
AUDIT REPORT



Lower Manhattan Development Corporation
Community Development Block Grant Disaster Assistance Funds
New York, New York

2003-NY-1006

SEPTEMBER 30, 2003

OFFICE OF AUDIT
New York/New Jersey Region



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Alexander C. Malloy

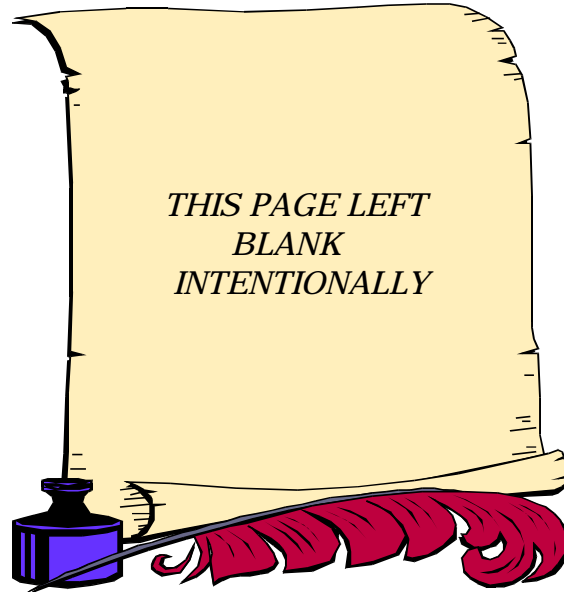
FROM: Alexander C. Malloy, Regional Inspector General for Audit, 2AGA

SUBJECT: Community Development Block Grant Disaster Assistance Funds
Lower Manhattan Development Corporation
New York, New York

We are performing an on-going audit of the operations of the Lower Manhattan Development Corporation (LMDC) pertaining to its administration of the Community Development Block Grant (CDBG) Disaster Assistance Funds, which were provided to the State of New York as a result of the September 11, 2001 terrorist attacks on the World Trade Center in New York City. The objectives of the current review were to determine whether LMDC (1) disbursed the CDBG funds to eligible applicants in accordance with the HUD Approved Action Plan, (2) disbursed the CDBG disaster funds to applicants in a timely manner, and (3) has a financial management system that adequately safeguards the funds. The current review covered the period from February 2002 to March 2003. This report contains two findings with recommendations for corrective actions.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of this audit.

Should you or your staff have any questions, please contact Edgar Moore, Assistant Regional Inspector General for Audit, at (212) 264-8000, extension 3976.



Executive Summary

We are performing an on-going audit of the operations of the Lower Manhattan Development Corporation (LMDC) pertaining to its administration of the Community Development Block Grant (CDBG) Disaster Assistance Funds, which were provided to the State of New York as a result of the terrorist attacks on the World Trade Center in New York City. The objectives of the current review were to determine whether LMDC (1) disbursed the CDBG funds to eligible applicants in accordance with the HUD Approved Action Plan, (2) disbursed the CDBG disaster funds to applicants in a timely manner, and (3) has a financial management system that adequately safeguards the funds. This review is the first of a series of reviews that the Office of Inspector General (OIG) plans to conduct during our on-going audit of the CDBG Disaster Assistance Funds. Currently, we plan to issue an audit report every six months and include the results of each review in the Inspector General's Semi-Annual Reports to Congress.

The results of our review disclosed that LMDC generally disbursed the CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plan in a timely manner; and has a financial management system that is capable of adequately safeguarding the funds. However, we noted processing deficiencies in its Residential Grant Program (RGP) that need to be resolved to enhance the efficiency of LMDC's administration of the funds, and to prevent duplicate payments and other related administrative deficiencies from occurring. These issues are summarized below and discussed in detail in the two findings, as well as in the Issues Needing Further Study and Consideration section of this report.

Processing deficiencies in the RGP need to be resolved

Our review of statistically selected samples of payments to Residential Grant Program (RGP) recipients disclosed various processing deficiencies that need to be resolved. Specifically, we found that contrary to program requirements, LMDC's program administrator was unable to provide adequate documentation to fully support the eligibility of some grant recipients; and made over and under payments to other recipients. In addition, we found that the program administrator either did not obtain or obtained but did not scan all documentation that supports all applicants' eligibility into its Optical Image Technology (OIT) system. As a result, we concluded that some grant payments were made to recipients whose eligibility may not have been fully supported, while others were improperly computed. We also concluded that the program administrator's OIT system does not contain all information to fully support some recipients' eligibility and/or all grant amounts disbursed. Consequently, grant payments totaling \$72,483, which were made to recipients whose eligibility is questionable, are considered unsupported. Furthermore, grant payments of \$2,359 that relate to improperly computed grants are ineligible. These deficiencies can be attributed to possible omissions by grant processors in obtaining all pertinent information from applicants; errors in computing grant amounts; and possible omissions by the program administrator's staff in scanning all pertinent documents into its OIT system.

Duplicate payments under the RGP need to be recovered

Our review disclosed instances where duplicate grant payments were erroneously prepared. Specifically, our review disclosed that grant checks were prepared for 31 individuals, who were either approved to receive a grant check under two different identification numbers or reside in the same household unit with a grant recipient. This occurred because processing steps designed to prevent an individual and/or a housing unit from being entered into the program administrator's computerized grant processing system twice were not always followed. As a consequence, the program administrator prepared duplicate checks to recipients and/or to two different individuals in the same household unit, thereby, causing CDBG funds to be drawn down from HUD that were not needed. Also, the program administrator disbursed six of the duplicate payments, totaling \$7,500 to the payees.

Issues Needing Further Study and Consideration

Furthermore, we noted several practices that warrant further examination by HUD management to bring LMDC closer to full compliance with program regulations and requirements. These issues are discussed in the "Issues Needing Further Study and Consideration" section of this report and involve (1) maintaining monthly independent records to account for balances in the RGP control disbursement account, (2) timely issuance of paper checks when electronic funds transfers (EFT's) fail, and (3) maintaining better support for administrative expenses charged.

Recommendations

We recommend that LMDC and /or its program administrator be instructed to obtain and maintain all missing documentation that supports the eligibility of all grant recipients; properly seek reimbursement from those recipients who either are ineligible or received an overpayment; and make the required payments to those recipients who were underpaid. We also recommend that LMDC and/or its program administrator take immediate steps to prevent the preparation of duplicate grant checks; recover the amount of all duplicate payments disbursed and return the recovered funds to the CDBG Disaster Assistance fund. In addition, we made recommendations that will encourage compliance with HUD requirements and the approved Action Plans.

Exit conference

The results of our audit were discussed with LMDC officials during the audit and at an exit conference held on September 09, 2003. LMDC provided written comments to our draft report on September 12, 2003. We included excerpts of the comments with the findings, and provided the complete text of the comments in Appendix B of this report.

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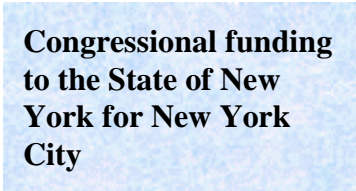
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Abbreviations

ACS	Affiliated Computer Services
ESDC	Empire State Development Corporation
HUD	U.S. Department of Housing and Urban Development
LMDC	Lower Manhattan Development Corporation
OIG	Office of Inspector General
RGP	Residential Grant Program

Introduction

The September 11, 2001 terrorist attacks on the World Trade Center in lower Manhattan had an immediate negative impact on the housing market in lower Manhattan, which resulted in a significant increase in vacancy rates. The residents of lower Manhattan faced a number of concerns regarding the effects of the tragedy such as quality of life issues, transportation issues and the disruption caused by ongoing construction that will be necessary to rebuild lower Manhattan. In the aftermath of the terrorist attacks, Congress authorized HUD to provide the State of New York with \$3.483 billion of Community Development Block Grant (CDBG) Disaster Assistance. Specifically, on November 5, 2001, the Office of Management and Budget designated \$700 million for CDBG funding for New York City out of the Emergency Response Fund that Congress had appropriated.¹ On January 10, 2002, Congress appropriated an additional \$2 billion for CDBG funding, earmarking at least \$500 million to compensate small businesses, nonprofit organizations, and individuals for their economic losses.² Finally, on August 2, 2002, Congress appropriated an additional \$783 million of CDBG funding.³



Congressional funding to the State of New York for New York City

The Lower Manhattan Development Corporation (LMDC) was created in December 2001, as a subsidiary of the Empire State Development Corporation (ESDC) to function as a joint city-state development corporation. LMDC has been designated by the State of New York to develop programs and distribute \$2.783 billion of the \$3.483 billion appropriated by Congress in the January 2002, and August 2002, Emergency Supplemental Acts. The Empire State Development Corp., the parent company of LMDC, is administering the remaining \$700 million. A sixteen-member board of directors who are appointed equally by the Governor of New York State, and the Mayor of New York City governs LMDC. The Chairman of the Board of Directors is Mr. John Whitehead. Mr. Louis Tomson was the President and Chief Executive Officer until his resignation at the end of February 2003, at which time Mr. Kevin Rampe was appointed interim President.

¹ 2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, Pub. L. 107-38, 115 Stat. 220, (2001).

² The Department of Defense and Emergency Supplemental Appropriations for Recovery From and Response to Terrorist Attacks on the United States Act 2002(Emergency Supplemental Act 2002), Pub. L. 107-117, 115 Stat. 2336 (2002).

³ The 2002 Supplemental Appropriations Act for Recovery From and Response to Terrorist Attacks on the United States, Pub. L. 107-206.

Approved action plans

On June 7, 2002, HUD approved LMDC's first Partial Action Plan for \$305,892,500. This plan was amended on September 25, 2002 to rename the Housing Assistance Program to the Residential Grant Program. On November 22, 2002, HUD approved LMDC's second Partial Action Plan in the amount of \$350,000,000. The programs developed under these two Partial Action Plans, and the amount drawn down by the LMDC as of March 31, 2003 for each program, are as follows:

Program	LMDC Partial Action Plan No. 1	LMDC Partial Action Plan No. 2	TOTAL	Drawn Down as of 3/31/03
Residential Grant Program	\$280,500,000	0	\$280,500,000	\$68,180,816
Employment Training Assistance Program	\$ 10,000,000	0	\$10,000,000	\$8,259
Design and Installation of Interim Memorial	\$350,000	0	\$350,000	0
WTC Business Recovery Grant Program		\$150,000,000	\$150,000,000	\$143,529,756
Small Firm Attraction and Retention Grants		\$50,000,000	\$50,000,000	0
Large Firm Job Creation & Retention		\$150,000,000	\$150,000,000	0
				0
Administration	\$15,042,500	0	\$15,042,500	\$7,506,362
TOTALS	\$305,892,500	\$350,000,000	\$655,892,500	\$219,225,193

To meet the Congressional mandate to provide assistance to individuals as quickly as possible, LMDC began implementing its Action Plan No. 1, immediately upon HUD's approval. LMDC's Action Plan No. 2 is an allocation of funds to its parent company, ESDC, for ESDC's Business Recovery, Small Firm Attraction, and Large Firm Job Creation Programs. The activities approved in Partial Action Plan No. 2, are being administered exclusively by ESDC. In addition, the Employment Training Assistance Program under Action Plan No. 1 is being administered by ESDC.

During our audit period, LMDC had initiated only one program in Partial Action Plan No. 1, "The Residential Grant Program (RGP)". Accordingly, our audit efforts were concentrated on LMDC's disbursement of funds to contracted program administrators, recipients of grants under the RGP, and LMDC's incurred administrative costs. Despite the fact that the above table indicates that \$68,180,816 was drawn down and earmarked specifically for RGP during the period ending March 31, 2003, note that only \$61,283,207 of that amount relates to disbursements

to grant recipients. The remaining \$6,897,609 is associated with funds disbursed to the RGP program administrator and other contractors providing administrative services to the RGP.

