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# AUDIT REPORT



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

2004-NY-1002

March 25, 2004

**OFFICE OF AUDIT**  
**New York/New Jersey Region**

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Issue Date	March 25, 2004
Audit Case Number	2004-NY-1002

TO: Nelson R. Bregon, General Deputy Assistant Secretary for Community Planning and Development, D

*Alexander C. Malloy*

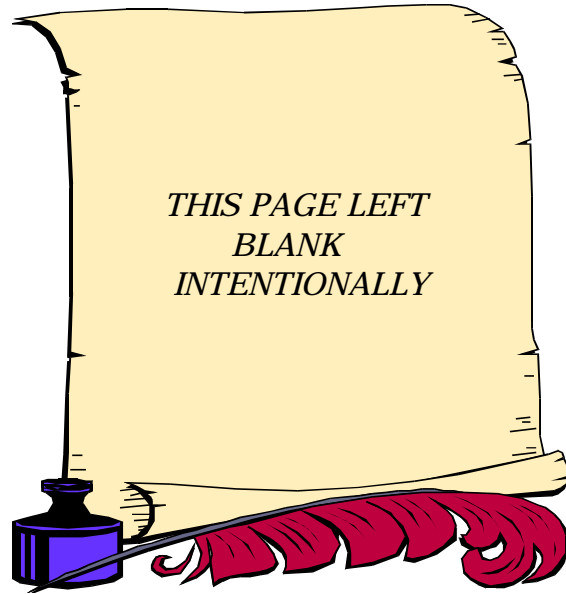
FROM: Alexander C. Malloy, Regional Inspector General for Audit, 2AGA

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 CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plans, (2) implemented adequate monitoring efforts over the Residential Grant Program (RGP); and (3) has a financial management system that adequately safeguards CDBG funds. In addition, we determined whether LMDC adhered to its established policies and procedures while recertifying participants of the RGP. The current review covered the period from April 1, 2003 to September 30, 2003. This report contains three 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 a management decision, 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

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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 awarded to the State of New York following 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 CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plans, (2) implemented adequate monitoring efforts over the RGP; and (3) has a financial management system in place that adequately safeguards CDBG funds. In addition, we determined whether LMDC adhered to its established recertification policies and procedures while recertifying participants of the RGP. This review is the second in a series of reviews that the Office of Inspector General (OIG) plans to conduct of LMDC's administration of 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 Report to Congress.

The results of our most recent review disclosed that LMDC generally disbursed the CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plans, implemented adequate monitoring efforts over the RGP, has a financial management system that is capable of adequately safeguarding the funds, and complied with its established recertification policies and procedures while recertifying participants of the RGP. However, we noted processing deficiencies in its Residential Grant Program (RGP) that still need to be resolved to further enhance the efficiency of LMDC's administration of the funds, and to prevent duplicate payments and other related administrative deficiencies from occurring. In addition, LMDC needs to strengthen its accounting controls by establishing and maintaining a receivable account in its General Ledger to track and control collectible amounts owed to the RGP by grant recipients. Furthermore, our review disclosed that HUD management should evaluate the reasonableness of LMDC's personnel practices that allow CDBG Disaster Assistance Funds to be used to pay employees for leave earned and transferred from New York State Agencies, and the salary and fringe benefits of a part time employee who does not report to an individual employed within the LMDC organizational structure. These issues are summarized below and discussed in detail in the three findings, as well as, in the Issues Needing Further Study and Consideration section of this report.

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**Processing deficiencies in the Residential Grant Program should be resolved**

Our review disclosed that despite correcting processing deficiencies in its RGP through its recertification process and its alternative supporting documentation requirements, LMDC still has some processing deficiencies that need to be resolved. Specifically, during our testing of a statistically selected sample of payments to new RGP recipients, we found that LMDC was unable to provide adequate documentation to fully support the eligibility of some grant recipients. Furthermore, either the documentation supporting the applicant's eligibility was not obtained or was obtained, but not scanned into the Optical Image Technology (OIT) System. As a result, we concluded that grant payments totaling \$86,050 are questionable since they related to recipients with questionable eligibility. These deficiencies are attributed to possible omissions by

the grant processors in obtaining all required documentation from applicants, and/or possible failures to scan all pertinent documents into the program administrator's computerized processing system.

