



# The State of Connecticut

## Community Development Block Grant Disaster Recovery Assistance Funds

This report was re-issued on January 27, 2017 to revise the addressee and the recipient of the recommendations.

**Office of Audit, Region 1  
Boston, MA**

**Audit Report Number: 2017-BO-1001  
October 12, 2016**

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**To:** Alanna C. Kabel, Director, Hartford Field Office, Community Planning and Development, 1 ED

**From:** //Signed//  
Ann Marie Henry  
Acting Regional Inspector General for Audit, 1AGA

**Subject:** The State of Connecticut Did Not Always Comply With Community Development Block Grant Disaster Recovery Assistance Requirements

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the State of Connecticut's Community Development Block Grant Disaster Recovery assistance grant.

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

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

If you have any questions or comments about this report, please do not hesitate to contact Tomas Espinosa, Assistant Regional Inspector General for Audit, at 617-994-8454, or me at 617-994-8380.



**Audit Report Number: 2017-BO-1001**

**Date: October 12, 2016**

**The State of Connecticut Did Not Always Comply With Community Development Block Grant Disaster Recovery Assistance Requirements**

## Highlights

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### What We Audited and Why

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We audited the Community Development Block Grant Disaster Recovery (CDBG-DR) assistance grant provided to the State of Connecticut by the U.S. Department of Housing and Urban Development (HUD) to monitor the expenditures of CDBG-DR funds as required by the Disaster Relief Appropriations Act. Additionally, the State was ranked first in a risk assessment of the five New England Hurricane Sandy grantees. The audit objective was to determine whether the State complied with CDBG-DR requirements for its Owner Occupied Rehabilitation and Rebuilding (rehabilitation) and Owner Occupied Reimbursement (reimbursement) programs.

### What We Found

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The State did not always comply with CDBG-DR requirements for its rehabilitation and reimbursement programs. Specifically, procurements were not always executed in accordance with HUD requirements. The State also did not always support the low- and moderate-income national objective. Further, not all costs were eligible because the State did not always complete environmental reviews in accordance with requirements. In addition, the State did not always properly support and calculate the unmet need of homeowners. This condition occurred because the State had inadequate controls for its rehabilitation and reimbursement programs. As a result, more than \$2.4 million in CDBG-DR funds was ineligible, and more than \$13.5 million was unsupported. Further, HUD did not have assurance that all environmental hazards were appropriately identified and addressed or that low- and moderate-income information reported by the State in HUD's Disaster Recovery Grant Reporting (DRGR) system was accurate.

### What We Recommend

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We recommend that HUD instruct State officials to (1) repay from non-Federal funds or support that the more than \$13.3 million awarded for architect, engineer, and construction management services contracts was fair and reasonable; (2) repay from non-Federal funds the \$316,850 in payments made for services outside the scope of work for seven contracts; (3) repay from non-Federal funds or support that \$227,138 in funds awarded met the low- and moderate-income national objective; (4) repay from non-Federal funds more than \$2.1 million in ineligible CDBG-DR funds spent without the notice of intent and request for release of funds being published; and (5) strengthen program controls over procurement, contract scope of work, national objective documentation, environmental review determinations, and unmet need determinations.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>4</b>
<b>Finding 1: Procurement Actions Did Not Comply With Federal Requirements.....</b>	<b>4</b>
<b>Finding 2: The State Did Not Always Comply With CDBG-DR Requirements for Its Owner-Occupied Programs.....</b>	<b>7</b>
<b>Scope and Methodology.....</b>	<b>13</b>
<b>Internal Controls.....</b>	<b>15</b>
<b>Appendixes.....</b>	<b>17</b>
<b>A. Schedule of Questioned Costs .....</b>	<b>17</b>
<b>B. Auditee Comments and OIG’s Evaluation.....</b>	<b>18</b>
<b>C. HUD Comments and OIG’s Evaluation .....</b>	<b>30</b>

# Background and Objective

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In January 2013, in response to the extraordinary destruction caused by Hurricane Sandy, Congress passed and the President signed into law the Disaster Relief Appropriations Act, also known as Public Law 113-2, which, among other things, appropriated approximately \$50 billion for recovery efforts related to the hurricane and other natural disasters specified in the Act. Of those funds, approximately \$16 billion was set aside for the Community Development Block Grant Disaster Recovery (CDBG-DR) program to be administered by the U.S. Department of Housing and Urban Development (HUD).

HUD released its CDBG-DR program allocations and program requirements in the 78 Federal Register (FR) 14329 (March 5, 2013). This notice established the requirements and the processes for the initial allocation of \$71.82 million in Federal CDBG-DR program funding to the State of Connecticut for disaster relief. HUD published a supplemental second allocation of \$66 million through 78 FR 69104 on November 18, 2013, and \$21.459 million through 79 FR 62182 on October 16, 2014.

The governor of Connecticut designated the Department of Housing as the principal State agency for administering the funds. The Department oversees the expenditure of funding to assist impacted residents, organizations, and municipalities with their recovery and rebuilding efforts. It administers the funding directly to benefit homeowners, property owners, business owners, and other beneficiaries.

The State established the Owner Occupied Rehabilitation and Rebuilding (rehabilitation) and Owner Occupied Reimbursement (reimbursement) programs to provide assistance to households damaged by Hurricane Sandy. The rehabilitation program provided funding to homeowners in need of rehabilitation, reconstruction, and mitigation assistance. Assistance was limited to \$150,000, with the potential for an additional amount of \$100,000 for homeowners with substantially damaged properties located within the 100-year floodplain. The reimbursement program was designed to reimburse homeowners that used personal funds for the rehabilitation or reconstruction of their homes, and reimbursement assistance was limited to \$150,000. In addition, the State had budgeted more than \$44.7 million of the \$159.3 (\$71.82 + 66 + 21.459) million in Sandy funds awarded for its rehabilitation and reimbursement programs as of September 2015 and disbursed more than \$20 million of the \$70 million in CDBG-DR funds under its action plan for home-ownership housing projects.

The audit objective was to determine whether the State complied with CDBG-DR requirements for its owner-occupied rehabilitation and reimbursement programs. Specifically, we wanted to determine whether (1) procurements were executed in accordance with Federal regulations, (2) assistance was provided to eligible households for eligible costs, and (3) unmet need was properly calculated.

# Results of Audit

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## **Finding 1: Procurement Actions Did Not Comply With Federal Requirements**

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The State did not comply with Federal procurement requirements when awarding architect, engineer, and construction management services.<sup>1</sup> Specifically, it did not conduct a cost reasonableness analysis for \$13.65 million to seven contractors for services for its rehabilitation program. The State also paid \$316,850 to perform services outside the contract scope of work. These deficiencies occurred because of the State's lack of familiarity with Federal procurement regulations and because the State's policies did not always comply with Federal procurement regulations. As a result, HUD had no assurance that \$13.65 million in contracts awarded to these contractors was at the best available price. Further, \$316,850 of \$13.65 million in payments made for services outside of the scope of work was ineligible.