LMDC 's Residential Grant Program

The Residential Grant Program (RGP) is designed to encourage individuals to renew existing leases, sign new lease agreements or purchase residential units in lower Manhattan. The program offers substantial financial incentives to offset the perceived and real disadvantages of living in lower Manhattan because of the September 11, 2001 terrorist attacks. The RGP provides three (3) types of grants and the criteria for eligibility and the amount of entitlement is dependent on the location of the applicant's residence within specific areas of lower Manhattan characterized by LMDC as Zones 1, 2 and 3. The boundaries of the three zones are described in the Partial Action Plan. Descriptions of the three types of grants under the RGP are as follows:

Two-Year Commitment-Based Grant

The two-year commitment-based grant is available to residents who make a two-year or longer commitment to live in the areas of lower Manhattan designated as either Zone 1, or Zone 2. The amount of the grant is based on 30% of the renter or owner's monthly housing costs or 50% of an owner's housing costs if the owner does not have a mortgage.

An applicant must occupy the housing unit for which he or she is requesting the grant, and if a renter, he or she must have entered into at least a two-year lease commencing on or before May 31, 2003, and ending on or after May 31, 2003. This grant is a monthly subsidy and is paid in equal amounts over the 24-month period that the applicant is deemed eligible.

September 11, 2001 Residents Grant

The September 11, 2001 grant is available to applicants who resided in any of the three zones prior to September 11, 2001, and continue to reside within one of the three zones through the date of application and award.

Family Grant

The family grant is an incentive to families to make at least a one-year commitment to live in any of the three zones. To be eligible for this grant the resident must have at least one child under the age of 18 in the household, and must make a commitment to live in lower Manhattan for at least one year.

The maximum and minimum amount of each grant by zone is as follows:

	Zone 1	Zone 2	Zone 3
Two Year Grant: Maximum	\$12,000	\$6,000	Not eligible
Minimum	\$4,000	\$2,000	Not eligible
September 11, 2001 Grant	\$1,000	\$1,000	\$1,000
Family Grant	\$1,500	\$750	\$750

Each of the above grants is limited to one of each type of grant per eligible household unit.

Administration of the RGP

LMDC contracted with various entities to provide administrative services in connection with the RGP; thus, the costs of these administration contracts are considered as direct program costs. Specifically, LMDC contracted with “Concera Corporation” to perform the day-to-day processing of RGP grant applications. However, shortly after the contract was awarded, Affiliated Computer Services (ACS) acquired Concera, and became the program’s administrator. ACS is responsible for application intake, processing, approval and grant distribution. Under ACS’s procedures when an application is approved for payment the grant check is not disbursed until the next month; however, prior to disbursing the grant payments ACS obtains approval from LMDC.

LMDC estimated the total cost for the RGP to be \$280.5 million and estimated 47,554 housing units would be affected (9,361 housing units in Zone 1; 22,052 housing units in Zone 2; and 16,141 housing units in Zone 3).

Statistical samples

From the 25,895 grant recipients who received payments between the program payment periods September 2002 and March 2003; we selected two statistical samples for review. The first statistical sample consisted of 239 RGP grant recipients, representing RGP disbursements of \$663,723 between payment periods September

2002 and December 2002. The second statistical sample consisted of 211 grant recipients, representing RGP disbursements of \$489,712 between payment periods January 2003 and March 2003. In total we selected and tested 450 grant recipients, representing RGP disbursements of \$1,153,435. We reviewed the applications and the data in the files of the grant recipients that were in our sample, to determine whether LMDC followed its RGP guidelines and established policies and procedures for processing, approving and making payments to RGP grant recipients. We sent confirmations to the 450 grant recipients requesting verification of the type of grant they received, their September 11, 2001 address (for September 11, 2001 grant recipients), children in the household (for family grant recipients) and grant payment received for the respective sample period. We also used a computer software program known as “Audit Command Language (ACL)” to determine whether any individuals received duplicate grant payments.

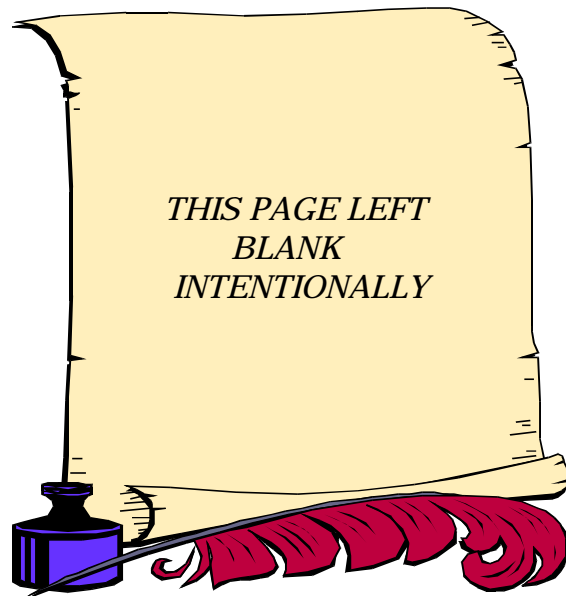
In addition, we tested \$2,146,783 or approximately 29% of LMDC’s total planning and administrative costs of \$7,506,362 at March 31, 2003. This report does not include our review of disbursements that were made under the WTC Business Recovery Grant (BRG) and Employment Training Assistance programs. These programs are being administered by ESDC and were reviewed and reported on separately in audit report number 2003-NY-1005 dated September 30, 2003.

Audit scope and methodology

We performed our on-site work between November 2002 and July 2003. The current review generally covered the period from February 2002 through March 2003, and where appropriate was extended to cover periods prior and subsequent to these dates.

The on-going audit is being conducted in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the Auditee.



Processing Deficiencies in The Residential Grant Program Need to be Resolved

Our review of statistically selected samples of payments to Residential Grant Program (RGP) recipients disclosed various processing deficiencies that need to be resolved. Specifically, we found that contrary to program requirements, LMDC's program administrator was unable to provide adequate documentation to fully support the eligibility of some grant recipients; and made over and under payments to other recipients. In addition, we found that the program administrator either did not obtain or obtained but did not scan all documentation that supports the eligibility of all applicants into its Optical Image Technology (OIT) system. As a result, we concluded that some grant payments were made to recipients whose eligibility may not have been fully supported, while others were improperly computed. We also concluded that the program administrator's OIT system does not contain all information to fully support some recipients' eligibility and/or all grant amounts disbursed. Consequently, grant payments totaling \$72,483, which were made to recipients whose eligibility is questionable, are considered unsupported. Furthermore, grant payments of \$2,359 that relate to the improperly computed grants are ineligible. These deficiencies can be attributed to possible omissions by grant processors in obtaining all pertinent information from applicants; errors in computing grant amounts; and possible omissions by the program administrator's staff in scanning all pertinent documents into its OIT system. Thus, we recommend that HUD instruct LMDC and/or its program administrator to obtain and maintain all missing documentation that supports the eligibility of all grant recipients; if the missing documentation cannot be obtained the amounts paid should be reimbursed to the program. In addition, HUD should instruct LMDC and its program administrator to properly seek reimbursement from those recipients who either are ineligible or received an overpayment; and make the required payments to those recipients who were underpaid.

LMDC Residential Grant Program (RGP)

Background

The Lower Manhattan Development Corporation's (LMDC) Residential Grant Program (RGP) provides financial incentives to retain and attract residents to lower Manhattan. Grant awards are made based on individual applicant eligibility and housing unit certification. To qualify, residents must live in one of the three eligible designated zones. Renters and owners fitting certain criteria are eligible for three types of grants: Two-Year Commitment-Based Grants; September 11, 2001 Residents Grants; and Family Grants (See the Introduction section of this report for a description of the types of grants). A maximum of one of each type of grant is awarded per housing unit.

LMDC contracted with Affiliated Computer Services (ACS), a program administrator, to run the day-to-day operations of the RGP; specifically, for the taking of applications, obtaining documentation, approving applicants for the grant awards, and computing and disbursing grant payments. The program administrator and LMDC's staff established specific guidelines for the program based on the criteria for the RGP as proposed in the HUD approved Partial Action Plan, dated June 7, 2002, and amended September 25, 2002.

**Scope and
Methodology**

LMDC began awarding grants under the RGP in September 2002. During the period between September 2002 and March 2003, LMDC approved disbursements to 25,895 RGP recipients, amounting to \$77,311,708. Because the amount authorized for a particular disbursement period is not disbursed until the subsequent month, at March 31, 2003, actual disbursements to RGP recipients totaled \$61,309,062 (\$61,283,207 in draw downs and \$25,855 in adjustments). This amount relates to payments approved for the disbursement periods between September 2002 and February 2003. The remaining \$16,002,646 was authorized for the March 2003 disbursement period; however, the actual disbursement of these funds occurred in April 2003.

From a universe of 25,895 recipients, we selected two statistical samples to perform our audit testing. Our samples were selected using a stratified variable/attribute plan in accordance with the grant types. The first statistical sample consisted of 239 RGP recipients, representing RGP disbursements of \$663,723, which were disbursed between the period September 2002 and December 2002. The second statistical sample consisted of 211 RGP recipients, representing RGP disbursements of \$489,712 that were disbursed between January 2003 and March 2003. In total, we selected and tested 450 RGP recipients, representing RGP disbursements of \$1,153,435. We reviewed the application and supporting documents submitted by grant recipients in our sample. Specifically, we utilized the administrator's computerized Optical Image Technology (OIT) System, as well as hard copy files for certain recipients, to determine whether LMDC and its program administrator followed its processing criteria and the RGP guidelines. We also sent confirmations to the RGP grant recipients in our sample to verify the data on record with LMDC and its administrator.

Criteria

Title 24 of the Code of Federal Regulations (CFR) Part 570.489 (d)(1) provides that “ a state shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements... must (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions and (ii) ensure that funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart.” Furthermore, Part 570.490 provides that “ the state shall establish and maintain such records as may be necessary to facilitate review and audit by HUD of the state’s administration of CDBG funds...”

RGP requirements were established based on the HUD approved Partial Action Plan. These requirements are provided to all applicants in an RGP application package that includes specific eligibility criteria as set forth in a “One Page Fact Sheet” and in the “Supporting Documentation List”. RGP applicants are required to submit specific documentation to substantiate program eligibility, such as documentation to substantiate an applicant’s identification, current address, family members (child) and rental or housing costs.

Processing deficiencies found

The results of our review disclosed that the program administrator was unable to provide adequate documentation to fully support the eligibility of some grant recipients; and that over and under payments were made to certain grant recipients. The results also disclosed that the program administrator either did not obtain or obtained but did not scan all documentation that supports the eligibility of all applicants into its Optical Image Technology (OIT) system. The details are described below:

a. Documentation to fully support the eligibility of some recipients was not provided

Eligibility of 34 recipients is not fully supported

Our review disclosed that LMDC’s program administrator did not provide us with all required documentation to support the eligibility of some grant recipients. The test results of our statistical sample of 450 RGP recipients disclosed that the eligibility of 34 recipients, who received grant payments totaling \$72,483, is not fully supported. Specifically, the review disclosed that neither the program administrator’s OIT system nor files with hardcopy information contained sufficient documentation to fully support some recipients’ eligibility for an RGP grant. Examples of supporting documents that were missing included documents that

identify the recipient (e.g. photo identification), recorded deeds or executed leases, co-op or condominium contracts, current utility/cable/phone bills, mortgage bills or payment coupons, current rent statements or other valid receipts for rent payments.