**Duplicate payments under the Residential Grant Program Should be recovered**

In addition, our review disclosed that LMDC continued to issue monthly duplicate grant payment checks either to the same individual or to two individuals residing in the same housing unit. Specifically, duplicate grant payment checks, totaling \$5,850, were issued to eight (8) individuals because each individual was approved to receive a grant check under two different identification numbers. Furthermore, grant payments in the amount of \$11,000 were issued to an individual who resides in a housing unit with another individual who received payments for the same type of grants. Thus, \$16,850 of CDBG Disaster Assistance Funds was improperly used. The duplication occurred because the processing controls designed to prevent an individual and/or a housing unit from being entered into the program's computerized grant processing system twice were flawed. However, LMDC and its program administrator have instituted procedures to prevent the monthly processing of payment checks, under its two-year grant program, once a duplicate is identified.

**Accounting controls over the recovery of funds should be strengthened**

Our review also disclosed weaknesses in LMDC's accounting of funds to be recovered from RGP grant recipients. Specifically, we noted that LMDC has not established a receivable account in its General Ledger to record the funds it expects to recover from grant recipients who failed to comply with the RGP requirements, and/or received grant payment for which they were not entitled. This resulted from the fact that LMDC Officials believe that maintaining a formal receivable account in its General Ledger is not necessary because a Master Repayment List, which was developed and maintained by an independent consultant, serves as the control record for the amounts due to the program. Furthermore, they believe that there is a high probability that most of the amounts on the list will not be collected. However, we believe that the amounts that are collectible should be periodically recorded on LMDC formal accounting records; therefore, we further believe that the absence of such records is a weakness in LMDC's accounting controls that could result in a misuse of RGP recoveries. Furthermore, we believe that the establishment of a receivable account for recoveries will strengthen LMDC's accounting procedures, and enhance LMDC's accountability over the CDBG Disaster Assistance Funds. At January 23, 2004, the Master Repayment List reflected over \$690,000 of RGP funds to be recovered.

**Issues needing further study and consideration**

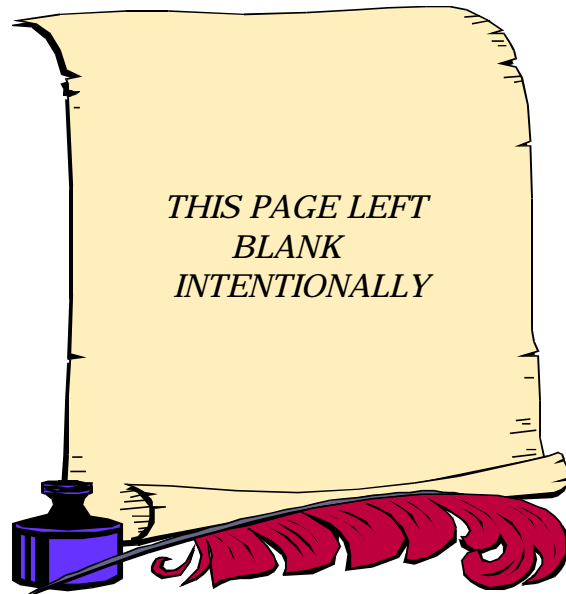
Finally, the review disclosed two practices that warrant further examination by HUD Management. These issues are discussed in the “Issues Needing Further Study and Consideration” section of the report and involve the use of CDBG Disaster Assistance Funds to pay for: (1) annual leave accrued and transferred from various New York State Departments and Institutions, and (2) the salary and fringe benefits of a part-time employee who does not report to a Department Head or supervisor employed within LMDC’s organizational structure.

**Recommendations**

We recommend that HUD instruct LMDC and/or its program administrator to obtain and maintain all missing documentation that support the eligibility of all grant recipients, and continue efforts to pursue reimbursement from ineligible recipients who received overpayments, and/or duplicate payments. In addition, recoveries received should be refunded to the CDBG Disaster Assistance Fund. Lastly, we recommend that HUD direct LMDC to establish a receivable account for all amounts it expects to recover.

**Exit conference**

The results of our audit were discussed with LMDC officials during the audit and at an exit conference held on March 04, 2004. LMDC provided written comments to our draft report on March 12, 2004. We included excerpts of the comments with the findings, and provided the complete text of the comments in Appendix C of this report.