### **The State Did Not Perform Cost Reasonableness Analysis**

The State did not conduct the cost reasonableness analysis for its architect, engineer, and construction management contracts. Specifically, it awarded a total of \$13.65 million to seven contractors for services without performing an independent cost estimate before solicitation and cost analysis before awarding the contracts and contract modifications in accordance with 24 CFR (Code of Federal Regulations) 85.36(f)(1). The State awarded \$7 million to the seven contractors, \$1 million per contract, in December 2013. The seven contracts were modified in March 2015 to increase the value of six of the contracts by \$1 million each, and one of the contracts was increased by \$500,000. A second modification was made in March 2016 to increase the value of one of the contracts by \$150,000. The total contracts increased from \$7 million to \$13.65 million, which was a 95 percent increase in the contract amount. The State used its own procurement contracting manual, which did not include the requirement to conduct independent cost estimates and cost analyses at the time of the initial contract award, as required by 24 CFR 85.36(f)(1). However, the State certified to HUD that the State's procurement requirements were equivalent to Federal procurement regulations at 24 CFR 85.36. At the time of the contract modifications, the State had developed a departmental procurement policy that generally followed Federal procurement requirements, including the requirement to perform a cost or price analysis in connection with every procurement action. However, the State did not complete the required cost analysis in accordance with Federal requirements and its own procurement policy. As a result, HUD had no assurance that the hourly rates included in the \$13.65 million awarded for architect, engineer, and construction management services was fair and reasonable.

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<sup>1</sup> We did not identify procurement deficiencies for the general contractors in our sample of the rehabilitation program.

In addition, the State did not support the developed final fee schedule. Specifically, when using the request for proposal method for procurement, proposal evaluation and contractor selection are based on qualification and price factors in accordance with 24 CFR 85.36(d)(3). The State stated that the price factors would account for 15 percent of the total bid evaluation in the request. However, the State did not document its evaluation of the prices and used the fee schedules provided by the architect, engineer, and construction management contractors to develop a fee schedule that would be used by all of the contractors. The State's fee schedule included hourly rates for various professional services that included reimbursable costs. The State procurement regulations required that a memorandum be prepared describing the basis of award, including the principal elements of the negotiations and the significant considerations relating to price.<sup>2</sup> The State could not provide documentation to support how it determined the hourly and reimbursable rates in the schedule.

In multiple instances, the State exceeded the hourly rates initially proposed by the architect, engineer, and construction management contractors. For example, one of the contractors offered architectural and engineering services at a cost of \$120 per hour. The State later contracted with the contractor at a rate of \$140 per hour for architectural services and between \$140 and \$160 per hour for various engineering services. One of the contractors offered project management services at \$135 per hour, and the State awarded \$185 per hour for the service. Regulations at 2 CFR Part 225<sup>3</sup> define a cost as reasonable if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. It was not a prudent use of CDBG-DR funds to award hourly rates in excess of prices submitted by the contractors.

### **Rehabilitation Program Services Were Outside the Contract Scope**

The State contracted the architect, engineer, and construction management contractors to provide services for the rehabilitation program. The contractors also provided services for the reimbursement program, which were outside the contract scope of work. The rehabilitation program contracts were later amended to increase funding for the continuation of services. However, these contracts did not include services for the reimbursement program. One of the contractors stated that the State discussed a separate contract for the reimbursement program but that it did not execute a contract for these services. In addition, one of the contractors was not notified until December 2014 that it would be working on the reimbursement program, which was a year after the rehabilitation contract had been executed. Only four of the seven contractors were selected to provide services for the reimbursement program. The State did not document how it selected the contractors that provided services for the reimbursement program. The State should have procured these services under a separate procurement action, as the scope of work was not the same between the two programs and it may have been able to get a better price from a bigger pool of applicants for the reimbursement program. As a result of its actions, the State

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<sup>2</sup> Regulations of Connecticut State Agencies Title 4A State purchasing procedures under Sec. 4a-52-16.

<sup>3</sup> 2 CFR Part 225 – Cost Principles for State, Local, and Indian Tribal Governments. 2 CFR Part 225 was incorporated into 2 CFR 200 –Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards effective December 26, 2014.

paid \$316,850 in ineligible costs to the contractors for work that was outside their contract scope of work.

### **Conclusion**

The State did not comply with Federal procurement requirements when awarding architect, engineer, and construction management services. This condition occurred because of the State's lack of familiarity with Federal procurement regulations. In addition, the State's policies did not always comply with Federal regulations. As a result, HUD had no assurance that \$13.65 million in contracts awarded to architect, engineer, and construction management contractors was at the best available price. Further, the State incurred \$316,850 in ineligible costs by paying for services outside the scope of work.

### **Recommendations**

We recommend that the HUD's Community Planning and Development Director for Connecticut instruct State officials to

- 1A. Support that the \$13,333,151<sup>4</sup> awarded for the architect, engineer, and construction management services contracts was fair and reasonable in accordance Federal procurement requirements or repay to HUD from non-Federal funds any amounts not supported.
- 1B. Repay to HUD from non-Federal funds the \$316,850 in payments made for services outside the scope of the seven contracts.
- 1C. Strengthen controls over procurement to ensure that procurement activities meet Federal requirements.
- 1D. Strengthen controls to ensure that services are provided in accordance with contract scopes of work.

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<sup>4</sup> We reduced the \$13.65 million that was unsupported by the ineligible costs in recommendation 1B.



## **Finding 2: The State Did Not Always Comply With CDBG-DR Requirements for Its Owner-Occupied Programs**

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The State did not always comply with CDBG-DR requirements when providing rehabilitation and reimbursement assistance to owner-occupied households impacted by Sandy. Specifically, the State did not always adequately support the low- and moderate-income national objective used. It did not support that all costs were eligible because it did not always complete environmental reviews in accordance with requirements. In addition, it did not always properly support and calculate the unmet need of homeowners. These deficiencies occurred because the State had inadequate controls for its owner-occupied rehabilitation and reimbursement programs. As a result, more than \$2.1 million in CDBG-DR funds was ineligible, and \$259,536 was unsupported. Further, HUD did not have assurance that all environmental hazards were appropriately identified and addressed or that low- and moderate-income information for its rehabilitation and reimbursement programs reported in the Disaster Recovery Grant Reporting (DRGR<sup>5</sup>) system was accurate.

### **National Objectives Were Not Supported**

Although homeowners were eligible for assistance, the State did not adequately support the low- and moderate-income <sup>6</sup>(LMI) national objective used for two of the reimbursement projects and one of the rehabilitation projects reviewed. Specifically, the State obtained 2012 tax returns when the reimbursement applicants applied for assistance; however, it did not obtain updated income information before awarding assistance in 2015 for the two reimbursement applicants to ensure that they still qualified as low- and moderate-income households.<sup>7</sup> The State obtained the 2013 tax return data before awarding assistance to the rehabilitation applicant in 2014. The tax return data showed that the applicant's income exceeded the low income limit for the area; however, the applicant was still classified as meeting the LMI national objective. This condition occurred because State staff disregarded the State's reimbursement and rehabilitation policies and procedures and Federal regulations. As a result, \$379,751<sup>8</sup> in CDBG-DR funds under the low- and moderate-income national objective was not supported. Further, HUD relies on national objective information reported by the State in its DRGR system to determine whether the State meets the Disaster Relief Appropriations Act, 2013 (Pub. L. 113–2) requirement that at least 50 percent of the CDBG-DR grant award be used for projects that benefit low- and moderate-income persons.<sup>9</sup>

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<sup>5</sup> The DRGR system was developed by HUD's Office of Community Planning and Development for the CDBG-DR program and other special appropriations, such as the Neighborhood Stabilization Program. Grantees use this system to draw down funds and report program income.

