



The City of New York, NY

Community Development Block Grant Disaster Recovery-Funded Public Housing Rehabilitation and Resilience Program



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

//SIGNED//

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

Subject: The City of New York, NY, Could Improve Its Invoice Review Process Before Disbursing Disaster Funds Under Its Public Housing Rehabilitation and Resilience 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 City of New York's Community Development Block Grant Disaster Recovery-funded Public Housing Rehabilitation and Resilience 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 website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.



Audit Report Number: 2017-NY-1012

Date: September 21, 2017

The City of New York, NY, Could Improve Its Invoice Review Process Before Disbursing Disaster Funds Under Its Public Housing Rehabilitation and Resilience Program

Highlights

What We Audited and Why

We audited the City of New York's Community Development Block Grant Disaster Recovery-funded Public Housing Rehabilitation and Resilience Program. We selected this program for review because the City had allocated \$317 million to the program and disbursed more than \$37 million as of January 2017. Our objective was to determine whether the City had established adequate controls to ensure that it followed U.S. Department of Housing and Urban Development (HUD), Federal, and City requirements when disbursing disaster funds under its program.

What We Found

The City generally had established adequate controls over the use of disaster funds and disbursed funds for eligible and supported costs under the program. However, it did not have adequate policies and procedures to ensure that its staff always obtained and reviewed adequate documentation to verify contractor invoices before disbursing funds to its subrecipient, the New York City Housing Authority. Specifically, the City did not obtain and review adequate documentation before disbursing \$284,844 of the \$19.1 million reviewed during the audit. This condition occurred because the City believed that performing a cursory review of the contractor invoices was sufficient and relied on the Authority to perform a more detailed review of the supporting documentation. Although the City later obtained documentation from the Authority to show that the funds were used for eligible and supported costs, it could strengthen its invoice review process to ensure that its staff fully complies with HUD and Federal cost principle requirements when reviewing contractor invoices before disbursing funds to the Authority.

What We Recommend

We recommend that HUD require the City to provide documentation showing that it has (1) obtained adequate support for contractor invoices related to disaster funds disbursed under the program and (2) strengthened its invoice review process to ensure that costs are eligible and supported before disbursing disaster funds to its subrecipient under the program.

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Background and Objective

Hurricane Sandy crippled much of New York City when it hit the east coast on October 29, 2012. Hundreds of New York City Housing Authority buildings lost power, heat, and hot water. Contaminated saltwater destroyed the Authority's boilers, electrical panels, underground electrical conduits, and playgrounds. The Authority pumped tens of millions of gallons of water from electrical and gas meter rooms, boiler rooms, and other basement spaces.

Through the Disaster Relief Appropriations Act of 2013, Congress made available \$16 billion in Community Development Block Grant Disaster Recovery funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization. These funds were to be used in the most impacted and distressed areas affected by Hurricane Sandy and other declared disaster events that occurred during calendar years 2011, 2012, and 2013. The U.S. Department of Housing and Urban Development (HUD) awarded the City of New York more than \$4.2 billion of the disaster funds.

The City allocated \$317 million of the \$4.2 billion to its Public Housing Rehabilitation and Resilience Program to serve as the local cost share for Federal Emergency Management Agency (FEMA)-funded repair and resiliency projects at impacted facilities. The disaster funds were to be used, along with more than \$2.4 billion in FEMA funds and more than \$407 million in insurance proceeds, to help repair, restore, and strengthen 33 of the Authority's public housing developments that were damaged by Hurricane Sandy. The repairs and improvements included building and grounds restoration; flood mitigation; and electrical, mechanical, and plumbing system repair and replacement.

The City's Office of Management and Budget administers the disaster funds for the program. As the grantee, the City provides the Authority with disaster funds under a subrecipient agreement. The Authority is responsible for overseeing the proposed design, environmental reviews, and construction work. Both the City and the Authority are responsible for reviewing and monitoring disaster-funded activities. As of January 31, 2017, the City had disbursed more than \$37 million in disaster funds to the Authority for program costs.

