



The State of New Jersey, Trenton, NJ

**Community Development Block Grant
Disaster Recovery-Funded Homeowner
Resettlement Program**



Issue Date: September 5, 2014

Audit Report Number: 2014-PH-1009

TO: Stan Gimont, Deputy Assistant Secretary for Grant Programs (Acting), DG
//signed//
FROM: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA
SUBJECT: The State of New Jersey Demonstrated Homeowner Eligibility for Its Homeowner
Resettlement Program

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 New Jersey's Community Development Block Grant Disaster Recovery-funded Homeowner Resettlement 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 215-430-6730.



September 5, 2014

The State of New Jersey Demonstrated Homeowner Eligibility for Its Homeowner Resettlement Program

Highlights

Audit Report 2014-PH-1009

What We Audited and Why

We audited the State of New Jersey's Community Development Block Grant Disaster Recovery-funded Homeowner Resettlement program. We conducted the audit based on the substantial amount of funds the State allocated to the program. Our objective was to determine whether the State used Block Grant Disaster Recovery funds for its Homeowner Resettlement program to assist eligible homeowners in accordance with applicable U.S. Department of Housing and Urban Development (HUD) and Federal requirements.

What We Recommend

We recommend that HUD require the State to strengthen its controls over homeowner eligibility for future homeowner grants by maintaining documentation in its files to fully demonstrate compliance with the primary residency requirement before disbursing funds.

What We Found

The State demonstrated that it used Disaster Recovery funds to assist eligible homeowners for its program. Although the State obtained and provided documentation to demonstrate that homeowners in our sample occupied damaged residences as their primary residences at the time of the storm, it can strengthen its controls over this requirement for future homeowner grants.

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BACKGROUND AND OBJECTIVE

On October 29, 2012, Hurricane Sandy made landfall near Atlantic City, NJ. The storm caused unprecedented damage to New Jersey's housing, business, infrastructure, health, social service, and environmental sectors. On October 30, 2012, President Obama declared all 21 New Jersey counties major disaster areas. The U.S. Department of Housing and Urban Development (HUD) identified the following nine counties as New Jersey's most impacted areas: Atlantic, Bergen, Cape May, Essex, Hudson, Middlesex, Monmouth, Ocean, and Union.

Through the Disaster Relief Appropriations Act of 2013,¹ Congress made available \$16 billion in Community Development Block Grant funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974, these disaster relief funds were to be used in the most impacted and distressed areas affected by Hurricane Sandy and other declared major disaster events that occurred during calendar years 2011- 2013.

On March 5, 2013, HUD issued Federal Register Notice 5696-N-01, which advised the public of the initial allocation of \$5.4 billion in Block Grant funds appropriated by the Disaster Relief Appropriations Act for the purpose of assisting recovery in the most impacted and distressed areas declared a major disaster due to Hurricane Sandy.² HUD awarded the State \$1.8 billion from this initial allocation of funds. On April 29, 2013, HUD approved the State's action plan. The plan identified the purpose of the State's allocation, including criteria for eligibility, and how the uses addressed long-term recovery needs. On May 13, 2013, HUD approved a grant agreement that obligated more than \$1 billion of the initial \$1.8 billion allocation. The Disaster Relief Act required the State to expend obligated funds within 2 years of the date of obligation.

The governor of New Jersey designated the State's Department of Community Affairs as the responsible entity for administering its Disaster Recovery grant. The State established the Homeowner Resettlement program to incentivize homeowners to remain in their communities during its recovery and rebuilding efforts after the storm. The State initially allocated \$180 million to fund the program. In January 2014, HUD approved an amendment to the State's action plan, which added \$35 million to the program. The State believed the amendment would enable it to assist every eligible homeowner who applied to the program.

Under the program, eligible homeowners would receive a \$10,000 grant, which could be used for any nonconstruction purpose to assist them to remain in the county they lived in at the time of the storm. The State's action plan required homeowners to meet the following criteria to qualify for a grant:

- The residence must have been located in one of the nine most impacted counties,

¹ Public Law 113-2, dated January 29, 2013

² Areas impacted by Hurricane Sandy included Connecticut, Maryland, New Jersey, New York City, New York State, and Rhode Island.