<sup>6</sup> Per 24 CFR Part 570.3, a low- and moderate-income household is defined as a household having an income equal to or less than the Section 8 low-income limit established by HUD.

<sup>7</sup> 24 CFR Part 570.3 states that grantees must estimate the annual income of a family or household by projecting the prevailing rate of income of each person at the time assistance is provided for the individual, family, or household (as applicable). Estimated annual income shall include income from all family or household members, as applicable.

<sup>8</sup> Expenditures of \$379,751 include ineligible costs of \$152,613. Refer to the subheading, "Environmental Reviews Were Not Completed in Accordance with Requirements."

<sup>9</sup> The grant award is not complete and the final percentage has not been determined.

### **Costs Were Not Always Eligible or Supported**

The State did not always support that all costs were eligible because it did not always complete environmental reviews in accordance with requirements and did not always properly support and calculate the unmet need of homeowners. As a result, the State spent more than \$2.1 million<sup>10</sup> in ineligible and \$32,398 in unsupported costs.

### Environmental Reviews Were Not Completed in Accordance With Requirements

The State did not always complete environmental reviews in accordance with CDBG-DR requirements for its reimbursement program. Specifically, the State did not publish the required notice of intent and request for release of funds or obtain HUD approval for 35 reimbursement projects reviewed before committing and spending more than \$2.2 million<sup>11</sup> in CDBG-DR funds. The State was required to complete a notice of intent and request for release of funds for each project that was categorically excluded subject to 24 CFR 58.5 and 58.6. Further, two of these projects were shown as exempt but should have been classified as categorically excluded subject to 58.5 and 58.6 because additional consultation was required.

Regulations at 24 CFR 570.200(a)(4) state that the environmental review procedures at 24 CFR Part 58 must be completed for each activity (or project as defined in 24 CFR Part 58) as applicable. Regulations at 24 CFR 58.22 state that neither a recipient nor any participant in the development process may commit HUD assistance under a program listed in 24 CFR 58.1(b) on an activity or project until HUD has approved the recipient's request for release of funds and the related certification from the responsible entity. The purpose of the environmental review process is to analyze the effect a proposed project will have on the people and the natural environment within a designated project area and the effect the material and social environment may have on a project.

Additionally, the State did not always adequately support the determinations made on the checklist to show compliance with all of the various Federal laws and authorities cited for the reimbursement projects. In some cases, the assigned architect, engineer, and construction management contractor completed the review with minimal documentation to support the items on the checklist. In other cases, the assigned contractor prepared the environmental review statutory checklists for the State and provided documentation to support some of the 27 items on the checklist, such as maps, consultation letters, radon testing results, or a report from an environmental company. For one project, the environmental review file included only a State Historical Preservation Office exemption form and incomplete lead and asbestos applicability forms. The file for each project should adequately support the determinations for the items on the checklist. Based on our discussion with one of the contractors, the contractor stated that it did not believe it was qualified to complete the environmental review without using an

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<sup>10</sup> Expenditures of \$2,143,525 include ineligible costs of \$2,138,469 (refer to the subheading, "Environmental Reviews Were Not Completed in Accordance with Requirements") and ineligible costs of \$5,056 (refer to the subheading, "Unmet Need Was Not Always Properly Supported and Calculated)."

<sup>11</sup> Of the more than \$2.2 million spent, \$121,002 was repaid by one homeowner to the program.

environmental consultant and that the State would not reimburse it at the higher rate if it got the licensed environmental consultant to complete the work.

Further, for one reimbursement activity reviewed, an environmental company used by the architect, engineer, and construction management contractor identified lead and possible asbestos-containing material and recommended that these issues be addressed. However, there was no further action taken by the State to ensure that these issues were adequately addressed before reimbursing the homeowner. The State required only that the homeowner sign a lead acknowledgement form before it awarded the funds.

These deficiencies occurred because the State lacked knowledge of the environmental requirements and did not have adequate protocols for its reimbursement program to ensure that environmental determinations were properly completed and documented in accordance with Federal requirements. Additionally, the State believed that the reimbursement program was covered under its tier 1 environmental review for its rehabilitation program, which did not require it to complete a notice of intent and request for release of funds for each project (activity). As a result of the deficiencies identified, HUD had no assurance that the environmental review was performed in accordance with requirements and that all environmental hazards were addressed. At least \$2.1 million in CDBG-DR funds was for ineligible costs due to the lack of public notice and approval from HUD for each reimbursement project.

#### Unmet Need Was Not Always Properly Supported and Calculated

The Stafford Act and 76 FR 71061 (November 16, 2011) required grantees to ensure that assistance be provided to a person having a need for disaster recovery assistance only to the extent to which this need was not fully met by other assistance. This requirement prevents duplication of disaster recovery benefits. However, the State did not always support and properly calculate the determination for unmet need for 3 of the 10 rehabilitation projects reviewed and 6 of the 8 reimbursement projects reviewed. Specifically, the State included ineligible costs in its calculations, including luxury items or items not covered by CDBG-DR guidance and the State's policies,<sup>12</sup> such as landscaping and fences. In some cases, it did not deduct the correct amount of other sources from the total costs. As a result, the State overpaid at least \$48,135<sup>13</sup> in ineligible funds to seven homeowners in excess of their unmet need causing a duplication of benefits. Additionally, \$201,888<sup>14</sup> in costs was not adequately supported by the documentation provided by the homeowners causing a potential duplication of benefits.

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<sup>12</sup> HUD's Homeowner Rehabilitation Program Implementation Tool #2 states that assistance will not be used for luxury items. The Stated rehabilitation program and reimbursement program guidelines both state that luxury items, landscaping, and fences are ineligible items.

<sup>13</sup> Expenditures of \$48,135 include ineligible costs of \$43,079. Refer to the subheading, "Environmental Reviews Were Not Completed in Accordance with Requirements."

<sup>14</sup> Expenditures of \$201,888 include ineligible costs of \$169,490. Refer to the subheading, "Environmental Reviews Were Not Completed in Accordance with Requirements."

Applicant number	Ineligible funds over paid	Unsupported expenditures
1065	-	\$31,363
1266	\$1,138	1,035
1377	3,918	-
1964	8,004	-
1182	-	5,348
1251	-	21,075
1071	6,524	12,556
1332	-	125,411
2099	28,551	5,100
<b>Totals</b>	<b>48,135</b>	<b>201,888</b>

Additionally, for the reimbursement program, the State could not provide documentation to show that it performed a review for cost reasonableness before awarding the funds to the applicant as required by CDBG-DR regulations and the State’s reimbursement program policies and guidelines. The State did not follow its guidelines, which provide the following as an example of the importance of determining cost reasonableness to avoid the payment of unreasonable costs: “if the reasonable cost of a light fixture is determined to be \$200, and the homeowner replaced the fixture with a \$1,500 crystal chandelier, the program would only reimburse the \$200.” As a result, the State may have included unreasonable costs in its calculations, thereby awarding funds in excess of the homeowners’ unmet need.<sup>15</sup>

This weakness occurred as a result of inadequate controls to ensure that only eligible, reasonable, and supported costs were included in the calculation of unmet need. Additionally, the State believed that the architect, engineer, and construction management contractors reviewed for cost reasonableness. However, the State’s service contracts did not cover the reimbursement program, and two contractors stated that they were not required to review for cost reasonableness.

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<sup>15</sup> We were unable to quantify the effect the lack of a review for cost reasonableness had on our sample.