Our objective was to determine whether the City had established adequate controls to ensure that it followed HUD, Federal, and City requirements when disbursing disaster funds under its program.

Results of Audit

Finding: The City's Controls Over the Public Housing Rehabilitation and Resilience Program Had Weaknesses

The City generally had established adequate controls over the use of disaster funds and disbursed funds for eligible and supported costs under the program. However, it did not have adequate policies and procedures to ensure that its staff obtained and reviewed adequate documentation to verify contractor invoices before disbursing funds to its subrecipient, the New York City Housing Authority. Specifically, the City did not obtain and review adequate documentation before disbursing \$284,844 of the \$19.1 million reviewed during the audit. This condition occurred because the City believed that performing a cursory review of contractor invoices was sufficient and relied on its subrecipient to perform a more detailed review of the supporting documentation. Although the City later obtained documentation from the Authority to show that the funds were used for eligible and supported costs, it could strengthen its invoice review process to ensure that its staff fully complies with HUD and Federal cost principle requirements when reviewing future contractor invoices before disbursing funds to the Authority.

The City Did Not Always Obtain Adequate Supporting Documentation for Costs Before Disbursing Funds to Its Subrecipient

While the City generally had established adequate controls over the use of disaster funds and disbursed funds for eligible and supported costs, it did not have adequate policies and procedures to ensure that its staff always obtained and reviewed adequate documentation to verify contractor invoices before disbursing funds to the Authority. Regulations at 24 CFR (Code of Federal Regulations) 570.506(h) required the City to maintain evidence to show how the funds were used, such as invoices, schedules comparing budgeted amounts and actual expenditures, and construction progress schedules signed by appropriate parties. Federal cost principle requirements at 2 CFR 200.403(g) also stated that costs must be adequately documented to be allowable.

The City maintained adequate supporting documentation to show that \$18.8 million of the \$19.1 million sampled was disbursed for eligible and supported architecture and engineering, staffing, and public notices costs and that services were properly procured. However, it disbursed the remaining \$284,844 to the Authority without obtaining adequate supporting documentation to verify costs shown on the contractor invoices. While the City later obtained the necessary documentation from the Authority at our request, it should have done so before disbursing funds to the Authority.

This condition occurred because the City believed that performing a cursory review of the contractor invoices was sufficient and relied on the Authority to perform a more detailed review of the supporting documentation. The review process performed by the City focused on confirming that the contractor invoices contained Authority-approval signatures and the invoiced

amounts and completed scope of work were correct. City officials stated that the Authority had more technical expertise in reviewing contractor invoices because it was more familiar with the contractors' scope of work and handled the day-to-day management of the program. However, regulations at 24 CFR 570.501(b) stated that the use of subrecipients did not relieve the City of its responsibility to ensure that funds were used in accordance with all program requirements.

Toward the end of our audit period, the City's internal audit department issued a report, dated January 4, 2017, acknowledging that the City did not always obtain adequate supporting documentation for contractor invoices before reimbursing the Authority or requesting funds from HUD. The report recommended that the City work with the Authority to obtain adequate documentation for invoices it paid, such as documentation detailing work completed up to the date of the invoice, proof of deliverables, and proof of inspections by an Authority engineer. The report also recommended that the City consider coordinating with the Authority to develop and document a more thorough and robust invoice review process. The City agreed to implement these recommendations within 3 to 6 months.

Conclusion

The City did not have adequate policies and procedures to ensure that its staff obtained and reviewed adequate documentation to verify contractor invoices before disbursing \$284,844 to its subrecipient. Although the City later obtained documentation from the Authority to show that the funds were used for eligible and supported costs, it could strengthen its invoice review process to ensure that costs are eligible and supported before disbursing funds to the Authority.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Grant Programs require the City to

- 1A. Provide documentation showing that it obtained adequate support for contractor invoices related to disaster funds it disbursed to its subrecipient under the program.
- 1B. Provide documentation showing that it has strengthened its invoice review process to ensure that costs are eligible and supported before disbursing disaster funds to its subrecipient under the program.