- The residence must have sustained damage of at least \$8,000 or 1 foot or more of water on the first floor,
- The homeowner must have registered for assistance from the Federal Emergency Management Agency (FEMA), and
- The residence must have been owned and occupied by the homeowner as their primary residence at the time of the storm.

The State's program policy further stated that second homes did not qualify a homeowner for a grant. This requirement was in line with the HUD notice,³ which stated that a second home, as defined in Internal Revenue Service Publication 936,⁴ was not eligible for residential incentives. The program also required homeowners who received grants to maintain a primary residence for 3 years in the county where their damaged property was located.

As of November 2013, the State had expended approximately \$159 million of the program's \$215 million to assist 15,895 homeowners.

Our objective was to determine whether the State used Block Grant Disaster Recovery funds for its Homeowner Resettlement program to assist eligible homeowners in accordance with applicable HUD and Federal requirements.

³ Federal Register Notice 5696-N-01, dated March 5, 2013

⁴ Internal Revenue Service Publication 936 defined a main home as a home where one ordinarily lives most of the time and a second home as a home that one chooses to treat as a second home.

RESULTS OF AUDIT

Finding: The State Demonstrated Homeowner Eligibility for Its Program

The State demonstrated that it used Disaster Recovery funds to assist eligible homeowners for its program. Although the State obtained and provided documentation to demonstrate that homeowners in our sample occupied damaged residences as their primary residences at the time of the storm, it can strengthen its controls over homeowner eligibility for future homeowner grants by maintaining complete documentation in its files to fully demonstrate compliance with the primary residency requirement before disbursing funds.

The State Followed Its Policy

The State maintained documentation in accordance with its program policy for the 68 homeowner files and associated grants valued at \$680,000 that we reviewed. For example, the files contained documentation, such as public and FEMA records and a copy of the applicant's driver license, to support ownership and primary residence status. However, the documentation the State's policy required did not fully demonstrate that homeowners occupied damaged residences as their primary residences at the time of the storm. Specifically, 16 of the 68 files contained driver licenses issued after the storm. Public records searches that we performed for the 68 files showed that 21 of the homeowners were associated with at least one additional address at the time of the storm and that at least 3 of the 21 homeowners owned another property at the time of the storm which brought homeowner residency at the time of the storm into question.

The State Provided Additional Documentation To Demonstrate Primary Residency

At the end of the audit, the State obtained and provided additional documentation for the homeowners in our sample. Specifically, the State provided driver license address change histories and vehicle registration applications from its Motor Vehicle Commission, voter registration municipality information from its Department of State, and tax assessment records and other documents to resolve problems concerning homeowners who were associated with more than one address at the time of the storm. The State also contacted 10 of the homeowners to obtain additional information. The additional documentation demonstrated that the homeowners in our sample occupied damaged residences as their primary residences at the time of the storm.

The State Can Strengthen Controls

Although HUD did not specify how the State should have verified primary residency, it provided guidance to determine primary residency.⁵ For example, HUD suggested that a grantee could determine primary residency by reviewing property tax homestead exemptions. If a homestead exemption was not in place at the time of the storm, an affidavit of primary residence could have been used and must have been supported by documentation such as an income tax return or utility bills which were active as of the date of the storm.

While the State did not consider the homestead exemption a practical documentation option for its program,⁶ it believed that its program policy addressed the verification of primary residency. However, the documentation the State required in its policy verified only that the applicant owned the damaged residence, registered the property as a primary residence with FEMA, and met the minimum requirements for proof of address⁷ at the time the driver's license was issued.⁸ Without the additional documentation the State provided at the end of the audit, the documentation maintained in the files alone was not sufficient to demonstrate that the homeowners in our sample occupied damaged residences as their primary residences at the time of the storm. The State can strengthen its controls over homeowner eligibility for future homeowner grants by requiring additional documentation beyond a driver's license to show active primary residency at the time of the storm.

Conclusion

The State demonstrated that the homeowners in our sample occupied damaged residences as their primary residences at the time of the storm. Although the State obtained and provided documentation to demonstrate compliance with this requirement, it can strengthen its controls over homeowner eligibility for future homeowner grants.

⁵ Community Development Block Grant Disaster Recovery Toolkit, dated March 2013

⁶ Although New Jersey law contained a homestead benefit, its availability was restricted based on a combination of income thresholds, age, blindness, and other disability. New Jersey did not have a generally available homestead exemption.