## Conclusion

The State did not always comply with CDBG-DR requirements when providing rehabilitation and reimbursement assistance to owner-occupied households impacted by Hurricane Sandy. This condition occurred because the State had inadequate controls for its rehabilitation and reimbursement programs. As a result, more than \$2.1 million in CDBG-DR funds was ineligible and \$259,536 was unsupported. Further, HUD did not have assurance that all environmental hazards were appropriately identified and addressed or that low- and moderate-income information reported in DRGR for its owner-occupied programs was accurate.

## Recommendations

We recommend that the HUD's Community Planning and Development Director for Connecticut instruct State officials to

- 2A. Repay or support that \$227,138<sup>16</sup> in funds awarded met the low- and moderate-income national objective.
- 2B. Strengthen controls over properly documenting income information to ensure that the low- and moderate-income national objective is properly supported.
- 2C. Repay to HUD from non-Federal funds the \$2,138,469 in ineligible CDBG-DR funds committed and spent without publishing the required notice of intent and request for release of funds.
- 2D. Strengthen controls over environmental review determinations for its reimbursement program to ensure that they are completed in accordance with Federal requirements.
- 2E. Repay HUD from non-Federal funds \$5,056<sup>17</sup> in ineligible duplicative assistance provided to program applicants.
- 2F. Support or repay to HUD from non-Federal funds \$32,398<sup>18</sup> in duplicative assistance provided to program applicants.
- 2G. Strengthen controls over duplication of benefits determinations to ensure that unmet need is properly calculated.
- 2H. Ensure that low- and moderate-income information reported in DRGR for its rehabilitation and reimbursement programs is accurate.

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<sup>16</sup> The \$379,751 was reduced by \$152,613 in ineligible costs cited in recommendation 2C.

<sup>17</sup> The \$48,135 was reduced by \$43,079 in ineligible costs cited in recommendation 2C.

<sup>18</sup> The \$201,888 was reduced by \$169,490 because this amount is included in the total amount in recommendation 2C.

We recommend that the HUD's Community Planning and Development Director for Connecticut

- 2I. Coordinate with the regional environmental officer to perform environmental review monitoring over the State's reimbursement program and projects to ensure that projects complied with Federal environmental requirements.

# Scope and Methodology

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The audit focused on whether the State established and implemented adequate controls to ensure that its CDBG-DR owner-occupied housing programs were administered in accordance with program requirements. We performed the audit fieldwork from November 2015 to June 2016 at the State's Office of Housing, 505 Hudson Street, Hartford, CT, and at four of the seven architect, engineer, and construction management contractors' offices. Our audit covered the period October 2012 through September 30, 2015, and was extended when necessary to meet our audit objective. While we used the data obtained from HUD's DRGR system, our assessment of the reliability of the data was limited to the data reviewed. Therefore, we did not assess the reliability of this system. We performed a minimal level of testing and found the data to be sufficiently reliable for our purposes.

To accomplish our audit objective, we

- Reviewed the Disaster Relief Appropriations Act of 2013, the implementing regulations and HUD guidance pertaining to the use of CDBG-DR funds, and the State's policies and procedures for administering the CDBG-DR grant.
- Obtained an understanding of the State's financial controls over CDBG-DR funds' obligation and disbursement.
- Interviewed State employees responsible for administering the disaster grant to document the State's policies and procedures for administering the CDBG-DR funds.
- Interviewed four of the seven architect, engineer, and construction management contractors for the rehabilitation and reimbursement programs to obtain an understanding of their procedures for the programs.
- Reviewed the State's action plan and amendments, quarterly disaster reports, and grant agreement with HUD to identify the CDBG-DR grant requirements.
- Reviewed HUD monitoring reports, dated March 26, 2014, and April 22, 2015.
- Reviewed the State's financial statements ending June 30, 2011, and June 30, 2012.<sup>19</sup>
- Reviewed the State's procurement of its architect, engineer, and construction management service contractors and general contractors for our sample to assess compliance with procurement requirements.

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<sup>19</sup> The reports for June 30, 2013 and 2014, were not available at the time of our review.

- Performed a limited review of environmental requirements for the rehabilitation and reimbursement programs.<sup>20</sup>
- Reviewed more than \$3.2 million in disbursements made for the rehabilitation and reimbursement programs, which represented 33 percent of more than \$9.6 million in CDBG-DR funds allocated by the State and used to fund 18 owner-occupied rehabilitation<sup>21</sup> and reimbursement<sup>22</sup> projects. The projects were selected based on risks identified with higher dollar projects and risks with rehabilitation and reimbursement programs. We did not perform a statistical sample; therefore, our results were not projected.
- Performed a limited review of more than \$1.4 million in disbursements made for the reimbursement program, which represented 15 percent of more than \$9.6 million in CDBG-DR funds allocated by the State and used to fund 27 projects. The projects were based on identified deficiencies in our detailed review of our reimbursement sample. We selected all of the reimbursement disbursements that exceeded \$10,000. We did not perform a statistical sample; therefore, our results were not projected.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>20</sup> There may be additional environmental review issues that were not identified in our limited review.

<sup>21</sup> We performed a detailed review of 10 rehabilitation projects with funds spent of more than \$2.3 million through November 19, 2015.

<sup>22</sup> We performed a detailed review of eight reimbursement projects with funds spent of \$842,014 through November 19, 2015.



# Internal Controls

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

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

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

## **Relevant Internal Controls**

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

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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 did not have adequate controls over compliance with laws and regulations when it did not ensure that it followed Federal procurement and CDBG-DR requirements (findings 1 and 2).
- The State did not have adequate controls over safeguarding resources when it did not ensure that funds were disbursed for supported, eligible, and reasonable costs (findings 1 and 2).
- The State did not have adequate controls over program operations when it could not support that the national objective used was met, environmental reviews were conducted in accordance with requirements, and assistance amounts were supported and properly calculated (finding 2).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>
1A		\$13,333,151
1B	\$316,850	
2A		227,138
2C	2,138,469	
2E	5,056	
2F		32,398
<b>Totals</b>	<b>2,460,375</b>	<b>13,592,687</b>

- 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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

# Appendix B

## Auditee Comments and OIG's Evaluation


### Ref to OIG Evaluation

### Auditee Comments


Comment 1

Comment 6

Comment 7

  
Dannel P. Malloy  
*Governor*

**STATE OF CONNECTICUT**  
DEPARTMENT OF HOUSING

  
Evonne M. Klein  
*Commissioner*

September 19, 2016

Mr. Tomas Espinosa  
Assistant Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
10 Causeway Street, Room 370  
Boston, MA 02222

RE: Response to Draft Audit 2016-BO-100X

Dear Inspector Espinosa:

Thank you for the opportunity to meet with you and the other U.S. Department of Housing and Urban Development (HUD) staff to discuss the Draft Audit on the State of Connecticut Community Development Block Grant – Disaster Recovery program (CDBG-DR). As was discussed at the meeting on September 15, 2016, the Department has a number of concerns with regard to the Draft Audit, and has developed the following comments, most of which were discussed with you and your staff either during the audit period, or at the meeting on the 15<sup>th</sup>.

I have summarized our position with regard to the specific recommendations below, and then have addressed each of the specific issues identified by the draft in an accompanying attachment.