Scope and Methodology

We conducted our audit from February through May 2017 at the City’s office located at 255 Greenwich Street in New York City, NY. The audit covered the period October 29, 2012, through January 31, 2017.

To accomplish our audit objective, we conducted interviews with responsible employees of the City and the Authority and reviewed

- relevant background information;
- applicable laws, regulations, and program requirements;
- the City’s and the Authority’s policies and procedures;
- the City’s HUD-approved partial action plan and amendments;
- relevant funding agreements between HUD and the City, the subrecipient agreement between the City and the Authority, and the cost-share agreement between New York State and the City;
- HUD monitoring reports, the City’s internal audit report, and relevant single audit reports for the City and the Authority; and
- data and reports from HUD’s Disaster Recovery Grant Reporting system¹ and the City’s accounting system.

As of January 31, 2017, the City had disbursed \$37.4 million in disaster funds under the program related to 100 vouchers for architecture and engineering (A&E) design, Authority staffing costs, and public notices. We selected a nonstatistical sample of 12 vouchers, including the 10 largest vouchers for A&E design and the largest vouchers for Authority staffing costs and public notices. The 12 vouchers selected represented \$19.1 million, or 51 percent, of the \$37.4 million disbursed during our audit period. Although this approach did not allow us to make a projection to the entire \$37.4 million disbursed, it was sufficient to meet our objective.

Type of activity	Amount budgeted	Amount disbursed	Amount sampled
Construction	\$192,276,000		
A&E design	88,458,000	\$36,409,403	\$18,621,828
Authority staffing costs	3,900,000	977,926	450,750
Workforce development	1,400,000		
Public notices	37,000	36,655	36,655
Other unmet needs	30,929,000		
Totals	317,000,000	37,423,984	19,109,233

¹ The Disaster Recovery Grant Reporting system was developed by HUD for the disaster recovery program and other special appropriations to allow grantees to access grant funds and report performance accomplishments.

We reviewed documentation for each sampled voucher to determine whether the amounts disbursed were for eligible and supported costs. For the 10 vouchers related to A&E design, we reviewed contracts between the Authority and the contractors, along with procurement files, task orders, lists of paid invoices, and contractor invoices and supporting documentation. For the voucher related to Authority staffing, we reviewed a general ledger report, employee job descriptions, time certifications, and time reports. For the voucher related to public notices, we reviewed the contract between the City and contractor, the contractor invoice and supporting documentation, and media advertisements.

To achieve our objective, we relied in part on computer-processed data from the City's accounting system and HUD's Disaster Recovery Grant Reporting system. We used the data to obtain background information and to select a sample of disbursements for review. Although we did not perform a detailed assessment on the reliability of the data, we performed a minimal level of testing and found the data to be accurate for our purposes. Specifically, we reconciled the different sources of data to each other and reviewed source documentation for each of the disbursements selected for review.

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

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:

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

We assessed the relevant controls identified above.

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

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The City did not have adequate policies and procedures to ensure that it always obtained and reviewed adequate documentation to verify contractor invoices before disbursing disaster funds to its subrecipient (finding).

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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

September 1, 2017

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

Re: Draft Audit Report concerning the City of New York, NY did not always obtain adequate supporting documentation for costs before disbursing funds to its subrecipient

Dear Ms. Dahl:

The City of New York's Office of Management and Budget is in receipt of the Draft Audit Report concerning the City of New York, NY, did not always obtain adequate supporting documentation for costs before disbursing funds to its subrecipient.