⁷ To meet the New Jersey Motor Vehicle Commission's proof of address requirement, applicants needed to provide only one item from a list of several possible documents. Applicants with second homes could use a property tax bill to obtain a driver license with the address of their second home.

⁸ In addition to accepting driver licenses dated after the storm as proof of primary residency, the State also accepted licenses that were dated 2 or more years before the storm.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs direct the State to

- 1A. Strengthen its controls over homeowner eligibility for future homeowner grants by maintaining documentation in its files to fully demonstrate compliance with the primary residency requirement before disbursing funds.

SCOPE AND METHODOLOGY

We conducted the audit from November 2013 through June 2014 at the State's offices at 101 South Broad Street, Trenton, NJ, and our office in Philadelphia, PA. The audit covered the period January through November 15, 2013, but was expanded when necessary to include other periods.

To accomplish our objective, we reviewed

- Relevant background information;
- Applicable regulations, HUD notices, and the State's policies and procedures;
- The Disaster Relief Appropriations Act, Public Law 113-2;
- The State of New Jersey's Block Grant Disaster Recovery action plan, as approved by HUD on April 29, 2013;
- The funding agreement between HUD and the State, dated May 13, 2013;
- Correspondence prepared by HUD, the State, and other related parties;
- A HUD monitoring report, dated July 8, 2013;
- Integrity monitoring reports prepared by the State's contractor;
- Relevant reports issued by the U.S. Government Accountability Office and the U.S. Department of Homeland Security, Office of the Inspector General (DHS OIG);
- Relevant policies and procedures of other States receiving Block Grant Disaster Recovery funding; and
- Information entered by the State into HUD's Disaster Recovery Grant Reporting system.

We conducted interviews with employees of the State and HUD staff located in Fort Worth, TX, and Washington, DC, as well as employees of DHS OIG and FEMA.

To achieve our audit objective, we relied on the State's computer-processed data. We used the computer-processed data to select a sample of grant recipients to review. Although we did not perform a detailed assessment of the reliability of the data, we found the data to be adequate for our purposes.

Based on the State's program policy, we reviewed the sample files for documentation showing that homeowners registered for FEMA assistance with the damaged residence address, FEMA

and affiliate records showing property damage, public records showing that the homeowner owned the damaged residence, and driver licenses showing the damaged property address. This process included a review of FEMA data and Chicago Title data provided by the State. We performed public records searches using Accurant to determine whether the homeowner was associated with more than one address at the time of the storm, contacted county and township offices to determine whether the damaged residences had been registered as rental properties, and reviewed tax assessment and other property records. We also reviewed additional documentation that the State provided at the end of the audit.

To select our audit sample, we determined that the State had expended approximately \$159 million to assist 15,895 homeowners as of November 2013. Because each homeowner received the same amount, we statistically selected 68 grants valued at \$680,000. We selected the grants using statistical selection procedures in SAS®.

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.

INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

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 of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

APPENDIX

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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August 21, 2014

David E. Kasperowicz
Regional Inspector General for Audit
Philadelphia Region, 3AGA
U.S. Department of Housing and Urban Development
Office of Inspector General

Re: HUD OIG Audit of New Jersey's Resettlement Program

Dear Mr. Kasperowicz:

The State of New Jersey is in receipt of and has reviewed the Office of the Inspector General's ("OIG") recent audit report concerning New Jersey's Community Development Block Grant – Disaster Recovery ("CDBG-DR") expenditures related to the State's Resettlement Program. We thank OIG for its diligence in conducting a professional, thoughtful and thorough audit of this vital grant program and also for including the State throughout the process. We are also pleased by OIG's conclusion that the State appropriately used disaster recovery funds to assist eligible homeowners through its Resettlement Program.

Following past disasters, most notably Hurricane Katrina, substantial out-migration created significant economic and social challenges for recovering communities. The Resettlement Program, as one part of New Jersey's broader effort to stabilize vulnerable communities following Superstorm Sandy, was a tremendous success. It expediently distributed much-needed, \$10,000 CDBG-DR grants to more than 18,500 New Jersey residents within the nine most-impacted counties (as designated by the Department of Housing and Urban Development ("HUD")) to address various non-construction related needs. In exchange, recipients agreed to reside in their home counties for at least three years post-storm. As a result, the State protected many vulnerable communities from out-migration and its harmful effects.