Grant awards of \$72,483 is unsupported

In connection with the above, it should be noted that the test results of the first statistical sample consisting of 239 RGP recipients who received grant payments totaling \$663,723 during the period between September 2002 and December 2002, disclosed that the eligibility of 15 grant recipients is questionable due to insufficient supporting documentation. Thus, we consider those grant payments, which total \$34,778, to be unsupported. The test results of the second statistical sample consisting of 211 RGP recipients who received grant payments of \$489,712 between the period January 2003 and April 2003, disclosed that the eligibility of 19 grant recipients is also questionable due to insufficient supporting documentation. Accordingly, we consider grant payments to those recipients of \$37,705 unsupported. In total, the program administrator was unable to adequately support the eligibility of 34 grant recipients who received grant payments of \$72,483, which we consider unsupported pending further review by officials of LMDC, its program administrator, and HUD. We attribute this deficiency to possible omissions by the program administrator's grant processing staff in obtaining and scanning all documents required to support an applicant's eligibility and grant computation into its OIT system.

b. Over and under payments to RGP recipients

Errors resulted in \$2,359 in overpayments and \$1,064 in underpayments

Our review of the documentation for RGP recipients disclosed that some RGP recipients received more than they were entitled to receive while others received less than their entitlement. Specifically, our testing of 450 RGP recipients, who received grant payments totaling \$1,153,435, disclosed that the program administrator incorrectly computed the grants for ten RGP recipients resulting in monetary errors. The errors caused either an overpayment or an underpayment to be made to grant recipients. Specifically, the incorrect calculations resulted in overpayments of \$2,359 and underpayments of \$1,064, as shown in the table below:

Sample No.	Head of Household (HOH) ID#	Overpayment Amount	Underpayment Amount	Cause
One	810	\$182.40		4
One	12007	\$32.46		1
One	14559		\$419.34	2
One	18210		\$106.32	2
One	21611		\$372.96	2
One	30845		\$165.36	3
One	5330	\$215.74		4
Two	27580	\$63.09		1
Two	6270	\$1,833.37		4
Two	16050	\$31.50		4
	TOTAL	\$2,358.56	\$1,063.98	

The causes of the incorrect calculations are explained below:

- 1 Error in calculation of 2-Year Grant Award. The administrator incorrectly included air conditioner and/or appliance charges in monthly maintenance costs.
- 2 Error in calculation of 2-Year Grant Award. The administrator incorrectly used 30% instead of 50% to calculate the award for an owner with no mortgage.
- 3 Error in grant entitlement. The RGP administrator did not include the total housing cost in its calculation.
- 4 Error in grant entitlement. The RGP administrator overestimated the housing costs in its calculation.

We attribute the incorrect calculations that resulted in over and under payments to human errors made by members of the program administrator's staff.

**Statistical evaluation
of the results of our
review**

In consultation with a statistician, we evaluated the results of our sample testing and projected those results over the entire population of RGP recipients. Using the results of our stratified variable/attribute sample of 450 RGP recipients, representing RGP disbursements of \$1,153,435, which was drawn from a population of 25,895 RGP recipients who were approved for and received payments valued at \$77,311,708 over the period between September 2003 and March 2003, we estimated that the population

contains approximately 2,276 questionably supported and/or incorrectly computed grant awards, which relates to grant amounts that total approximately \$3,804,115. Our sample was selected using a 95 percent confidence level and 2 percent materiality level.

Considering the significance of these projections, we believe that LMDC and its program administrator needs to take the necessary steps to: (1) ensure that all documentation needed to support recipients' eligibility are properly obtained and maintained, and/or scanned into the program administrator's OIT system, and (2) recover all identified overpayments and ensure that all grant recipients who were underpaid receives their full grant entitlement. Since the application-processing phase of the RGP should be completed by the date this report is issued, we are not providing any recommendations pertaining to the human error issue. However, for the two-year grant recipients, the above steps can be implemented during the recertification process.

Recipient information was not always scanned in the OIT System

In conjunction with performing our testing, we used LMDC's program administrator's Optical Image Technology (OIT) System, which is supposed to contain all scanned documentation obtained from recipients, to determine whether an applicant's eligibility and grant computations are supported. However, our review disclosed that various documents were not scanned into the OIT System, or were scanned into the system, but were not legible. In this regard, the program administrator's OIT system does not fully support the eligibility of some grant applicants and/or the grant computations of those applicants, as well as of other grant recipients (See section "a" above).

Since the OIT system did not contain all documents, we requested the hardcopy files for certain grant recipients. However, we discovered that the documents in the hard copy files are not maintained in a form that permits easy and timely access to them. Instead of filing information on applicants by Head of Household Identification Number (HOH ID), Name or Social Security Number, the program administrator filed the information by the date received. For example, if a grant recipient submitted an application or information on different dates, there would be more than one file for that applicant. As such, in some cases there was no single file that contained all of the information for a particular grant applicant and/or recipient. This made the audit process difficult, because when the information was not in the OIT system or was not legible, the grant recipient's hard copy file information was not readily available and/or obtainable.

We attribute the above deficiencies to possible omissions by the program administrator's staff in scanning all pertinent documents into its OIT system, and/or to the program administrator's questionable method of filing hard copy documents. Since the RGP is nearing completion, we recommend that LMDC and/or its program administrator maintain all documentation that support the eligibility of grant recipients and the computation of grant amounts in a manner that allow them to be retrieved timely.

Auditee comments

LMDC's comments provide that corrective actions have been taken on all of the items identified in the OIG audit report. The comments provide that LMDC, its program administrator, its compliance auditor, and/or internal auditor identified many of these items, and corrective actions began as early as November 2002. The comments indicate that all of the 34 applicants cited were fully eligible for the grants they were awarded. Due to significant controls, including the requirement for multiple forms of supporting documentation, no ineligible applicant is included. The comment provides that LMDC officials conducted a full audit of the 34 applications and, in some instances, conducted site visits or made phone calls to verify residency for applicants missing documentation. The comments indicate that 18 of the 34 cases are complete and that each recipient's eligibility is fully supported. Regarding the remaining 16 cases, LMDC is taking corrective action to obtain missing signatures, notarizations and other supporting documentation. According to the comments, LMDC contends that many of the applications questioned by HUD IG are from residents living in specialized low and moderate-income housing and that those applicants were approved based on LMDC's procedures, which include specific instructions on alternative methods to document eligibility for low and moderate-income residents in specialized housing.

The comments further provide that 8 of the 10 applications identified by HUD IG as being over or under paid had already been discovered and corrected by the program administrator through its existing controls. Of the 10 overpayments and underpayments, 7 were found during the recertification process. The actual overpayment is \$250, not \$2,358.56. Furthermore, all of the computations for the recipients identified have been corrected and the correct value will be reflected in the remaining payments. Staff has and will be retrained on the issues discovered, and quality assurance reports will be run on a regular basis.

**OIG evaluation of
Auditee comments**

During the course of our audit, LMDC officials and its program administrator were kept fully updated of all reportable conditions. Thus, LMDC officials were able to undertake corrective actions to resolve some of the missing documentation and grant calculation issues that were raised while performing our fieldwork. However, as discussed in the finding, at the conclusion of our fieldwork the program administrator was unable to provide documentation to fully support the eligibility of 34 grant recipients, including the 18 cases that the auditee comments indicate were fully supported. Regarding LMDC's statement that alternative methods to document eligibility for low and moderate-income residents in specialized housing were used, it should be noted that LMDC's alternative supporting documentation list was not implemented by LMDC until May 2003, which was after our audit period of March 2003. Furthermore, at the completion of our audit fieldwork, LMDC and its program administrator were still performing research to address our concerns about missing documentation pertaining to many of the cases questioned during our review.

Regarding the over and under payments, we attribute the incorrect calculations to human errors. Likewise, as previously noted, the corrected adjustments that were made during the recertification process by LMDC were done during the course of the audit. However, the program administrator's computerized processing system did not reflect any adjustments to the computation of grant amounts; therefore, the amounts, of \$2,359 in overpayments and \$1,064 in underpayments reflected in our finding are accurate snapshots at the time of our review.

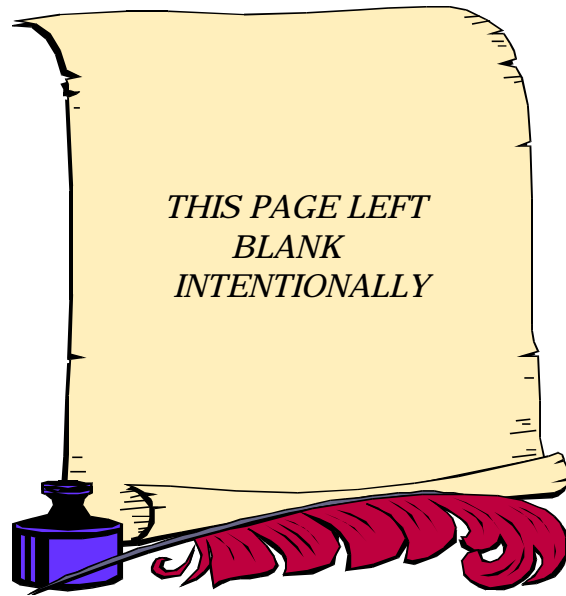
Recommendations

We recommend that HUD, the General Deputy Assistant Secretary for Community Planning and Development, instruct LMDC and/or its program administrator to:

- 1A. Obtain and maintain all missing documents needed to support the eligibility of the 34 grant recipients in our sample whose eligibility has been questioned.
- 1B. Obtain reimbursement from those recipients who are determined to be ineligible for program assistance; and

reimburse any amount of the \$72,483 that cannot be supported to the RGP.

- 1C. Correct the inaccurate computations of the grant amount for the grant recipients identified in the finding; provide underpaid recipients with the correct grant amount; and recover the \$2,359 in overpayments made to recipients.
- 1D. Perform post reviews of the eligibility of grant recipients and computations of grant amounts to identify and correct processing deficiencies to the extent deemed necessary.
- 1E. Develop procedures to ensure that all documents that support the eligibility and grant computations for all grant recipients are maintained in the program administrator's OIT system and/or are filed in a manner that allows for a speedy retrieval.



Duplicate Payments Under The Residential Grant Program Need to be Recovered

Our review disclosed instances where duplicate grant payments were erroneously prepared. Specifically, our review disclosed that grant checks were made payable to 31 individuals, who were either approved to receive a grant check under two different identification numbers or reside in the same household unit with a grant recipient. Of the 31 checks, which amounted to \$100,714, six checks, amounting to \$7,500 were disbursed. This occurred because processing steps designed to prevent an individual and/or a housing unit from being entered into the program administrator's computerized grant processing system twice were not always followed. As a consequence, the program administrator prepared duplicate checks for the same recipients and/or for two different individuals residing in the same household unit, thereby, causing CDBG funds to be drawn down from HUD that were not needed. Also, the program administrator disbursed six of the duplicate payments, totaling \$7,500, to the payees. Accordingly, we recommend that HUD instruct LMDC to take immediate steps to recover the duplicate payments disbursed, and to return the recovered funds to the CDBG Disaster Assistance fund. Also, we recommend that LMDC and/or its program administrator take all necessary steps to prevent the preparation of duplicate grant checks.

Criteria

Title 24 of the Code of Federal Regulations (CFR) Part 570.489 (d)(1) provides that “ a state shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements... must (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions and (ii) ensure that funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart.” Furthermore, Part 570.490 provides that “ the state shall establish and maintain such records as may be necessary to facilitate review and audit by HUD of the state's administration of CDBG funds...”