We would like to express our gratitude to your audit team for their due diligence in reviewing the City's administration of the Community Development Block Grant Disaster Recovery funds for its Public Housing Rehabilitation and Resiliency program during the period of October 29, 2012 through January 31, 2017.

The City believes it has adequately addressed the Finding contained in the Draft Audit Report in our attached response.

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

Sincerely,

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

Calvin Johnson,
Assistant Director, CDBG-DR



The City of New York
Office of Management and Budget
255 Greenwich Street • New York, New York 10007-2146

**CITY OF NEW YORK'S
RESPONSE TO AUGUST 2017
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
PROPOSED AUDIT REPORT**

**PREPARED BY THE NEW YORK CITY
OFFICE OF MANAGEMENT AND BUDGET
SEPTEMBER 1, 2017**

OVERVIEW

The City of New York ("City") values all feedback provided by federal oversight agencies and auditors and this relationship with our federal partners is critical to successful program implementation. The Housing and Urban Development Office of Inspector General's ("HUD OIG") independent oversight provides important information that the City can utilize to better implement Community Development Block Grant-Disaster Recovery ("CDBG-DR) funded Hurricane Sandy projects, including projects for the New York City Housing Authority ("NYCHA" or "Subrecipient").

The New York City Housing Authority (NYCHA) provides affordable housing to low-and-moderate income New Yorkers and manages over 300 public housing developments in the five boroughs for over 400,000 residents. In October 2012, Superstorm Sandy caused the costliest and most destructive disaster in NYCHA's history by impacting 10% of NYCHA housing developments, knocking out power to over 400 buildings, leaving 386 buildings without heat or hot water, and costing over \$3 billion dollars of damage. NYCHA's ability to rebuild stronger and resilient facilities has been linked to its ability to access and receive recovery funding.

The City, through its Office of Management and Budget ("OMB"), allocated \$317 million in CDBG-DR funds to the Public Housing Rehabilitation and Resilience Program as a local cost share for Federal Emergency Management Agency ("FEMA") funded projects at impacted NYCHA buildings. These funds support targeted efforts to strengthen NYCHA's impacted structures, including the installation of standby power generations for vulnerable buildings, façade improvements to prevent water penetration, flood mitigation, electrical, mechanical and plumbing system repair, and roof and window replacements.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

The City's Response to Finding 1

The City Did Not Always Obtain Adequate Supporting Documentation for Costs Before Disbursing Funds to Its Subrecipient

The City concurs that adequate supporting documentation for certain costs were not always obtained by the City, particularly by the NYC Office of Management and Budget (OMB), before disbursing funds to the Subrecipient, the New York City Housing Authority (NYCHA). However, the City maintains that it has adequate controls in place to ensure that supporting documents are obtained and maintained in a database accessible by the City and that no CDBG-DR funds were expended prior to the City reviewing all necessary supporting documentation. For costs this audit identified as needing additional support, the supporting documentation was on file in databases controlled by the Subrecipient, to which the City has access, and all relevant information has since been conveyed to the HUD OIG.

Comment 2

The amount of costs for which the HUD OIG found inadequate documentation at a point in time represents 1.49% of the total invoice amount reviewed by the HUD OIG during the audit. NYCHA, as a Subrecipient of the City, is responsible for maintaining and retaining all program documents. As mentioned in the HUD OIG report, the City provided all relevant supporting documents requested to the HUD OIG, upon request from the Subrecipient.

Comment 3

Further, the City has adequate controls in place to ensure that all disbursements comply with CDBG-DR requirements. Specifically, OMB's CDBG-DR Task Force's Compliance and Monitoring Unit conducts reviews of the City's payments to subrecipients and monitors subrecipients for compliance with all City, State, and Federal requirements. The Compliance and Monitoring Unit reviews invoice packages to verify that all documents necessary to support costs are included in the City's files. All issues are addressed with subrecipients and missing supporting documents are obtained from subrecipients prior to the disbursement of CDBG-DR funds. In the event that a subrecipient is not in compliance with regulatory requirements, the City has a recapture policy in place to ensure that funds inappropriately spent are returned to the City.