**Recommendation:**  
**2A. Repay or support that \$227,138 in funds awarded met the low- and moderate-income national objective.**

**Response:**  
The Department disagrees with the finding and the recommendation.

**Recommendation:**  
**2B. Strengthen controls over properly documenting income information to ensure that the low- and moderate-income national objective is properly supported.**

**Response:**  
The Department disagrees with the finding and the recommendation. Adequate systems are in place and being used. OIG staff did not take into consideration the timing associated with appropriate third party documentation and implementation.

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## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 8

Recommendation:  
**2C. Repay to HUD from non-Federal funds the \$2,138,469 in ineligible CDBG-DR funds committed and spent without publishing the required notice of intent and request for release of funds.**

Response:  
The Department disagrees with the finding and the recommendation. As noted in the attached, it is DOH's understanding that this issue has been resolved and is satisfactory.

Comment 8  
and 10

Recommendation:  
**2D. Strengthen controls over environmental review determinations for its reimbursement program to ensure that they are completed in accordance with Federal requirements.**

Response:  
The Department disagrees with the finding and the recommendation. As noted in the attached, it is DOH's understanding that this issue has been resolved and is satisfactory.

Comment 11

Recommendation:  
**2E. Repay HUD from non-Federal funds \$5,056 in ineligible duplicative assistance provided to program applicants.**

Response:  
The Department disagrees with the finding and recommendation. Additional information is needed.

Comment 11

Recommendation:  
**2F. Support or repay to HUD from non-Federal funds \$32,398 in duplicative assistance provided to program applicants.**

Response:  
The Department disagrees with the finding and recommendation. Additional information is needed.

Recommendation:  
**2F. Strengthen controls over duplication of benefits determinations to ensure that unmet need is properly calculated.**

Response:  
The Department agrees with the recommendation.

Recommendation:  
**2G. Ensure that low- and moderate-income information reported in DRGR for its rehabilitation and reimbursement programs is accurate.**

Response:  
The Department agrees with the recommendation.

Recommendation:  
**2H. Coordinate with the regional environmental officer to perform environmental review monitoring over the State's reimbursement program and projects to ensure that projects complied with Federal environmental requirements.**

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

#### Comment 9

Response:

The Department agrees with the recommendation. However, this has already been completed to the satisfaction of the regional environmental officer.

In addition, the Draft Audit identified three (3) significant deficiencies which appear to be directly related to the Findings above. The Department disagrees with these items being characterized as significant deficiencies, as further described in the attachment.

Again, I would like thank you for the opportunity to comment on the Draft Audit, and for your continued assistance in the effective implementation of this federal grant program. Should you have any questions, or require additional information, please do not hesitate to contact me.

Sincerely,



Michael C. Santoro  
Director  
Office of Policy, Research and Housing Support  
On Behalf of  
Hermia Delaire  
CDBG-DR  
Program Manager

Cc: Ms. Alanna Kabel, Director, Hartford Field Office, CPD, IED  
Evonne M. Klein, Commissioner, DOH

Attachment

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

Comment 3

**Audit Report Number: 2016-BO-100X**

**September 19, 2016**

**Finding 1: Procurement Actions Did Not comply with Federal Requirements**

*The State did not comply with Federal procurement requirements when awarding architect, engineer, and construction management services. Specifically, it did not conduct a cost reasonable analysis for \$13.65 million to seven contractors for services for its rehabilitation program. The State also paid \$316,850 to perform services outside the contract scope of work.*

OIG Recommendation:

- 1) *repay from non-federal funds or support that more than \$13.3 million awarded for architect, engineer, and construction management services contracts was fair and reasonable.*
- 2) *Repay from non-federal funds the \$316,850 in payments made for services outside the scope of work for seven contracts.*

The State Did Not Perform Cost Reasonableness Analysis:

**The State of Connecticut Department of Housing (DOH) disagrees with the finding that it did not perform a cost reasonableness analysis.** DOH conducted a Request for Qualifications (RFQ) for Architectural, Engineering, and Construction Management services for the CDBG-DR program. Proposals were received from eleven (11) firms, which were reviewed, rated and ranked based on qualifications. Through this evaluation process, DOH selected the top seven (7) ranked firms for program services. DOH then conducted a detailed cost analysis of fee services proposed and negotiated a reasonable final fee schedule for the program.

DOH's cost reasonable analysis considered the fee schedules of these seven firms along with research of current market rates for comparable services. This cost analysis was conducted prior to entering into any contracts for services. Negotiated rates were arrived at by throwing out the highest and lowest rate and averaging the remainder, wherever possible, and supplementing this information with rates for similar services using existing open state contracts located at the State's Contracting Portal (<http://das.ct.gov/cr1.aspx?page=12>). DOH provided a significant level of supporting documentation, including excel spreadsheets, which documented both its rating and ranking, as well as the backup for the negotiated fee schedule.

The process used to develop the fee schedule was a cost reasonable approach that identified rates for services required, analyzed current market prices and open contracts for comparable goods and services, and prudently arrived at rates that were determined to be fair and reasonable, which complies with federal procurement procedures. This procedure is consistent with the procurement requirements that were found in 24 CFR 85.36(f)(1).

With regard to contract modification, the original RFQ did not anticipate a set value or cap, as full the breadth and scope of the services needed were unclear at the time. Once the AE contractors had begun their activities, and applications had all been initially vetted for eligibility, it was determined that the original contract value of \$1.0 million, and the time estimate originally anticipated, were not going to be sufficient to address all of the unmet need. It was discovered through project implementation the design of the homes in regard to their foundations to be compliant with floodplain management

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 4

certification was much more extensive as well as the investigation of environmental conditions at homes in regard to lead-based paint, asbestos, radon, and mold, and 3rd party independent inspections to meet building codes.

As a result, modifications were executed to increase these contracts both for total value and time. As the work was continuing, and no significant change in market conditions or opportunity had occurred, a minimal review of the fee schedule was not deemed relevant.

In support of this position, DOH provides the following.

One very important point of disagreement with the OIG is that the draft audit specifically states that "proposal evaluation and contractor selection should be based on qualification and price factors in accordance with 24 CFR 85.36(d)(3)." This is factually incorrect. 24 CFR 85.36(d)(3) subpart (v) states "(v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services." Clearly, and as was well documented by DOH, the top seven (7) most qualified competitors were selected. 24 CFR Part 85.36 (d)(3)(v) allows negotiation of fair and reasonable compensation. DOH used the information provided by all eligible respondents, supplementing this information with rates for similar services using existing open state contracts located at the State's Contracting Portal.

Comment 5

Relative to evaluation of the price factor, DOH did use the price factor in its evaluation, and did provide information on the methodology used to evaluate the price for each competitor to the OIG at the time of review. DOH then used that pricing information provided by the competitors, as well as supplemental information as noted above, in determining an acceptable fee schedule. This final fee schedule was offered to the recommended competitors. As previously noted, hourly and reimbursable rates were determined using both bid prices provided by the eligible competitors, as well as supplemented by existing open state contracts.

Competitors were all offered the same reasonable fee schedule. When compared to individual bids, some fees were higher, while others were lower; this is the nature of negotiation and reasonable compensation.