The RGP requirements are provided in the Lower Manhattan Development Corporation Partial Action Plan approved by HUD on June 7, 2002 and amended September 25, 2002. The Action Plan provides for three types of grants: (i) Two-Year Commitment-Based Grants, (ii) September 11, 2001 Residents Grants, and (iii) Family Grants. Eligibility for the grants is restricted to zones specified by LMDC, and each eligible housing unit is entitled to receive only one of each grant as prescribed for that zone. The Two-Year Commitment-Based grants are paid over a period of 24 months and the September 11, 2001 grants and the Family grants are one-time payments.

Program administrator approved duplicate grant payments

Our audit disclosed that contrary to the above requirements, LMDC's program administrator approved the same grant (a duplicate grant) either for the same individuals (grant recipients) or for two different individuals residing in the same household unit. Using the analytical program, Audit Command Language, (ACL), we performed an analysis of the payment data furnished by the program administrator for the payment period between September 2002 and March 2003. This data consisted of grant information on 25,895 RGP recipients who were approved for grant payments totaling \$77,311,708. Based on the results of the analysis, we identified a total of 31 duplicate grants that were either approved for the same grant recipients or for two different individuals residing in the same housing unit. Pursuant to program requirements, each eligible housing unit is only entitled to one of each grant.

Officials of both LMDC and the program administrator informed us that each RGP application that is received is provided a Head of Household Identification (HOH ID) number in the program administrator's computer system to be used as a means of tracking the progress of that application. We were also told that the computer system, which is used for processing applications, was designed to prevent an individual from being assigned more than one HOH ID number. They further informed us that the system would prevent duplicate grant awards to the same household unit. The program administrator's procedures provide that the initial step in processing an application was for staff to search the computer database by name, social security number, address and date of birth to determine if the individual or household unit already exists in the database. This search was to prevent any duplication of individuals and/or household units.

The program administrator processed and issued duplicate grant payments

Our review disclosed that duplicate grant payment checks, totaling \$100,714, were made payable to 31 individuals who were either approved to receive a payment under a different identification number or resided in the same household unit of a grant recipient. It should be noted that all of the duplicate payments were identified when we analyzed the database using ACL, to determine whether more than one grant payment was disbursed to the same housing unit. Apparently, the program administrator's staff's search of the program's computerized database did not detect the existence of the same address (household unit) before entering another HOH ID into the system for that address. This caused two grant payments to be generated for the same address/housing unit. However, as a result of bringing this matter to the attention of members of the

program administrator’s staff, as well as, from the results of its quality control reviews, the program administrator identified 31 duplicate checks, whose amounts total \$100,714. It should be noted that 25 of the checks, with amounts totaling \$93,214, were withheld from being disbursed; thereby, avoiding funds from being improperly used. Regarding the six checks that were disbursed, the amounts of those checks, which total \$7,500, are ineligible costs that should be removed from program cost. Details pertaining to the six checks are as follows:

HOH ID	AMOUNT PAID	INELIGIBLE AMOUNT
30815 & 6476	\$2,000.00	\$1,000.00
11763 & 23645	\$3,500.00	\$1,750.00
28124 & 40574	\$2,000.00	\$1,000.00
12956 & 26290	\$3,500.00	\$1,750.00
14563 & 31179	\$2,000.00	\$1,000.00
2129 & 24780	\$2,000.00	<u>\$1,000.00</u>
Total		\$7,500.00

Although duplicate grant awards were identified the program administrator continued processing grant checks

We also noted that although the program administrator identified duplicate grant awards, it did not immediately stop processing the duplicate payment checks. For the two-year commitment-based grants, the program administrator continued processing monthly duplicate payment checks even after the duplication was identified. The program administrator contends that when a duplicate grant award is identified, a review is initiated to determine which of the awards should be terminated. Until one of the awards is terminated, both monthly payments for the two-year commitment-based grants are processed. This process continues until the grant that is determined to be a duplicate is terminated.

Processing duplicate payments checks result in excess CDBG funds being drawn down

In connection with the above, we believe that the program administrator needs to develop procedures to ensure that once duplicate checks or awards are identified, the duplicated information should be immediately removed from the computer system so that duplicate checks are not processed. By allowing the duplicate checks to continue to be processed for payment, the program administrator causes CDBG funds to be drawn down from HUD prematurely. For example, when the program administrator prepares its monthly payment roster of checks, LMDC submits its monthly request to HUD for drawdowns of CDBG funds to cover those checks. As such, although the checks identified as duplicate payments were not disbursed to the payees, CDBG funds for the amount of those checks were drawn down from HUD.

Furthermore, if the duplicate checks are not properly controlled, they can be mailed in error or stolen. Accordingly, we believe that the program administrator needs to take the necessary steps to prevent its computerized system from generating duplicate checks upon identification of the duplications.

Auditee comments

LMDC officials concur with the audit finding that there were 31 cases where duplicate payment checks were processed. However, they contend that of the 31 duplicate cases identified by the HUD IG, the program administrator through its quality assurance process discovered 25 of the cases prior to payment. The remaining six cases were identified after payment was made. In addition, LMDC officials state that they have taken action to recover the duplicate payments, and so far have recovered \$3,000 of the \$7,500. The amount recovered has been deposited into LMDC's RGP bank account. LMDC further contends that the program administrator has increased the frequency of its quality assurance reviews.

**OIG evaluation of
Auditee comments**

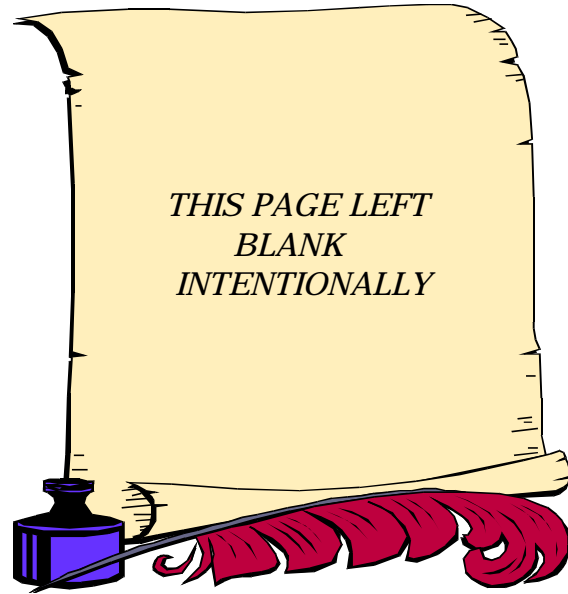
The actions being taken by LMDC are responsive to our recommendations. However, we believe that LMDC should continue to seek reimbursement from recipients who have not returned their duplicate payments, until the amounts of all duplicate payments have been recovered.

Recommendations

We recommend that HUD, the General Deputy Assistant Secretary for Community Planning and Development:

- 2A. Instruct LMDC and/or its program administrator to immediately recover the \$7,500 in duplicate payments from the individuals who received the funds and return the recovered amount to the CDBG Disaster Assistance Fund.
- 2B. Verify that checks identified as duplicate grant payments, amounting to \$93,214 are voided and the funds associated with the checks are properly put to better use.
- 2C. Instruct LMDC and/or the program administrator to continue to perform quality control reviews designed to identify duplicate grant payments.

- 2D. Instruct LMDC and/or its program administrator to develop procedures that would prevent the processing of duplicate checks once the duplication is identified.



Management Controls

In planning and performing our audit, we considered the management controls of the Lower Manhattan Development Corporation to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. Management controls include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

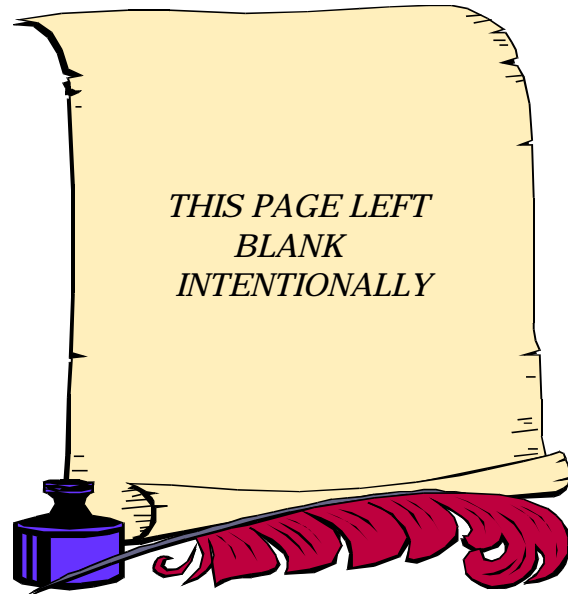
- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with Laws and Regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.
- 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.

We assessed all the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization’s objectives.

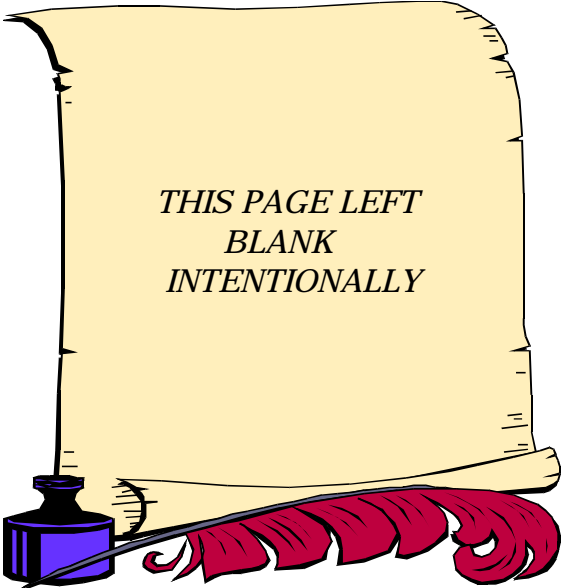
Significant Weaknesses

Based on our review, we found significant weaknesses in the grant application and processing controls of the Residential Grant Program, which warrant reporting (see Findings 1 and 2).



Follow Up On Prior Audits

This is the Office of Inspector General's initial audit of the Lower Manhattan Development Corporation.



Issues Needing Further Study and Consideration

During our review, we noted several practices that warrant further examination by HUD Management. These issues are as follows: contrary to LMDC's written procedures, its Residential Grant Program (RGP) administrator neither (1) maintains adequate records to independently account for the balance in its RGP Controlled Disbursement Account, nor (2) remits paper checks timely to grant recipients following the return of unsuccessful Electronic Funds Transfer (EFT) payments. In addition, our examination of planning and administrative expenses disclosed that generally, LMDC maintains adequate documentation to support the reasonableness of the expenses reimbursed with HUD CDBG funds. However, we found a few instances where the supporting documentation was deemed insufficient. More details are provided below:

LMDC does not maintain a ledger to independently account for balances in the Control Disbursement Account

Despite LMDC's procedures stipulating that monthly reconciliations of the bank account balance must be prepared utilizing a bank balance ledger, our review of reconciliations prepared for the months of October 2002 and January 2003, disclosed that LMDC neither maintains the ledger nor adequate records to independently account for the balance in its Control Disbursement Account (the account in which RGP payments are disbursed). As a result, a great deal of reliance is placed upon the balance reflected in the bank statements and the supplemental bank reports. Although efforts are made to prepare monthly bank reconciliations, LMDC and/or its program administrator cannot properly reconcile the balances reflected on bank statements without proper accounting records.

