged by Dolly is not sufficient evidence that a home needed assistance. A prudent person needs evidence that the damage was caused by Dolly in 2008 because only Dolly affected homes were eligible to receive assistance under the statute.

**Comment 7** The State indicated that it had amended the contract. It said that CDBG requirements did not require it to spend the funds in a timely manner; however, it found it practical to include benchmarks and goals. The State had not amended the contract while our audit work was ongoing. Further, even though the statute did not require it to timely expend the funds, the State has a responsibility to be a prudent steward of these funds and provide timely assistance to individuals impacted by the 2008 storms. Thus, its contracts should include benchmarks, goals, and penalties when those goals are not met.