#### Rehabilitation Program Services Were Outside the Contract Scope

Comment 6

**DOH disagrees with the finding that the services for the reimbursement program were outside of the rehabilitation scope of work contract. DOH also disagrees that a separate procurement was necessary to address these services.**

The activities associated with the reimbursement component of the Owner Occupied ("OO") program are the same activities as those for the rehabilitation component of the Owner Occupied program. Although they are in some ways less complicated, all of those activities appear on the negotiated fee schedule and are both reasonable and supportable. From DOH's perspective, the reimbursement program is just another subset of the OO program, which is in and of itself a subset of the Housing activity under CDBG-DR. DOH has sole control over workload and project assignment under our



## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

contracts with the seven A/E firms, and assignments were made based on the capacity of the firm, and location of the activity.

With regard to the suggestion that DOH may have been able to get a "better price" from a larger pool of applicants, as allowed under 24 CFR Part 85.36 (d)(3)(v), DOH negotiated with the top four qualified firms under the original procurement, recognized that this aspect of the OO program was largely simpler, and negotiated a lower rate of \$75 per hour.

**Finding #2: The State did not always comply with CDBG-DR Requirements for Is Owner-Occupied Programs**

*The State did not always adequately support the low- and moderate-income national objective used.*

*It did not support that all costs were eligible because it did not always complete environmental reviews in accordance with requirements.*

*It did not always properly support and calculate the unmet need of homeowners - \$2.1 million in CDBG-DR ineligible; \$259,536 unsupported.*

*Assurances that all environmental hazards were appropriately identified and addressed or that low-and moderate-income information of its rehabilitation and reimbursement programs reported in the DRGR system was accurate.*

National Objectives were Not Supported

DOH disagrees with this finding. The OIG audit report indicates that one rehab project and two reimbursement projects did not adequately support the low-and moderate-income national objective.

At time of application, DOH requires household income verifications from all of its applicants. Due to the period of time that passes between the original application and the actual signing of a contract for assistance, DOH updates several applicant documents, including current household income information. DOH also conducts a third party verification of income through the IRS to confirm the household income of our assisted projects at project completion. This process is used to ensure that the proper National Objective is being applied and reported in DRGR. Often, there is a lag in receiving third party verification from the IRS with regard to household income, and at the time of review, those tested by OIG staff had not yet been received. The statement that "State staff was not aware of the requirement to obtain current income information at the time of assistance" is both inaccurate and unsubstantiated. Appropriate staff were aware, and processes were in place to obtain up to date information relative to documentation of national objective.

Costs Were Not Always Eligible of Supported

Environmental Reviews

DOH disagrees with this finding. As was discussed with OIG staff, it is DOH's position that reimbursement is a component of the OO program, which included rehabilitation, mitigation and reimbursement. Many of the projects that DOH is assisting incorporate two or more of these

Comment 7

Comment 8

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 9

components. To provide clarity for our applicants, they are described independently, however, they are not treated as separate activities, and as previously stated, many of our projects incorporate two or more. It is DOH's position that the initial Notice of Intent and Request for Release of Funds satisfied the publication requirement.

As was discussed with OIG staff, DOH had received agreement with the existing HUD Environmental Officer on this issue. As the OIG Audit Report recommends, DOH has already addressed this issue and coordinated with the current HUD Regional Environmental Officer in regard to the Request for Release of Funds to ensure that compliance with federal environmental requirements had in fact been met. It is our understanding that this issue had in fact been resolved and the original Notice of Intent and Request for Release of Funds has been deemed acceptable.

Comment 10

With regard to deficiencies in documentation, DOH believes that adequate documentation, although inconsistent in content at times, which was an indicator of contractor performance, was sufficient to meet the environmental requirements in all cases. DOH acknowledges that some firms did a better job than others, but all environmental requirements were met.

Comment 11

#### Unmet Need Was Not Always Supported and Calculated

DOH disagrees with this finding. DOH, as part of its application process, completes an initial review of disaster recovery assistance provided to an applicant to determine if there is an unmet need that may be eligible for assistance under the CDGG-DR program. A final duplication of benefits analysis is conducted when the final project costs and project unmet need gap is determined. In the case of activities that included both rehabilitation and mitigation, this is completed after the project is put out to bid. For reimbursement only activities, this is completed after a storm damage evaluation report is completed.

It is important to understand that insurance claims include items that are not associated with building cost repairs. Some insurance coverage also covers items that under the State's program would not be considered eligible, such as fences and landscaping. The State has and continues to perform its due diligence in complying with the Stafford Act to ensure that assistance being provided to applicants fulfills an unmet need not met by other assistance.

DOH is reviewing nine (9) projects listed in the OIG Audit report and can provide additional information to support that some proceeds directed for disaster recovery expenses are eligible and are supported.

#### Significant Deficiencies

- The State did not have adequate controls over compliance with laws and regulations when it did not ensure that it followed Federal procurement and CDBG-DR requirements (findings 1 and 2).

DOH disagrees with this deficiency. See above.

- The State did not have adequate controls over safeguarding resources when it did not ensure that funds were disbursed for supported, eligible, and reasonable costs (findings 1 and 2).

DOH disagrees with this deficiency. See above.

Comment 12

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

• The State did not have adequate controls over program operations when it could not support that the national objective used was met, environmental reviews were conducted in accordance with requirements, and assistance amounts were supported and properly calculated (finding 2).

DOH disagrees with this deficiency. See above

## OIG Evaluation of Auditee Comments

- Comment 1 State officials provided the basis for their agreement and disagreement with the report's recommendations; we provided our response below where they provided their basis.
- Comment 2 State officials disagreed with the finding that they did not perform a cost analysis. State officials maintain that a cost analysis was conducted prior to entering in any contracts and that a significant level of supporting documentation was provided to us. We maintain the position that a cost analysis was not completed before awarding the contracts. The State provided inadequate documentation to support that the costs were reasonable. State officials stated that they conducted a request for qualifications (RFQ), in which qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation, for architectural, engineering, and construction management services. However, this procurement was advertised and shown as a request for proposals (RFP), in which price and qualification are included as selection factors, on the procurement documents. Further, as stated in Finding 1, the State did not complete a cost estimate prior to issuing the request for proposals to ensure the proposed fees were reasonable. Additionally, the method used to determine the fee schedule was not consistent with Federal procurement requirements.
- Comment 3 State officials indicated that contract modifications were executed as the work progressed and a review of the contract fee schedules was not deemed relevant because there was no significant change in the market condition or opportunity had occurred. We disagree with the State's position and maintain that the State did not conduct a cost analysis in connection with the contract modifications in accordance with regulations at 24 CFR 85.36(f)(1).
- Comment 4 State officials disagreed that proposal evaluation and contractor selection for the architect, engineer, and construction management contractors should have been based on qualification and price factors in accordance with 24 CFR 85.36(d)(3). They stated that 24 CFR 85.36(d)(3)(v) allowed for a qualifications-based procurement of contractor services. However, 24 CFR 85.36(d)(3)(v) provides that this method, in which price is not used as a selection factor and final award is subject to later negotiations of fair and reasonable compensation, may be used only in the procurement of architectural/engineering services. Services in the contracts included environmental review and construction management services which do not qualify as architectural/engineering services under the regulation. As a result, we maintain our position that price should have been an evaluated factor for each proposal submitted, in accordance with 24 CFR 85.36(d)(3) and the State's own request for proposals.