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# Table of Contents

---

Management Memorandum	i
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Executive Summary	iii
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---

Introduction	1
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## Findings

1. Processing Deficiencies in The Residential Grant Program Should be Resolved	7
2. Duplicate Payments Under The Residential Grant Program Should be Recovered	13
3. Accounting Controls Over The Recovery Of Funds Should be Strengthened	19

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Management Controls	23
---------------------	----

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Follow Up On Prior Audits	25
---------------------------	----

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Issues Requiring Further Study And Consideration	27
--	----

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## Appendices

A. Schedule of Questioned Costs	31
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B. Schedule of Programs under Partial Action Plans and Amounts Drawn Down as of 09/30/2003	33
C. Auditee Comments	35

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Abbreviations

ACS	Affiliated Computer Services
ACL	Audit Command Language
CFR	Code of Federal Regulations
CDBG	Community Development Block Grant
ESDC	Empire State Development Corporation
HOH ID	Head of Household Identification Number
HUD	U.S. Department of Housing and Urban Development
LMDC	Lower Manhattan Development Corporation
OIG	Office of Inspector General
OIT	Optical Image Technology
RGP	Residential Grant Program
TAS	Time and Attendance System

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# 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 in CDBG funding for New York City out of the Emergency Response Fund that Congress had appropriated.<sup>1</sup> 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.<sup>2</sup> Finally, on August 2, 2002, Congress appropriated an additional \$783 million of CDBG funding.<sup>3</sup>

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## **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 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 C. Whitehead and Mr. Kevin Rampe is the President.

## **Approved Action Plans**

As of September 30, 2003, HUD had approved four of LMDC's Partial Action Plans and two Supplemental Partial Action Plans, which contained funding of \$1,619,044,651. The programs

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<sup>1</sup> 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).

<sup>2</sup> 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).

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

implemented under these four Partial Action Plans, and two Supplemental Partial Action Plans, along with the amounts drawn down by LMDC as of September 30, 2003 for each program, are shown in Appendix B.

To meet the Congressional mandate to provide assistance to individuals as quickly as possible, LMDC began implementing Action Plan No. 1, immediately upon HUD's approval. The Employment Training Assistance Program under Action Plan No. 1 along with the programs in LMDC's Action Plan Nos. 2, S1 and S2, are being administered by LMDC's parent company, the Empire State Development Corporation (ESDC).

During the current audit period, April 1, 2003 through September 30, 2003, there was only one active program being administered by LMDC, "The Residential Grant Program (RGP)". Accordingly, our audit efforts were concentrated on LMDC's disbursement of funds to the RGP's program administrator and other contractors, recipients of grants under the RGP, and administrative costs. The figures in Appendix B indicates that \$143,857,980 in cumulative funds was drawn down and earmarked specifically for the RGP during the period ending September 30, 2003. However, it should be noted that only \$133,356,771 of that amount relates to draw downs for grant recipients. The remaining \$10,501,209 is associated with funds drawn down for the program administrator of the RGP, and other contractors that provided administrative services to the RGP. To obtain the actual amounts drawn down and reviewed under the RGP for the current period, we subtracted the amounts reviewed during our previous audit period from the cumulative amounts drawn down as of September 30, 2003, as follows:

	<b>Cumulative @ 09/30/2003</b>	<b>As of 03/31/2003</b>	<b>Current Review Period 4/01/2003 to 09/30/2003</b>
RGP Grants	\$133,356,771	<\$61,283,207>	\$72,073,564
RGP Contractors	<u>10,501,209</u>	<u>&lt;6,897,609&gt;</u>	<u>3,603,600</u>
Total	<u>\$143,857,980</u>	<u>&lt;\$68,180,816&gt;</u>	<u>\$75,677,164</u>

Because the amount authorized for a particular disbursement period is not disbursed until the subsequent month, the \$72,073,564 shown above, which represents drawdowns for RGP Grants, includes \$15,926,029 drawn in April 2003 for the March 2003 payment period. Note that this amount was reviewed and addressed in our prior report. In addition, \$9,478,346 was drawn down in October

2003 for the September 2003 payment period, which is not reflected in the \$72,073,564. Accordingly, actual drawdowns related to the RGP for the current review period, April to September 2003, amounted to \$65,625,881, which was computed as follows:

Cumulative RGP Grants for the current period	\$72,073,564
March 2003 RGP Grants disbursed in April 2003	<15,926,029>
Sub Total	56,147,535
September 2003 RGP Grants disbursed in October 2003	+ 9,478,346
Actual RGP grant Draw Downs for the period April 1, 2003 to September 20, 2003	<u>\$65,625,881</u>

### **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 types of grants for which the criteria for eligibility along with 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 Partial Action Plan No.1. 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 the 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:

	<b>Zone 1</b>	<b>Zone 2</b>	<b>Zone 3</b>
<b>Two Year Grant:</b> Maximum	\$12,000	\$6,000	Not eligible
Minimum	\$4,000	\$2,000	Not eligible
<b>September 11, 2001 Grant</b>	\$1,000	\$1,000	\$1,000
<b>Family Grant</b>	\$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 Affiliated Computer Services (ACS) to be the program's administrator and to perform the day-to-day processing of RGP grant applications. 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 that the total cost of the RGP would be \$280.5 million, and that 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

During the current review, we tested LMDC's program administrator's compliance with the eligibility and recertification requirements established for the RGP. We used statistical sampling in our testing, as follows:

#### **Eligibility Review:**

From the 12,490 new grant recipients who were awarded grants under the RGP for the payment periods between April 2003 and September 2003; we selected a statistical sample of 272 recipients for review. The 272 recipients selected and tested received RGP disbursements of \$1,409,172 for the above payment periods. We reviewed the applications and the data in the files of each grant recipient in our sample to determine whether LMDC followed its RGP eligibility guidelines, policies, and procedures for processing, approving and making payments to RGP recipients. We sent confirmations to the 272 grant recipients requesting verification of the type of grant received, their September 11, 2001 address (for the September 11, 2001 grant recipients), children in the household (for family grant recipients) and grant payments received for the period. We also used the computer software program Audit Command Language (ACL) to determine whether any individual or housing unit received duplicate grant payments.

#### **Recertification Review**

Under the RGP, those recipients who received the two-year commitment based grants are required to recertify their eligibility for the grant every six months. From a universe of 17,699 grant recipients, who received the two-year grants at least six months prior to September 30, 2003, we selected two statistical samples for review. The first sample of 140 grant recipients was selected from those recipients who received their first two-year grant payments on or before the payment period ended December 31, 2002. The second sample of 140 grant recipients was selected from those recipients who received their first two-year grant payments during the payment periods between January 31, 2003 and March 31, 2003. Accordingly, we selected a total of 280 grant recipients who received their first two-year grant payments on or before the payment period ended March 31, 2003. To examine compliance with LMDC's recertification procedures, we examined whether (a) LMDC and or its program administrator provided

adequate notification to grant recipients that a recertification was due; (b) grant payments were timely stopped if recipients did not respond to the recertification notice; (c) supporting documentation for continued eligibility was obtained and reviewed; and (d) grant payments were properly adjusted based on the results of the recertification.

In addition to the above, we tested \$2,821,135 or approximately 33% of LMDC's planning and administrative costs of \$8,538,615 incurred during the period between April 1, 2003 and September 30, 2003.

As part of our review of the data within LMDC's Disaster Recovery Grant Reporting (DRGR) system and disbursement database, we analyzed the systems to identify potential control weaknesses. Although, we did not perform a detailed assessment of the reliability of the data within these systems, we performed a minimal level of testing to determine whether the data was reliable for our purposes.

This report does not include our review of disbursements that were made under the Employment Training Assistance programs, WTC Business Recovery Grant (BRG) and the Large Firm Job Creation and Retention programs. These programs are being administered by ESDC, and are being reviewed by us during an on-going audit of that corporation.

**Audit scope and methodology**

We performed our on-site work between September 2003 and January 2004. The current review generally covered the period from April 1, 2003 through September 30, 2003, and where appropriate was extended to cover periods prior and subsequent to these dates.