To ensure that CDBG-DR grants were distributed only to eligible applicants, the State instituted a rigorous system of controls to verify, among other things, that applicants maintained a Sandy-damaged home as their primary residence at the time of the storm. The State's general practice required: (1) an attestation, subject to criminal penalties, of primary residence; (2) verification of ownership through a title search; (3) proof that the applicant registered the property with the Federal Emergency Management Agency ("FEMA") as his or her primary address at the time of the storm; and (4) a New Jersey driver's license or New Jersey non-driver identification card listing the damaged residence as the applicant's



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Comment 1

address. This four-point verification procedure was approved by HUD, the administrator of the State's CDBG-DR funds. These initial verification procedures are buttressed by the State's ongoing monitoring efforts, which entail public database searches and, where necessary, direct contact with applicants. The State also initiates fraud prosecutions against those who attempt to unlawfully circumvent the State's controls.

Comment 2

In its audit report, OIG concludes that the State demonstrated that it appropriately used CDBG-DR funds for its Resettlement Program. OIG also conducted a random sampling of 68 Resettlement Program applicant files and found that each of the homeowners in the sample occupied the damaged residence as his or her primary residence at the time of the storm. The 100 percent eligibility rate in the sample reflects the sufficiency of the State's controls. OIG nonetheless recommends that, as to future homeowner grants, the State should be able to further "strengthen its controls over homeowner eligibility" by requiring grant applicants to provide "documentation beyond a driver's license" to confirm primary residence at the time of the storm.

Comment 3

The State respectfully submits that its four-point verification procedure, of which a driver's license is only one piece, is sufficient to confirm that a grant applicant satisfied the primary residence eligibility criteria. Nonetheless, the State greatly appreciates OIG's input and guidance, particularly since the State is always open to reviewing our policies and procedures and taking reasonable action to strengthen controls where possible. As such, we look forward to consulting with our partners at HUD to discuss possible avenues of improvement. And of course, we look forward to continuing our strong working relationship with OIG as we address important disaster recovery issues together.

Thank you again for your thorough audit, and please do not hesitate to contact us if we may be of further assistance.

Very truly yours,



David C. Woll, Jr.
Director of Compliance
Superstorm Sandy Compliance Unit

OIG Evaluation of Auditee Comments

- Comment 1** The State contended that HUD approved its four-point verification procedure. These detailed procedures were contained in the State's Resettlement Program Policy. HUD did not formally accept or approve this document. While HUD approved the State's action plan on April 29, 2013, the plan did not contain the four-point verification procedure.
- Comment 2** The State contended that we found that each of the homeowners in our sample occupied the damaged residence as their primary residence at the time of the storm. It also contended that the 100 percent eligibility rate in the sample reflects the sufficiency of the State's controls. However, as stated in the audit report, the documentation required by the State's policy did not fully demonstrate that homeowners occupied damaged residences as their primary residences at the time of the storm. At the end of the audit, the State obtained and provided additional documentation for the homeowners in our sample. Specifically, the State provided driver license address change histories, vehicle registration applications, voter registration information, tax assessment records, and other documents. The State also contacted 10 of the homeowners to obtain additional information. The additional documentation sufficiently demonstrated that the State used Disaster Recovery funds to assist eligible homeowners in our sample.
- Comment 3** The State believed that its four-point verification procedure was sufficient to confirm that a grant applicant satisfied the primary residence eligibility criteria. However, as stated in the report, the documentation required by the State's policy was not sufficient to demonstrate that the homeowners occupied damaged residences as their primary residences at the time of the storm. The State's four-point verification procedure showed that the applicant 1) attested to the damaged residence as being a primary residence, 2) owned the damaged residence, 3) registered the property as a primary residence with FEMA, and 4) met the minimum requirements for proof of address at the time the driver's license was issued. Applicants with second homes could easily use a property tax bill to obtain a driver license with the address of their second home. Further, the State's policy did not include procedures to follow-up on driver licenses that were dated after the storm as well as licenses that were dated years before the storm. As stated in the report, the additional documentation the State provided demonstrated that the homeowners in our sample occupied damaged residences as their primary residences at the time of the storm. The State can strengthen its controls over homeowner eligibility for future homeowner grants by requiring additional documentation beyond a driver license to show active primary residency at the time of the storm.