A ledger is needed to reconcile the bank statement balance

Officials of LMDC's program administrator acknowledged that the Monthly Reconciliation Procedures have not been implemented due to a lack of instruction from LMDC concerning how the ledger is to be maintained. Moreover, LMDC Officials contend that the Controlled Disbursement Account is designed to have a zero balance. As such, they did not deem it necessary to maintain a monthly independent record. However, despite the fact that the account did have a zero ending balance within the first couple of months, we noted that for the months thereafter, the ending balances were not zero. As such, we believe that when the account balance is not zero, LMDC and/or its program administrator needs to maintain a ledger to account for the balance and use that balance to reconcile to the bank statement balance. Officials of the program administrator speculate that the balances may be attributable to the failed grant payments that were attempted by Electronic Fund Transfers (EFTs). In this regard, we believe that LMDC and/or the program administrator should evaluate this matter and create a bank balance ledger, to be used to prepare bank reconciliations in accordance with already established procedures.

Replacement checks are not always issued timely

Additionally, although LMDC procedures provide that grant recipients will receive their RGP Payments via paper checks in the month following the return of unsuccessful EFTs to the programs bank account, our review disclosed that paper checks were not always issued timely. During an examination of a list of 9 returned EFT payments, totaling \$3,420.44, we found that while the payments related to the months of December 2002, and January and February of 2003, the paper checks were not issued until May 21, 2003. Officials of the program administrator acknowledge the established procedure is not followed. Furthermore, they contend that at least two months or two grant disbursement periods are needed to correct the problems associated with unsuccessful EFTs. Returned or unsuccessful EFTs have been attributed to the failure of pre-note testing, which is used to determine whether there are problems associated with a grant recipient's bank account information, prior to the disbursement of a regular EFT payment. Therefore, we suggest that HUD instruct LMDC to work collectively with the program administrator to revise the procedures concerning pre-note testing to ensure that errors detected are identified prior to the issuance of EFT payments. This should curtail the problem of returned EFTs.

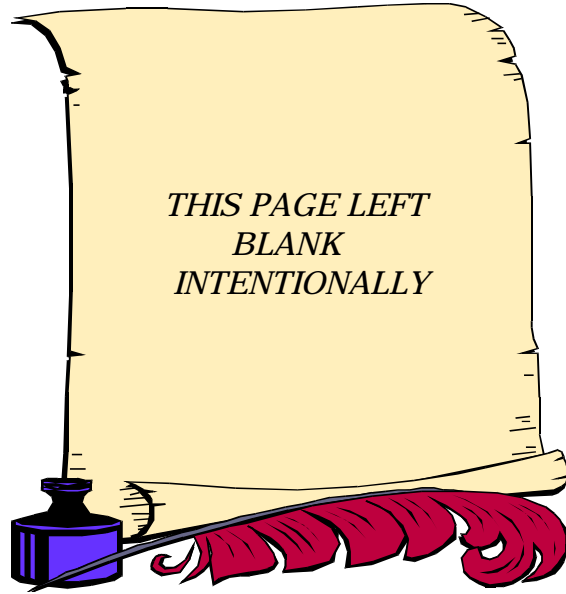
Planning and Administrative expenses were not always adequately documented

Furthermore, we tested the reasonableness of invoices totaling \$2,146,783 or approximately 29% of the total planning and administrative expenses of \$7,506,362 reimbursed with HUD CDBG funds during our audit period. Based upon test results, we concluded that LMDC generally maintained adequate supporting documentation to substantiate the reasonableness of the expenses reimbursed with HUD CDBG funds. However, we noted several instances where the documentation pertaining to business meals and other ancillary expenses was less than adequate. Although receipts were provided, brief descriptions relating the costs reimbursed to the program's objectives were often excluded. In addition, despite the fact that the parent company, ESDC, makes all payments on behalf of LMDC, it does not always maintain the documentation to support the expenses paid. In this regard, we suggest that HUD instruct LMDC to include in its supporting documentation, a brief description of the relationship between the business meals and other expenses to the grant activities. Furthermore, HUD should direct LMDC to coordinate with its parent company to ensure that ESDC maintains all the documents necessary to substantiate payments made on its behalf.

Schedule of Questioned Costs and Funds Put To Better Use

Finding Number	<u>Type of Questioned Cost</u>		Funds put to better use <u>3/</u>
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	
1	\$2,359	\$72,483	-
2	7,500	-	\$93,214
Totals	<u>\$9,859</u>	<u>\$72,483</u>	<u>\$93,214</u>

- 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 costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future 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.
- 3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. For example if duplicate grant checks are voided and not disbursed to payees, these funds can be used for other CDBG Disaster related activities.



Auditee Comments



LMDC
Remember Rebuild Renew

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September 12, 2003

Mr. Alexander C. Malloy
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
26 Federal Plaza, Room 3430
New York, New York 10278-0068

Dear Mr. Malloy,

The Lower Manhattan Development Corporation ("LMDC") has reviewed the U.S. Department of Housing and Urban Development's Office of Inspector General's draft report ("Report") received on August 25, 2003 in connection with the Community Development Block Grant B-02-DW-36-0001. The LMDC understands the significance of HUD's review of activities associated with the use of CDBG funds and its recommendations for additional or modified policies, procedures and controls.

The LMDC has prepared the enclosed response to the Report. Please call me at 212-962-2300 ext. 232 if you have any questions regarding the enclosed, or need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "K.M. Rampe", is written over the typed name and title.

Kevin M. Rampe
President

Enc.

Overview of Residential Grant Program

The Lower Manhattan Development Corporation (LMDC) created the Residential Grant Program (RGP) to provide financial assistance to residents of Lower Manhattan that were impacted by the World Trade Center disaster and to encourage existing and new residents to make a two-year commitment to Lower Manhattan. As a result of this program occupancy rates in the area have increased from approximately 60% after the disaster to over 95% today. The occupancy rate in Battery Park City, the neighborhood adjacent to the World Trade Center, is higher now than it has been at any time in its history.

The U.S. Department of Housing and Urban Development (HUD) approved the LMDC Residential Grant Program in June 2002. LMDC hired five contractors to administer the program including a Program Administrator, a not-for-profit Chinatown based community organization as Program Delivery Agent, a contractor to create a comprehensive database of all residential buildings in Lower Manhattan, a not-for-profit immigrant services agency to provide translation services, and a Compliance Auditor. Within two months of approval, multi-lingual applications for the program were available at two neighborhood RGP offices, via LMDC's hotline, over the LMDC RGP web site, and from LMDC's RGP mobile application teams. LMDC and the Program Administrator created an automated system and detailed policies and procedures for the program.

In September 2002, the first residential grants were approved. As of September 2003, over \$200 million in grants have been approved for over 36,000 applicants. Over the last year, LMDC has mailed out over 150,000 checks totaling \$130 million to residents in Lower Manhattan.

Executive Summary

LMDC has reviewed the draft audit report from the HUD Office of the Inspector General (IG). This audit covered the LMDC Residential Grant Program applications approved from September 2002 through March 2003.

Throughout the development and implementation of the RGP, LMDC has sought to maintain a balance between establishing controls to ensure that only eligible applicants receive grants and providing a flexible process so that all eligible applicants can receive grants. LMDC established flexible documentation requirements to accommodate the varying types of housing arrangements throughout Lower Manhattan, specifically low- and moderate-income specialized housing. Of the 34 cited applicants, 18 are eligible per LMDC's procedures and the documentation found in the scanned file at time of award. LMDC's procedures include specific instructions on alternative methods to document eligibility for low- and moderate-income residents in specialized housing. Many of the applications questioned by HUD IG were from residents living in specialized low- and moderate-income housing. LMDC found that for the remaining 16 applications some documentation was not scanned or immediately found in the hard copy files during the HUD IG audit. However, in each instance the applicant's eligibility was supported by other documentation in the file. LMDC controls are working; preventative and detective controls throughout the process exist to ensure that grants are made only to eligible applicants. LMDC is

taking corrective actions to obtain missing signatures, notarizations, and other supporting documentation as required for these 16 cases.

The “over payment”/ “under payment” issues raised by the HUD IG are all for the Two-Year Commitment-Based Grant. This is the only grant which is calculated based on an applicant’s housing costs. The Two-Year Commitment-Based Grant is subject to recertification every six months. As a result, the housing costs for each of these applications may be reviewed up to four times. Additionally, the payments for the Two-Year Commitment-Based Grants are paid out over the two-year period of the lease with the last payment being made after the two-year lease ends. This multiple review process and the payment of the full value of the grant over a period of time minimizes the risk that miscalculations in grant awards made at the initial eligibility determination will result in actual over payments or under payments to recipients over the full two-year period. Of the \$2,358.56 in over payments identified by the HUD IG for their sample, only \$250.00 is an actual over payment exceeding the full value of the grant. LMDC will initiate recoupment for the amount of \$250.00. The other five applicants had their monthly payments adjusted to ensure they receive the correct amounts by the end of their two-year lease periods.

LMDC has controls in place to minimize duplicate awards to one individual or to more than one individual living in the same housing unit. LMDC has secondary controls in place to identify potential duplicate applications and awards. After potential duplicate awards are identified, LMDC investigates these cases, stops all payments, deactivates the duplicate application in the system, and voids payments, if applicable. If any duplicate payments are made, LMDC initiates the recoupment process to recover funds from the applicant. The HUD IG identified \$7,500.00 in duplicate payments. To date, LMDC has recouped \$3,000.00 of the \$7,500.00 and is in the process of recouping the remaining funds. LMDC has also added additional controls to ensure duplicate awards are minimized.

LMDC has reviewed the complete HUD IG Draft Audit Report and taken necessary corrective actions. LMDC will continually monitor, audit, and update procedures accordingly.

Development of Residential Grant Program Process and Controls

The development of the Residential Grant Program was structured around the following goals:

- Ensure payments are made only to fully eligible applicants by establishing numerous and significant controls;
- Ensure all eligible residents of Lower Manhattan can take advantage of the RGP by structuring the application process with flexibility to accommodate the various types of housing arrangements in Lower Manhattan, particularly the low- and moderate-income specialized housing found throughout the area;
- Expedite the development of the program to provide benefits to residents of Lower Manhattan as quickly as possible; and
- Ensure that all eligible residents and potential residents are aware of the program.

Throughout the development of the program, LMDC established numerous and significant controls to minimize the risk of providing grants to ineligible applicants. A summary of these controls is found in *Appendix A*.

Response to HUD IG Draft Report

LMDC has reviewed the draft audit report from the HUD Office of the Inspector General (IG). This audit reviews LMDC Residential Grant Program (RGP) applications approved from September 2002 through March 2003. LMDC has taken corrective actions on all of the items identified in the report. Many of these items were identified by LMDC, its program administrator, its compliance auditor, and/ or its internal auditor, and corrective actions on these items began as early as November 2002.

LMDC established numerous and significant controls to ensure that funds were disbursed to eligible applicants in accordance with the HUD Approved Partial Action Plan in a timely manner and that financial management systems existed to adequately safeguard the funds.

Please find below the issues raised in the report and the corrective actions LMDC has taken. As stated above, these issues were anticipated in the design of the program and secondary controls were established to minimize risk. Many of the issues reported by HUD IG were discovered in the early months of the program implementation and were addressed by LMDC.

HUD IG Issue - Inadequate documentation to support the eligibility of some applicants

LMDC Review, Response, and Corrective Actions

LMDC has reviewed the 34 applicants identified by the HUD IG as lacking “sufficient documentation to support some applicants’ eligibility for an RGP grant.”