- Comment 5 State officials maintained that price was an evaluation factor and that the methodology used to evaluate the price for each competitor was provided to us. We discussed the evaluation of this procurement with a State official on December 15, 2015. The State official stated that the fee schedules submitted by the contractors were not evaluated to determine whether the costs were fair and reasonable. Instead, the evaluations were based on whether or not a fee schedule was complete and provided for the professional services in the request for proposals, regardless of cost. In addition, although a request for proposals was issued, it was treated by the State as though it was a request for qualifications. Our review of the procurement evaluation sheets confirmed this position.
- Comment 6 State officials disagreed that services to the reimbursement program were outside of the rehabilitation scope of work contract, that a separate procurement was necessary, and that it could have received a lower rate from a larger pool of applicants. They disagreed because the reimbursement program is subset of Owner Occupied program. However, we found that the State's personal service agreement for the services specifically stated, in the complete description of service, that the contractors agree to provide architectural, engineering, and construction management services for the Owner Occupied Rehabilitation and Rebuilding program (rehabilitation), which is a different program than the Owner Occupied Reimbursement (reimbursement) program. The State did not amend the contract to include services for the reimbursement program. The services were less complicated as the State contends; therefore, the State may have been able to obtain a larger pool of qualified firms at a lower rate. We maintain our position that reimbursement program services were outside the contract scope of work.
- Comment 7 State officials disagreed that the low-moderate income national objective was not adequately supported for three projects. The State agreed that the updated information was not available at the time of our review and did not provide us adequate income information during the audit that showed the homeowners met the low-moderate income national objective used at the time of assistance. If the State was unable to obtain verification from the Internal Revenue Service, the State had other methods it could have used to obtain income information that were in accordance with their policies. For example, the State's rehabilitation policies and procedures states that applicants may present consecutive check stubs, pension statements, social security statements, and completed household income worksheets, which can be confirmed with information received from the Connecticut Department of Revenue Services. The State officials disregarded their policies and procedures and Federal regulations. As such, we maintain our position that the national objective was not supported.
- Comment 8 State officials disagreed with the finding which stated that they did not publish the required notice of intent and request for release of funds or obtain HUD approval for Owner Occupied Reimbursement (reimbursement) projects. Further, they stated that the initial notice of intent and request for release of funds satisfied the

publication requirement. We maintain our position that the State did not comply with environmental requirements. The notice of intent (NOI) issued to the public, request for release of funds (RROF), HUD approval, and Tier 1 environmental review were specific to the Owner Occupied Rehabilitation and Rebuilding (rehabilitation) program and did not include the State's Owner Occupied Reimbursement (reimbursement) program. If the State intended that reimbursements were included in the \$30 million in owner occupied housing assistance available to homeowners impacted by the storm as part of the NOI and RROF, this should have been adequately explained in the information provided to the public.

Additionally, the June 2013 action plan allocation of \$30 million for Owner Occupied Housing (rehabilitation and mitigation) was the amount indicated in the NOI issued to the public and RROF for the rehabilitation program. Owner Occupied Reimbursement was not shown as an activity until the State's action plan dated April 2014; however, the NOI, RROF, and HUD approval for the rehabilitation program were dated January and February 2014. Further, the April 2014 action plan showed Owner Occupied Housing (unmet rehabilitation need and mitigation) as one activity, and Owner Occupied Reimbursement (completed rehabilitation and mitigation) as another activity.

- Comment 9 The State did not provide us with supporting documentation that the issue had been resolved with HUD's environmental review officer. Based on a discussion we had with a HUD official on September 21, 2016, the current environmental review officer had not yet started the environmental review.
- Comment 10 The State indicated in its response that it believed the documentation was sufficient to meet the environmental requirements in all cases, but acknowledged inconsistencies with the documentation due to contractor performance. We disagree with the State that the documentation in all cases was sufficient to meet the requirements. Although the State's contractors completed some of the environmental requirements as part of their contract, the State was the responsible entity, and therefore, was required to ensure that in all cases the statutory checklist was completed correctly and adequately supported the determinations.
- Comment 11 The State disagreed with the finding. We acknowledge that the State completed a duplication of benefits analysis for the projects reviewed, and we recognize that insurance claims include items not associated with building cost repairs. However, some costs used in the State's calculations were not always eligible or adequately supported, and the State did not always include the correct amount of insurance proceeds in the calculation. We maintain the position that the State did not always support and properly calculate unmet need determinations. The State has additional information for the nine projects and HUD will need to confirm whether additional information provided by the State supports the CDBG-DR

funds expended.


Comment 12 State officials disagreed with the significant control deficiencies. We maintain that the deficiencies noted were significant because, if not corrected, these deficiencies may put the State's CDBG-DR program at risk of not meeting the grants requirement to fund necessary expenses related to disaster relief, long term recovery, restoration of infrastructure, housing, and economic revitalization. Further, there is no assurance that grant funds will be used, to the maximum extent possible, to benefit the public's recovery from the Sandy disaster.

# Appendix C

## HUD Comments and OIG's Evaluation


### Ref to OIG Evaluation

### HUD Comments

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-7000  
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT

SEP 27 2016

MEMORANDUM FOR: Edward Jeye, Regional Inspector General for Audit, IAGA

FROM:   
Stanley Gimont, Deputy Assistant Secretary  
for Grant Programs (Acting), DG

SUBJECT: Draft Audit Report 2016-BO-100X: The State of Connecticut Did Not Always Comply With Community Development Block Grant Disaster Recovery Assistance Requirements

The HUD Hartford Community Planning and Development (CPD) field office and the Disaster Recovery and Special Issues (DRSI) Division reviewed the draft audit report for the State of Connecticut. This audit focused on the State of Connecticut's Owner-Occupied Rehabilitation and Rebuilding and the Owner-Occupied Reimbursement programs. Both programs are funded with a Community Development Block Grant disaster recovery (CDBG-DR) grant awarded to the State following Hurricane Sandy. CPD offers the following comments regarding the Office of Inspector General's (OIG) draft report.

**OIG Finding # 1: Procurement Actions Did Not Comply With Federal Requirements**  
The OIG concluded that the State did not conduct the cost reasonableness analysis for its architectural, engineering, and construction management contracts. The OIG report indicates that the State used its own procurement contracting manual, which did not include the requirement to conduct independent cost estimates and cost analysis at the time of the initial contract award, as required by 24 CFR 85.36(f)(1). However, the State certified to HUD that the State's procurement requirements were equivalent to Federal procurement regulations at 24 CFR 85.36. At the time of the contract modifications, the State developed a departmental procurement policy that generally followed Federal procurement requirements, including the requirement to perform a cost or price analysis in connection with every procurement action. However, the State did not complete the required cost analysis in accordance with Federal requirements and its own procurement policy.

**HUD Comment:** If HUD determines that the State did not follow the requirements of its procurement policy, the Department will issue sanctions to remedy the noncompliance. However, it is not clear from the OIG's report whether the State did not comply with its procurement requirements or whether the OIG believes the State did not comply with the procurement requirements at 24 CFR 85.36(b) through (i). As you are aware, the OIG has referred at least one audit to the Deputy Secretary as HUD and the OIG cannot agree on the requirements of the procurement certification and the March 5, 2013, *Federal Register* Notice procurement provisions for grantees receiving CDBG-DR funds under Public Law 113-2. The same topic of disagreement regarding the applicability of 24 CFR 85.36 is present in this audit as well.

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Comment 1



# HUD Comments and OIG's Evaluation

## Ref to OIG Evaluation

## HUD Comments

Comment 2

2

Nevertheless, the State has indicated that they were only recently able to access the files that have information concerning cost analysis from their former employee and the State expects to submit that documentation as part of their response to the formal audit.