Comment 4

As indicated in the report, missing supporting documents were provided to the OIG upon request from NYCHA. Although the files initially provided did not include some supporting documents, the City is confident that all supporting documents are maintained and readily available.

Auditee Comments

Ref to OIG Evaluation

Comment 4

City Response to Recommendation 1A

Provide documentation showing that it obtained adequate support for contractor invoices related to disaster funds it disbursed to its subrecipient under the program

It is the City's position that adequate support for contractor invoices related to disaster funds disbursement to subrecipients has now been provided to the HUD OIG.

City Response to Recommendation 1B

Provide documentation showing that it has strengthened its review process to ensure that costs are eligible and supported before disbursing disaster funds to its subrecipient under the program

It is the City's position that it has adequate controls in place to ensure that supporting documentation for funds are maintained in the City's files. Ultimately at the time of federal reimbursement of these costs, all necessary documents are on file and maintained by the City of New York. The process of ensuring the collection and updating of adequate documentation continues through the close out process, and then the process of ensuring the maintenance of necessary supporting documents continues until five years after the grant close out. That said, the City of New York is open to further strengthening already robust controls and working with HUD on potential improvements to the review process and documenting said improvements.

Comment 3

OIG Evaluation of Auditee Comments

- Comment 1 The City agreed that it did not always obtain adequate supporting documentation for certain costs before disbursing funds to the subrecipient. However, it contended that it had adequate controls in place to ensure that supporting documents were obtained and maintained in a subrecipient database that it had access to, and that no disaster funds were expended before the City reviewed the necessary supporting documentation. It also noted that the relevant supporting documentation for the questioned costs was subsequently provided to OIG. While we acknowledge that there is a close relationship between the City and its subrecipient, the City did not provide documentation to show that it had access to the subrecipient's database or that it had reviewed the supporting documentation maintained in the subrecipient's database before disbursing the disaster funds questioned. Regulations at 24 CFR 570.506(h) required the City, as grantee, to maintain evidence to show how grants funds are used. While the City subsequently obtained the supporting documentation from the subrecipient at our request, it should have done so before disbursing funds to the subrecipient.
- Comment 2 The City contended that the amount of questioned costs represents 1.49 percent of the total invoices reviewed during the audit and that the Authority, as a subrecipient of the City, is responsible for maintaining and retaining all program documents. However, regulations at 24 CFR 570.501(b) state that the use of subrecipients does not relieve the City of its responsibility to ensure that funds are used in accordance with all program requirements. While we only identified supporting documentation issues in a small portion of the \$19.1 million reviewed and the City subsequently obtained the documentation from the Authority, the City could strengthen its invoice review process to ensure that its staff fully complies with HUD and Federal cost principle requirements when reviewing future contractor invoices before disbursing funds to the Authority.
- Comment 3 The City contended that it had adequate controls in place to ensure all disbursements complied with the program requirements. Specifically, the City indicated that its Compliance and Monitoring Unit reviewed the invoice packages to verify that all documents necessary to support costs are included in the City's files, and that the City had a recapture policy in place to ensure that funds inappropriately spent are returned. However, at the time of our review, we noted that the City did not have policies and procedures in place that established adequate documentation to substantiate contractors' invoices or an invoice review process. Instead, the City believed that performing a cursory review of contractor invoices was sufficient and relied on its subrecipient to perform a more detailed review of the supporting documentation.
- Comment 4 The City contended that although the files initially provided did not include some supporting documents, it is confident that all supporting documents are

maintained and readily available. We acknowledge that the City subsequently obtained supporting documentation from the subrecipient for the costs reviewed during the audit. However, we recommend that HUD require the City to provide documentation showing that it obtained adequate support for the remaining contractor invoices related to disaster funds it disbursed to its subrecipient under the program.