Please find below LMDC’s review of the 34 files:

- All of the 34 applicants cited were fully eligible for the grants they were awarded. Due to the multiple and significant controls including the requirement for multiple forms of supporting documentation, no ineligible applicant is included and the total value of approved applications that is not eligible is \$0. Please note, one of the applicants subsequently left Lower Manhattan and notified LMDC as required. LMDC is initiating the broken commitment procedure for this applicant.
- HUD IG reported that one applicant (HOH 5473) did not have proof of identification. The applicant submitted an I-94 indicating legal residence through date of application as proof of identification. This proof of identification is acceptable per the *Acceptable Alternate Forms of Supporting Documentation*.¹ This proof of identification was scanned in the OIT system on 11/21/02. The applicant was approved on 12/2/02. This applicant is fully eligible for the grant.
- HUD IG reported that one applicant’s (HOH 26809) lease’s time period did not support the two-year grant. This applicant did not apply for the Two-Year Commitment-Based Grant. This applicant was approved for the September 11, 2001 Residents Grant and is fully eligible for that grant.
- HUD IG reported that two applicants living in NYCHA housing did not have support for the family grant (HOH 28564) or proof of current residence (HOH 22500). Per the

¹ Acceptable Alternate Forms of Supporting Documentation, revised 11/12/02

- *NYCHA Supplement*, the *NYCHA Lease Certification Form* is an acceptable alternate for proof of current residence and proof of child living in housing unit for NYCHA residents.² HOH 28564 also has a birth certificate in the scanned file. HOH 28564's *NYCHA Lease Certification Form* was scanned in the OIT system on 10/16/02 and the application was approved 12/6/02. HOH 22500's *NYCHA Lease Certification Form* was scanned in the OIT system on 10/1/02 and the application was approved 10/28/02.
- HUD IG reported that one applicant living in NYCHA housing did not submit the *NYCHA Lease Certification Form*. Per the *NYCHA Supplement*, NYCHA residents may substitute the *NYCHA Lease Certification Form* for many of the regular supporting documentation requirements. This applicant sent in their application prior to the issuance of the *NYCHA Lease Certification Form*. The documents the applicant submitted are all acceptable forms of documentation. Per the policies and procedures, NYCHA residents are eligible for the Two-Year Commitment-Based Grant based on a NYCHA one-year lease since NYCHA does not issue two-year leases.³ This applicant is fully eligible.
- HUD IG reported that one applicant (HOH 28691) did not have support for the family grant. This applicant submitted a birth certificate which included the applicant's name and address and the child's name and date of birth. This is acceptable documentation for proof of child's identity, age, and address per the *Acceptable Alternate Forms of Supporting Documentation*.⁴ This document was scanned into OIT on 10/17/02 and the application was approved on 12/7/02. This applicant is fully eligible.
- HUD IG reported that one applicant (HOH 30437) was ineligible because they were not the head of household listed on the Mitchell-Lama Tenant/ Shareholder Household Income Affidavit. This applicant is listed on the affidavit and the applicant's income is included in the calculation of rent. There is no requirement that the applicant be the head of household.⁵ Please note, there is no other application for this unit. This applicant is fully eligible.
- HUD IG reported that the proof of identification for HOH 44808 that was scanned was illegible. The hard copy file was pulled and this identification was rescanned into the system on 7/24/03. This applicant is fully eligible.
- HUD IG reported one applicant's (HOH 34516) proof of two-year housing costs was not for the correct time period and that the proof of identification that was scanned was illegible. This applicant was contacted and updated proof of two-year housing costs was provided. This was scanned into the system on July 21, 2003. This applicant is fully eligible.
- HUD IG reported that one applicant (HOH 28107) did not have proof of 9/11 residency. This applicant submitted the RN26, Notice of Increase in 2002-03 Maximum Base Rent. This form includes information on 2000-2001 residency and is an acceptable proof of 9/11 residency.⁶ This proof of 9/11 residency was scanned in the OIT system on 11/5/02. The applicant was approved on 12/13/02. This applicant is fully eligible for the grant.

² LMDC.RGP.Doc 9 (Rev 1 – 11/17/02) and LMDC.RGP.Doc 9 NYCHA (Rev 1 – 9/3/02)

³ LMDC.RGP.Doc 9 (Rev 1 – 11/17/02) and LMDC.RGP.Doc 9 NYCHA (Rev 1 – 9/3/02)

⁴ Acceptable Alternate Forms of Supporting Documentation, revised 11/12/02

⁵ LMDC.RGP.Doc 9 (Rev 1 – 11/17/02) and LMDC.RGP.Doc 9 NYCHA (Rev 1 – 9/3/02)

⁶ LMDC.RGP.Doc 9 (Rev 1 – 11/17/02) and LMDC.RGP.Doc 9 NYCHA (Rev 1 – 9/3/02)

- HUD IG reported that one applicant (HOH 34597) did not have proof of 9/11 residency. This applicant submitted the DHCR-RR-2A Annual Apartment Registration 2001. This shows the legal regulated rent on 4/1/2001 and is acceptable proof of 9/11 residency.⁷ This proof of 9/11 residency was scanned in the OIT system on 11/25/02. The applicant was approved on 12/30/02. This applicant is fully eligible for the grant.
- One applicant (HOH 12790) submitted a rent receipt in Chinese. Per HUD the rent stub did not have a dollar amount. This rent receipt is translated as “Paid in full” and combined with the two-year lease is acceptable proof of two-year housing costs. Based on this review, this applicant is fully eligible.
- One applicant (HOH 26028) submitted a renewal lease that did not specify whether the one or two year period was selected. By reviewing additional supporting documentation, it can be determined that the renewal lease was for the two-year period. This is supported because the cancelled check is for the amount for the two-year renewal and the proof of current residency is for Year 2 of the two-year lease. Based on this review, this applicant is fully eligible.
- One applicant (HOH 2317) shows a utility bill with a different address and does not include a rent restriction form. This resident lives in Gateway Plaza. The utility bill address is the standard address for Gateway Plaza electric bills and references the correct unit. LMDC does not require a rent restriction form for Gateway Plaza residents to ensure compliance with rent restrictions. Gateway Plaza is a rent regulated apartment complex and therefore in compliance.⁸ This applicant is fully eligible.
- HUD IG indicated that six applicants were in arrears on their rent or maintenance. Per the *RGP Rights and Responsibilities*, LMDC reserves the right to deny, investigate, or terminate eligibility if an applicant or recipient is over 30 days late on rent, maintenance, mortgage, or common charges. In each of these instances, the applicants show no more than two months rent due on their current rent bill. LMDC is not denying eligibility to applicants in this situation.⁹
- Six applicants have all of the supporting documentation, but the supporting documentation may not be fully compliant. The six non-compliant pieces of documentation are an unsigned DHCR Mitchell-Lama Tenant/ Shareholder Household Income Affidavit; a lease extension where the time period is not checked; a missing signature on a lease; a letter from a Mitchell-Lama housing managing agent verifying current residency that is not notarized; a signature missing on one section of an application; and a cancelled check that is submitted but is not for correct time period. Despite the missing documentation, after a full audit of these applications, it is determined that these applicants are fully eligible and their eligibility is supported by the other documentation in their files. LMDC is obtaining fully completed documentation from each of these applicants.
- Four applicants had an application where one piece of documentation was not scanned or immediately found in the hard copy file. Two are missing proof of current residency and two are missing proof of two-year housing costs. However, each of these applicants is fully eligible and their eligibility is supported by the other documentation in their file. LMDC is obtaining the missing piece of documentation required for each of these

⁷ LMDC.RGP.Doc 9 (Rev 1 – 11/17/02) and LMDC.RGP.Doc 9 NYCHA (Rev 1 – 9/3/02)

⁸ Rent Restriction Certification Form and Guidelines - LMDC.RGP.Doc.7 (Rev. 1 – 8/15/02)

⁹ RGP Rights & Responsibilities – LMDC.RGP.Doc.12 (Rev. 0 – 8/15/02)

- applicants. To date, LMDC has obtained the documentation from one applicant. HOH 3004 was missing support of current residency. This applicant submitted proof of current residency during the recertification process.
- One applicant (HOH 9885) was missing proof of identification. This individual's proof of identification was found in the hard copy file and scanned into OIT on September 4, 2003. Per HUD, this applicant was also missing proof of 9/11 residency. A review of the documents scanned on 10/11/02 reveals a cancelled check payable to the applicant's landlord with a bank stamp verifying payment on 09/18/01 for their 9/11 address. HUD also indicated that this applicant may require proof of rent restriction compliance. This applicant's lease starts on 10/01/01. Proof of rent restriction compliance is not required prior to 7/1/02.¹⁰
- One applicant (HOH 24956) is missing two or more pieces of documentation. In this case, the resident moved into their apartment on 7/15/02 and submitted an executed lease and an original utility bill, but evidence that a rent restriction form or a cancelled rent check was obtained does not exist in the file. However, this applicant is fully eligible and their eligibility is supported by the other documentation in their file. LMDC is obtaining the missing pieces of documentation required.
- One applicant (HOH 5330) received grants based on their lease amount. However, the supporting documentation for two-year housing costs indicated that their monthly payments were less. This applicant entered the full value of the rent, although the applicant pays reduced rent due to SCRIE (Senior Citizen Rent Increase Exemption Program). Upon completion of the applicant's recertification, this applicant's grant will be reduced to reflect what the applicant is actually paying.
- One applicant (HOH 42488) was approved for the Two-Year Commitment-Based Grant as an individual. However, since the lease is in his business' name, he should have been approved as a business. He is the sole proprietor of the business. This does not impact the amount of the grant awarded. This application will be corrected and processed as a business application.

LMDC conducted a full audit of each of the 34 applications and, in some instances, conducted site visits to the residents' apartments or phone calls to landlords to verify residency for applicants missing one or more pieces of documentation. The results of the full audit confirmed that all applicants are eligible for the grants received.

LMDC required imaged case files to provide maximum flexibility in case processing and review. HUD IG found some documents were not scanned into the OIT (Optical Image Technology) System. LMDC is working with its Program Administrator to ensure that all records are imaged and that the hard copy case files are made more easily accessible to reviewers. LMDC and its Program Administrator have recently expanded the space for hard copy files and developed clear procedures on how to access these files.¹¹

As an added corrective action, LMDC will retrain all staff handling application processing and recertification to ensure all staff are aware of all documentation requirements.

¹⁰ Rent Restriction Certification Form and Guidelines - LMDC.RGP.Doc.7 (Rev. 1 – 8/15/02)

¹¹ LMDC.RGP.Doc.56 (Rev. 0 – 9/12/03)

LMDC's Response to HUD IG's Statistical Evaluation

LMDC's review confirms that none of the 34 recipients cited as having incomplete documentation were ineligible at date of award.

HUD IG Recommendations Summary and Status

LMDC is complying fully with each of the recommendations by the HUD IG. The recommendations and the status of LMDC's compliance is as follows:

HUD IG Recommendation 1A: Obtain and maintain all missing documents needed to support the eligibility of the 34 grant recipients whose eligibility has been questioned.

Date started: April 2003

Target date complete: October 2003

Status: 18 of the 34 cases are complete and their eligibility is fully supported. Explanations of these cases and copies of their case files have been provided to HUD IG. One of the 34 applicants original grant amount was calculated too high. This has been corrected. One of the 34 applicants was processed incorrectly as an individual for the Two-Year Commitment-Based Grant and will be reprocessed as a business. Of the 14 cases where documents were missing or incomplete, four of the 14 are now complete. The Program Administrator is collecting or completing documentation for the remaining ten. LMDC will ensure that the corrective action is completed promptly.

HUD IG Recommendation 1B: Obtain reimbursement from those recipients who are determined to be ineligible for program assistance.

Status: COMPLETE - LMDC completed a full audit of all case files to ensure that each applicant was fully eligible. The results of the audit indicate that all applicants were fully eligible at the time of award.