Additionally, the OIG audit appears to treat the State's evaluation of a Request for Qualifications (RFQ) the same as evaluating construction bids. The OIG concluded that the rehabilitation services were outside of the scope of work from the architectural, engineering, and construction services. It is HUD's understanding that the State procured architectural, engineering, and construction management services and then applied those services to a rehabilitation program and a reimbursement program. Both of these programs required the same skill set and those workers were paid on an hourly basis. It is not atypical for units of government to bid unit cost work (i.e., asphalt or concrete) and then apply these unit costs to individual projects.

HUD will review the State's procurement efforts but notes that the State had to identify firms and organizations in a limited market for an extraordinary rehabilitation effort. The audit has no discussion of how the circumstances of the post-disaster marketplace are different than a standard housing rehabilitation program.

**OIG Finding #2: The State Did Not Always Comply With CDBG-DR Requirements for Its Owner-Occupied Programs**

The OIG concluded that although homeowners were eligible for assistance, the State did not adequately support the low- and moderate-income national objective used for one of the rehabilitation projects and two of the reimbursement projects reviewed. This conclusion is based on the OIG's observation that the State used income documentation obtained at the time of application rather than performing an additional income determination at the time the households were assisted. The OIG report also indicated that the State did not always support that all costs were eligible because it did not always complete environmental reviews in accordance with requirements and did not always properly support and calculate the unmet need of homeowners. The OIG's unmet need conclusion is based on the observation that the State included ineligible costs in its calculations, including luxury items or items not covered by CDBG-DR, such as landscaping and fences, or the State did not deduct the correct amount of other sources from the total costs.

Comment 3

**HUD Comment:** If HUD or the State determines that the households are no longer income eligible, the State may elect to classify the assistance to the households under the *urgent need* CDBG national objective, consistent with the program requirements in the State's Action Plan. However, the OIG's conclusion that the State's use of income information collected at the time of application was not still valid at the "time of assistance" is not based on a CDBG regulatory requirement or definition of "time of assistance."

HUD agrees that activities that have incomplete or missing environmental review documents are not eligible for CDBG-DR assistance. The State has indicated they are trying to locate previous guidance and documentation to demonstrate their compliance with environmental review requirements.

# HUD Comments and OIG's Evaluation

## Ref to OIG Evaluation

## HUD Comments

Comment 4

Comment 5

3

Finally, the OIG's comments regarding unmet need are based on criteria that do not exist in the CDBG-DR program. Specifically, the OIG indicates that luxury items are not covered by CDBG-DR requirements and that landscaping and fences are not covered. There is no CDBG-DR regulatory or statutory criteria that defines luxury items or indicates certain items would not be eligible expenses of a housing rehabilitation activity. Further the OIG's entire discussion of unmet need cites the Stafford Act, but the OIG does not identify/quantify the unmet need for any households included in its review nor does the OIG indicate whether there is a duplication of benefits – the very things that are covered by the Stafford Act. A duplication of benefit occurs when a beneficiary receives assistance, and the assistance is from multiple sources, and the assistance amount exceeds the need for a particular recovery purpose. Grantees and/or subgrantees should analyze and document the total CDBG-DR need of each applicant, i.e., the total amount needed to complete the CDBG-eligible activity. For construction activities such as rehabilitation or new construction, contractor's estimates are often used to establish the amount of need necessary for recovery.

If you would like to discuss these matters, please do not hesitate to contact Alanna Kabel, Director, Connecticut Community Planning and Development, HUD Hartford Field Office, at (860) 240-9770.

## OIG Evaluation of HUD Comments

- Comment 1 HUD officials stated that if they determine that the State did not follow the requirements of its procurement policy, the Department will issue sanctions to remedy the noncompliance. In addition, they stated that it is not clear from the OIG's report whether the State did not comply with its procurement requirements or whether the OIG believes the State did not comply with the procurement requirements at 24 CFR 85.36(b) through (i). We maintain our position that the State did comply with the requirements at 24 CFR 85.36 or requirements set forth in its procurement policies.
- Comment 2 HUD officials stated that the OIG audit appears to treat the State's evaluation of a Request for Qualifications (RFQ) the same as evaluating construction bids. Additionally, HUD officials stated that both programs required the same skillset, which was not atypical for units of government to bid unit cost work. The procurement was advertised and shown as a request for proposals (RFP), in which price and qualification are included as selection factors, and we evaluated the procurement as an RFP. Further, 24 CFR 85.36 (d)(3)(v) states that this method in which price is not used as a selection factor and final award is subject to later negotiations of fair and reasonable compensation may be used only in the procurement of architectural/engineering services. Services in the contracts included environmental review and construction management services which do not qualify as architectural/engineering services under the regulation. In addition, HUD's guidebook, "Basically CDBG for Entitlements" dated July 2012, specifically states that some engineering firms also provide construction and grants management services. In that situation, an RFQ cannot be used and either the small purchases (if it is less than \$100,000) or a RFP must be used. Further, the contracts were specific to the Owner Occupied Rehabilitation and Rebuilding program (rehabilitation), which is a different program from the Owner Occupied Reimbursement (reimbursement) program. The State did not amend the contract to include services for the reimbursement program. The services were less complicated as the State contends; therefore, the State may have been able to obtain a larger pool of qualified firms at a lower rate. We maintain our position that the reimbursement program services were outside the contract scope of work.
- Comment 3 HUD officials stated that if HUD or the State determines that the households are no longer income eligible, the State may elect to classify the assistance to the households under the urgent need CDBG national objective, consistent with the program requirements in the State's Action Plan. However, OIG's conclusion that the State's use of income information collected at the time of application was not still valid at the "time of assistance" is not based on a CDBG regulatory requirement or definition of "time of assistance."

We agree that the State can reclassify the assistance to Urgent Need in accordance with its action plan; however, at the time of our review, the State used the low-

moderate income national objective, which was not supported with income at the time of assistance in accordance with regulations. 24 CFR Part 570.3 states that estimated annual income of a family or household is determined by projecting the prevailing rate of income of each person at the time assistance is provided for the individual, family, or household (as applicable). Therefore, we maintain our position that the State should have obtained updated income information to show that the applicant met the low-moderate income national objective at the time the assistance was provided to the applicant.

Comment 4 HUD officials stated that the OIG's comments regarding unmet need are based on criteria that do not exist in the CDBG-DR program. Specifically, the OIG indicates that luxury items are not covered by CDBG- DR and that landscaping and fences are not covered. HUD's "Homeowner Rehabilitation Program Implementation Tool #2" states that assistance will not be used for luxury items, including but not limited to garage door openers, security systems, swimming pools, fences, and television satellite dishes. In addition, HUD's "Guide to National Objectives and Eligible Activities for State CDBG Programs" chapter 2 states that rehabilitation does not include installation of luxury items, or costs of equipment, furnishings, or other personal property not an integral structural fixture. Furthermore, the State's policies procedures consider these items ineligible.

Comment 5 HUD officials stated that the OIG does not identify/quantify the unmet need for any households included in its review nor does the OIG indicate whether there is a duplication of benefits. The overpayments of \$48,135 in ineligible funds to seven homeowners was in excess of their unmet need, as cited in finding 2, and were a duplication of benefits. The \$201,888 in costs which were not adequately supported by the documentation provided by the homeowners, cited in finding 2, and were potential duplication of benefits.