HUD IG Recommendation 1E: Develop procedures to ensure that all documents that support the eligibility and grant computations for all grant recipients are maintained in the program administrator's OIT system and/or are filed in a manner that allows for a speedy retrieval.

Status: COMPLETE

HUD IG Issue - Over And Under Payments To RGP Applicants

LMDC Review, Response, and Corrective Actions

HUD IG identified six applications where the Two-Year Commitment Based-Grant was initially approved for an amount over the eligible amount and four applications where the Two-Year Commitment Based-Grant was initially approved for an amount under the eligible amount. Eight of the 10 applications identified by the HUD IG had already been discovered and corrected by the RGP Program Administrator through its existing controls.

Please find below our review of the 10 applications:

- Three of the 10 applications were approved for an amount over the eligible amount because the applicant was paying a rent lower than the rent on their lease. This was discovered by the Program Administrator through the recertification process in May and June by reviewing the required supporting documentation for two-year housing costs which includes a cancelled check. All three are low-income senior citizens who receive rent concessions off of their lease amounts. These applicants' total approved grants have been recalculated to reflect the lower rent. One of these applicants received \$250 more than their eligible grant. A total of \$250 was overpaid and will be recouped from this senior citizen.
- Three of the 10 applications were approved for an amount over the eligible amount because the applicant incorrectly included air conditioner charges in their monthly housing costs on their application. This mistake occurs frequently because low- and moderate-income residents in some Mitchell-Lama housing have a line item for these costs on their maintenance bills. Residents of Mitchell-Lama housing can pay approximately \$14 per month for air conditioner charges. This results in an overpayment of approximately \$4 per month for the LMDC RGP. LMDC identified this issue in November 2002 through its quality assurance and post-audit review of the applications approved in October 2002.¹² LMDC instructed its program administrator to retrain all staff on this issue, instructing them to deduct any air conditioner or appliance charges from the two-year housing costs when processing the applications. Two of these applicants were corrected through the recertification process. One of these applicants was corrected after notification by the HUD IG. These applicants did not receive more than their eligible grant because corrective action was taken to reduce the monthly payments to reflect the correct total grant amount to be paid. A total of \$0 was overpaid to these applicants.
- Three of the 10 applications were approved for an amount under the eligible amount. Per the Approved Partial Action Plan, existing owners who owned their apartments prior to July 1, 2002 and have completed the payment of their mortgages will be eligible for a grant of 50% of monthly maintenance costs and real estate and related taxes. These three applicants did not include a last mortgage date on their application and the eligibility specialist entered 12/12/2099. ("12/12/2099" is the date in the instructions that eligibility specialists are instructed to enter into the system when this information is not provided.) Therefore they were approved for 30% of their monthly housing costs instead of the allowable 50%. Two of these applicants were corrected during the recertification process. One of these applicants was corrected after notification by the HUD IG. All three applicants will receive the full value of the grants. LMDC discovered errors in data entry concerning last mortgage date in November 2002 through its quality assurance and post-audit review of the applications approved in October 2002.¹³ LMDC initiated quality control reports to determine inconsistencies in home ownership, last mortgage date, and mortgage payments. LMDC instructed its program administrator to retrain all staff on issues concerning home ownership and completion of mortgage payments. LMDC has created additional quality control reports.
- One of the 10 applications was approved for an amount under the eligible amount because the applicant incorrectly filled out their application and indicated that their last

¹² E-mail dated November 19, 2002, 7:06 PM, From Amy Peterson, Re: Issues Log

¹³ E-mail dated November 19, 2002, 7:06 PM, From Amy Peterson, Re: Issues Log

- mortgage date was on 10/15/02. This individual received 50% of their maintenance for months after October 2002 instead of 30% of their combined mortgage and maintenance. This individual contacted LMDC and the grant was adjusted in July.

The over payment/ under payment issues raised by the HUD IG are all issues concerning the Two-Year Commitment-Based Grant. This is the only grant which is calculated based on an applicant's housing costs. The Two-Year Commitment-Based Grant is subject to recertification every six months. As a result, the housing costs for each of these applications may be reviewed up to four times. Additionally, the payments for the Two-Year Commitment-Based Grants are paid out over the two year period of the lease with the last payment being made after the two-year lease ends. This multiple review process and the payment of the full value of the grants over a period of time, minimizes the risk that over payments based on initial eligibility determination will result in payments that exceed the full value of the grant. Of the \$2,358.56 in overpayments identified by the HUD IG for their sample, only \$250 is an actual overpayment exceeding the full value of the grant. This is the payment made to a senior citizen receiving significant rent concessions from their actual lease amount. This overpayment was discovered by the Program Administrator during the recertification process. However due to the large value of the rent concessions (over 2/3 of the monthly rent) and based on 30% of the actual lease amount, the full value of the grant plus \$250 had been paid out. LMDC will initiate recoupment for the amount of \$250.

Recertification is an integral control ensuring that grant applicant's payments are accurate and are adjusted based on changes in the applicant's monthly housing cost. Recertification is required of all residents receiving the two-year commitment grant and occurs every six months from the grant recipient's initial eligibility decision. Of the 10 overpayments and underpayments, 7 were found during the recertification process.

LMDC's Response to HUD IG's Statistical Evaluation

In reviewing the statistical evaluation of the results of the review of the over payments, the actual overpayment is \$250, not \$2,358.56.

HUD IG Recommendations Summary and Status

LMDC is complying fully with each of the recommendations by the HUD IG. The recommendations and the status of LMDC's compliance is as follows:

HUD IG Recommendation 1C: Correct the incorrect computations of the grant amount for the grant recipients identified in the finding; provide underpaid recipients with the correct grant amount; and recover any overpayments made to recipients.

Date started: May 2003

Target date complete: October 2003

Status: LMDC corrected all computations for the grant recipients identified and the correct value of their grants will be reflected in their remaining payments. LMDC found that a total of \$250.00 has to be recovered from one grant recipient and issued a recoupment letter to the recipient.

HUD IG Recommendation 1D: Perform post reviews of the eligibility of grant recipients and computations of grant amounts to identify and correct processing deficiencies to the extent deemed necessary.

Target date complete: On-going

Status: LMDC recertifies all recipients of the Two-Year Commitment-Based Grant every six months through the term of their two-year lease. LMDC has and will retrain staff on the issues discovered, specifically rent concessions for the elderly and appliance charges for Mitchell-Lama residents, to ensure that these items are highlighted in the recertification review. LMDC will also run quality assurance reports on a regular basis comparing last mortgage date to mortgage payment amounts to ensure that owners are receiving the correct amount of their grant.

HUD IG Issue - Duplicate payments

LMDC Review, Response, and Corrective Actions

HUD IG identified 31 individuals that were either approved to receive a grant check under a different identification number or reside in the same household unit with a grant recipient. Each of the 31 cases identified by the HUD IG had already been discovered by the RGP Program Administrator through its Quality Assurance (QA) process. After potential duplicate cases are identified through the QA process, the case is frozen and any checks already processed are held and not released for payment. The case is researched to determine if they are duplicates and as soon as research is complete, the duplicate case is deactivated and all checks are voided. The non-duplicate case is unfrozen and checks are released. Of the 31 duplicate cases identified by the HUD IG, 25 cases were discovered by the Program Administrator prior to payment of funds and six cases were identified after payment of funds.

Please find below the status of the 31 cases:

- All of the 31 duplicate cases were deactivated.
- All checks processed for the 25 duplicates where funds were not disbursed have been voided.
- All funds drawn down from HUD for the 25 duplicates where funds were not disbursed were returned to HUD as a credit in a subsequent drawdown.
- Recoupment letters were sent to the six applicants that received duplicate payments for the total amount of \$7,500.00.
- Three of the six applicants that received duplicate payments have repaid LMDC the total value of the duplicate payment for a total amount of \$3,000.00.
- The \$3,000.00 repaid to LMDC has been deposited in the LMDC RGP bank account and returned to HUD as a credit in a subsequent drawdown.

As a result of the QA process and the discovery of these cases by the RGP Program Administrator, the RGP Program Administrator increased the frequency of the review of the QA report for duplicate social security numbers to weekly.

As an added control, LMDC recently created a separate reporting tool to do additional quality control and fraud detection on the eligibility and payment data for the Residential Grant Program.

HUD IG Recommendations Summary and Status

LMDC is complying fully with each of the recommendations by the HUD IG. The recommendations and the status of LMDC's compliance is as follows:

HUD IG Recommendation 2A: Recover the \$7,500.00 in duplicate payments and return the recovered amount to the CDBG Disaster Assistance Fund.

Date started: May 2003

Target date complete: November 2003

Status: LMDC has issued recoupment letters to each of the six applicants receiving duplicate payments. To date, three of the six applicants have returned the funds totaling \$3,000.00. The \$3,000.00 has been returned to the CDBG Disaster Assistance Fund.

HUD IG Recommendation 2B: Verify that checks identified as duplicate grant payments amounting to \$93,214 are voided and the funds associate with the checks are properly put to better use.

Date started: April 2003

Status: COMPLETE - All of the checks have been voided and the funds were deducted from HUD CDBG Disaster Assistance Fund draw downs.

HUD IG Recommendation 2C: Continue to perform quality control reviews designed to identify duplicate grant payments.

Date started: November 2002

Target date complete: On-going

Status: LMDC continues to perform quality control reviews designed to identify duplicate grant payments and increased the frequency of these reports to weekly.

HUD IG Recommendation 2D: Develop procedures that prevent the processing of duplicate checks once the duplication is identified.

Status: COMPLETE – The RGP Program Administrator has updated its internal procedures for the resolution of the duplicate records to prevent the processing of duplicate checks once the duplication is identified.¹⁴

¹⁴ LMDC.RGP.Doc.55 (Rev. 1 – 9/12/03)

Issues Requiring Further Study and Consideration**LMDC does not maintain a ledger to independently account for balances in the Control Disbursement Account. A ledger is needed to reconcile the bank statement balance.**

LMDC and its program administrator maintain a bank balance ledger which accounts for balances in LMDC's Control Disbursement Account. Based on the IG's initial notification of its concern, LMDC has restated its instruction to its Program Administrator that it is necessary to maintain the independent ledger and account for all bank balances on a monthly basis, as required in LMDC procedures. LMDC has verified that monthly reconciliations are occurring.

As soon as it is convenient for the HUD IG, LMDC will schedule a meeting to further review the ledgers that are being kept for the RGP bank accounts. At this meeting LMDC will also review the monthly reconciliation process that LMDC and its Program Administrator have implemented. LMDC believes that after this further review, the HUD IG will find that the procedures and ledgers are adequate to reconcile bank balances. It is LMDC's intention to maintain a ledger and reconciliation process that is responsive to the HUD IG's concerns.

Replacement checks are not always issued timely.

HUD identified issues that require further study including the handling of failed pre-note tests and Electronic Fund Transfers (EFT's). LMDC allows grant recipients to receive payments via EFT. Prior to issuing the first EFT payment, LMDC initiates a pre-note test to ensure that the information for EFT has been entered correctly and the recipient's bank account is prepared to receive payment. To date, LMDC has issued 2,309 pre-note transactions, made 9,086 payments via EFT, and caught 149 transaction errors using the pre-note procedures. HUD cited nine instances of failed EFT's. HUD raised the issue that it took from two to four payment cycles for recipients to receive reissued payments. Each of these nine instances were included in an April 2003 memorandum from the payment processor to the payment supervisor and corrected at that time, resulting in payments in May 2003. LMDC has reviewed the issue in the HUD IG draft report and updated its procedures to address HUD's concern. The procedures now require that the Program Administrator shall research and resolve failed pre-notes, and void and reissue failed EFT's within a single payment period so that the grant recipient's failed transaction can be corrected within two payment cycles.¹⁵ This is the shortest length of time possible in consideration of the program's reliance on outside financial institutions for notification and of the controls the Program Administrator follows in compliance with required LMDC, Empire State Development Corporation, and HUD review and approval of each payment roster.

Planning and Administrative expenses were not always adequately documented.

LMDC acknowledges that in the earlier periods of its existence it did not document administrative expenses with as much detail as we do now. As a result of this concern raised by both the HUD Office of Inspector General and the HUD Office of Block Grant Assistance, LMDC has on several occasions instituted new documentation requirements and procedures for administrative expenses including business meals.

¹⁵ LMDC Residential Grant Program – Program Manual, 5.0 Grant Distribution Policy, Section 5.4.1

In October 2002, LMDC first published formal guidance to its staff on the documentation of expenses in a General Administrative Manual (GAM). GAM Subsection 4A outlined procedures for documenting and processing payments for planning and administrative expenses including meal expenses. At that time LMDC conducted training of staff to assure that the new procedures were understood.

In April 2003, in response to additional comments by HUD staff and auditors, LMDC further updated its administrative procedures, including those relating to business meals. A revised GAM was distributed to LMDC staff; Subsection 4A stated in part:

“When purchasing food for groups of staff or guests, staff members are required to complete a **Meal Authorization Form ...** The form must identify the Department, the requestor, the purpose, date, time, location, and the number of people to be served.”

The new form had to be completed for all meal and food expenditures, and required approval by LMDC’s Chief Financial Officer. The new procedures and form were also introduced in an LMDC procurement staff training session conducted in April 2003.

LMDC continues to refine and improve all its administrative processes and procedures. This September, a modified Business Meal Authorization form is being introduced. This form (attached), in addition to documenting the purpose of the meal, also serves as a purchase order. This reduces the need for a separate purchase order form when food is purchased from an outside vendor for an LMDC event. The new business meal form and other procurement procedures will be the subject of another LMDC training session in September.

Appendix A

LMDC RGP Controls

Throughout the development of the program, LMDC established numerous and significant controls to minimize the risk of providing grants to ineligible applicants. Highlights of the program and these controls follow.

Development of application package and approval process

1. The application package was developed to ensure eligible applicants can receive grants while minimizing risk of fraudulent or ineligible applicants receiving grants. The RGP application requires multiple forms of supporting documentation to verify identity, address, residency, two-year housing costs, age and address of child, and September 11, 2001 residency.¹⁶
2. Lower Manhattan is an area with a considerable number of varying rental and home ownership options. These include Mitchell-Lama low- and moderate- income rentals and cooperative apartments managed by NYC's Department of Housing and Urban Development and the NYS Division of Housing and Community Renewal, rent stabilized apartments and rent controlled apartments regulated by the NYS Division of Housing and Community Renewal, New York City Housing Authority affordable housing, loft apartments governed by the Loft Control Board, co-operative apartments and condominiums, apartments with rents subject to rent regulation by legal agreement, low- and moderate- income housing in 80/20 buildings, and apartments subsidized by other programs including Section 8 and the Senior Citizen's Rent Increase Exemption Program (SCRIE). LMDC and the Program Administrator met with each of these organizations during the design of the program and reviewed the various types of housing agreements that exist between tenants, owners, landlords, and managing agencies. LMDC then developed the procedures and documentation requirements to ensure that residents of each type of housing could participate in the Residential Grant Program. LMDC issued specific instructions pertaining to many of these types of housing providing alternative methods to document residency and trained its eligibility specialists on the multiple types of documentation they would receive.¹⁷
3. In developing the application package including the supporting documentation requirements, LMDC implemented many controls including requiring copies of both sides of cancelled checks; the requirement that the applicant must be named on the lease or deed; the requirement that all approval letters and checks and monthly EFT statements will only be sent to the address on the lease or deed; and the requirement that original utility bills are required to verify current residence.¹⁸
4. The Residential Grant Program application requires multiple forms of documentation to verify housing costs including a filled out application with certifications by the applicant

¹⁶ LMDC.RGP.Doc 9 (Rev 1 – 11/17/02)

¹⁷ LMDC.RGP.Doc 9 NYCHA (Rev 1 – 9/3/02); LMDC.RGP.Doc 9 LOFT (Rev 0 – 9/6/02); and LMDC Residential Grant Program - Program Manual, 4.3 Special Case Housing Policy (Version 1, October 2002)

¹⁸ LMDC.RGP.Doc 9 (Rev 1 – 11/17/02)

as to accuracy, proof of current address including leases or deeds, and proof of two-year housing costs including copies of both sides of cancelled checks and/or current rent statement.¹⁹

Recertification process every six months for Two-Year Commitment-Based Grants

5. The Two-Year Commitment-Based Grants require recertification every six months and resubmission and reevaluation of documentation verifying current residence and proof of two-year housing costs.²⁰

Building Eligibility System

6. LMDC worked with New York City's Department of Buildings, Department of Housing Preservation and Development, Department of City Planning, Department of Finance, Fire Department of New York, New York City Loft Board, New York City Housing Authority, and the New York State Division of Housing and Community Renewal, to create a comprehensive database of the approximately 2,000 residential buildings in Lower Manhattan matching applications in all three zones with the buildings' legal residential and health and safety status. The system completes a check of the street address and unit number prior to approval of an application to ensure that the address is a valid address and an eligible building.²¹

Development of the automated RGP Application and Payment System

7. LMDC and its Program Administrator created the automated RGP Application and Payment System. All of the information provided by the applicant through their application and supporting documentation is entered in the system. The RGP Application and Payment System validates and calculates benefits based on the information provided.²²
8. The RGP Application and Payment System has extensive business rules to minimize data entry errors, ensure application completion, and to ensure that grants are calculated accurately.²³
9. The program administrator and the program delivery agent complete application intake by filling out the electronic application form in the RGP Application and Payment System in its entirety for the applicable grants, imaging all required documentation for a complete application, confirming that the application is complete,²⁴ and certifying application completion in the RGP Application and Payment System.

¹⁹ LMDC.RGP.Form.1 (Rev 0 – 8/15/02) and LMDC.RGP.Doc 9 (Rev 1 – 11/17/02)

²⁰ LMDC Residential Grant Program - Program Manual, 7.0 Recertification Policy, Section 7.1 (Version 1, July 2003)

²¹ LMDC Building Eligibility System, Appendix B – Data Policies and Procedures (9/11/2003)

²² LMDC Residential Grant Program - Program Manual, 5.0 Grant Distribution Policy, Section 5.1.1 (Version 2, September 2003)

²³ Detailed System Requirement, Revised 8/8/02

²⁴ LMDC Residential Grant Program - Program Manual, 2.5 Mail In Application Policy, Section 2.5.3 (Version 1, August 2002); LMDC Residential Grant Program - Program Manual, Attachment 4C – Eligibility Review Procedure (Rev. 1- 10-10-02); and LMDC Residential Grant Program - Program Manual, Attachment 4D – Process Eligibility Procedure (Rev. 0 – 9-26-02)

10. A second review is done prior to application approval. The Program Administrator verifies eligibility of all complete applications. After eligibility verification, the Program Administrator processes eligibility through the automated system.²⁵ All grant calculations are completed by the automated system.²⁶ The Program Administrator verifies the results of the eligibility processing.²⁷ All denials are reviewed and approved at a higher level.
11. LMDC and its Program Administrator created detailed instructions on application data entry, reviewing documentation, eligibility review, and eligibility processing.²⁸ All individuals processing applications attended comprehensive training.
12. The RGP Application and Payment System completes a system check of the street address and unit number prior to approval of an application to ensure that a prior application for that grant has not been approved.²⁹
13. LMDC required the Program Administrator to provide a document imaging system. The Program Administrator provided an Optical Image Technology (OIT) system. This allows all users of the RGP system including the two community offices, the Program Administrators grant processing office, LMDC, and all monitors and auditors to access and review files at the desktop. The hard copy files are also retained.

Monitoring and auditing

14. LMDC hired a compliance auditor, Ernst and Young, specifically for the Residential Grant Program to assist LMDC in minimizing the risk of loss from fraud while allowing for the prompt payment of valid grants.³⁰ The Compliance Auditor reviewed LMDC's application package and application review and approval process and made recommendations to ensure adequate controls were in place.
15. The Compliance Auditor developed and implemented a plan for pre- and post-eligibility verification audits of applications, recertifications, and payments at levels established by the audit plan.³¹ The Compliance Auditor conducted full and partial audits of applications for inaccurate, false, or fraudulent information and documentation. The Compliance Auditor conducts spot visits to verify initial and continuing eligibility of

²⁵ LMDC Residential Grant Program - Program Manual, Attachment 4D – Process Eligibility Procedure (Rev. 0 – 9-26-02)

²⁶ LMDC Residential Grant Program - Program Manual, 5.0 Grant Distribution Policy, Section 5.1.1 (Version 2, September 2003)

²⁷ LMDC Residential Grant Program - Program Manual, Attachments 4D – Process Eligibility Procedure (Rev. 0 – 9-26-02)

²⁸ LMDC Residential Grant Program - Program Manual, Attachment 4A – Application Data Entry Procedures (10-31-02.doc); LMDC Residential Grant Program - Program Manual, Attachment 4B – Current Address Procedures (Rev. 1 – 10-10-02); LMDC Residential Grant Program - Program Manual, Attachment 4C – Eligibility Review Procedure (Rev. 1- 10-10-02); and LMDC Residential Grant Program - Program Manual, Attachment 4D – Process Eligibility Procedure (Rev. 0 – 9-26-02)

²⁹ Detailed System Requirement, Revised 8/8/02

³⁰ Ernst & Young Compliance Auditor Contract, LMDC Contract No. F40950

³¹ LMDC Residential Grant Program - Program Manual, 5.0 Grant Distribution Policy, Appendix 5B

applicants. The Compliance Auditor submitted “pretext” applications as a test of the eligibility validation process, and particularly of the eligibility specialists’ ability to spot errors, omissions, and intentional misrepresentations.

16. LMDC, its program administrator, and its Compliance Auditor completed an extensive testing process of the RGP Application and Payment System to ensure that the system calculates grant amounts correctly based on the information entered in the system.³²
17. In addition to the system testing, the first round of grant approvals included a substantial quality assurance and auditing component to ensure accuracy of the application decisions and grants distributed. This review began at the supervisory level, including the implementation managers and the quality assurance team of the program administrator, additional monitoring and review by LMDC, and review by the compliance auditor team of Ernst and Young.³³
18. LMDC’s quality assurance process for the first eight months of the program included a comparison of housing costs, building zone, and grant amounts awarded to ensure that grants were calculated correctly by the system and to identify issues for review by the Program Administrator. Issues found during this process resulted in the correction of specific applications, if required, additional training on issues found, and the creation of quality assurance reports to focus in on specific issues.³⁴
19. Numerous Quality Assurance (QA) Reports are run regularly to check for duplicate applications and inconsistent and illogical data entry. Monthly Quality Assurance (QA) Reports are generated and reviewed when payments are authorized including reports for duplicate social security number, and duplicate date of birth with the same street address.³⁵

³² LMDC RGP Application and Payment System Testing Results

³³ LMDC.RGP.QA Form 2 (Rev. 0 – 9/19/02)

³⁴ LMDC RGP Grant Distribution Files, Export/Enrollment Comparison, September 2002 – April 2003

³⁵ LMDC RGP Grant Distribution Files, QA/QC Reports