Our 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 Should be Resolved

Although LMDC has corrected processing deficiencies in the Residential Grant Program (RGP) through its recertification process and its alternative supporting documentation requirements, our review disclosed that some processing deficiencies still need to be resolved. Specifically, our testing of a statistically selected sample of payments to RGP recipients disclosed that contrary to program requirements, LMDC's program administrator was unable to provide adequate documentation to fully support the eligibility of some grant recipients. In addition, we found that the program administrator either did not obtain or obtained but did not scan into its Optical Image Technology (OIT) system the documentation that supports the eligibility of all applicants. Consequently, we found that grant payments totaling \$86,050 are questionable since they relate to recipients with questionable eligibility. These deficiencies are attributed to possible omissions by grant processors in obtaining all pertinent information from applicants, and to 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 continue to obtain and maintain all missing documentation that supports the eligibility of all grant recipients. If missing documentation cannot be obtained, we recommend that the amount of the associated grants be reimbursed to the program. In addition, HUD should instruct LMDC and its program administrator to properly seek reimbursement from those recipients who are ineligible.

## 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 an individual applicant's eligibility and housing unit certification. To qualify, residents must live in one of the three eligible designated zones. Renters and owners meeting 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). Only one of each type of grant is awarded per housing unit.

LMDC contracted with Affiliated Computer Services (ACS), the program administrator, to run the day-to-day operations of the RGP; specifically, to take applications, obtain documentation, approve applicants for the grant awards, and to compute and disburse grant payments. The program administrator and LMDC's staff established specific guidelines for the program based on the criteria for the RGP proposed in the HUD approved Partial Action



Plan, dated June 7, 2002 (amended September 25, 2002), and through its alternative supporting documents list and recertification procedures instituted in May and July 2003 respectively.

**Scope and methodology**

For our audit period April 2003 through September 2003, LMDC approved disbursements totaling \$66,919,881. This amount represents \$65,625,881 in HUD drawdowns for the above period plus \$1,294,000 in adjustments (voided checks, recouped grant amounts, reissued checks, etc). Of this amount \$43,516,509 was disbursed to 12,490 new RGP recipients who were approved for grant awards during the current period. From a universe of 12,490 new recipients, we selected a statistical sample to perform our audit testing. Our sample was selected using a stratified variable plan and dollar units. The statistical sample consisted of 272 new RGP recipients, representing \$1,409,172 in RGP disbursements made between the period April and September 2003. We reviewed the application and the supporting documents submitted by grant recipients in our sample by utilizing the administrator's computerized systems (Optical Image Technology (OIT), and Connexions), as well as, the hard copy files for certain recipients. We determined whether LMDC and its program administrator followed its eligibility processing criteria and the RGP guidelines. We also sent confirmations to our sample RGP grant recipients to verify the data on record with LMDC and its program 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 No.1. These requirements are provided to all applicants in an RGP application package, which includes specific eligibility criteria as set forth in the “One Page Fact Sheet” and in the “Supporting Documentation List”. RGP applicants are required to submit specific documentation to substantiate program eligibility, an

applicant's identification, current address, family members (children), and rental or housing costs.

**Processing  
deficiencies found**

The results of our review disclosed that despite new changes in program requirements instituted by LMDC through its alternative supporting documentation, we still found processing deficiencies. Specifically, the program administrator was still unable to provide adequate documentation to fully support the eligibility of some grant recipients. The results also disclosed that the program administrator either did not obtain or obtained but did not scan into its Optical Image Technology (OIT) system all documentation that supports the eligibility of the applicants. The details are described below:

**Eligibility of 18  
recipients is not  
fully supported**

Although LMDC and its program administrator improved the method of maintaining and retrieving hard copy files, they were not able to provide us with all required documentation to support the eligibility of some grant recipients. The test results of our statistical sample of 272 new RGP recipients disclosed that the eligibility of 18 recipients, who received grant payments totaling \$86,050, during the period between April 2003 and September 2003, is not fully supported. Specifically, the review disclosed that neither the program administrator's OIT system nor the hardcopy files contained sufficient documentation to fully support some recipients' eligibility for a RGP grant. Examples of supporting documents that were missing included documents that identify the recipient (e.g. identification), recorded deeds or executed leases, co-op or condominium contracts, mortgage bills or payment coupons, current rent statements or other valid receipts for rent payments. Of the 18 cases in question, LMDC officials were still researching our concerns for 9 cases, at the end of our audit fieldwork. Therefore, the eligibility of the 18 grant recipients is questionable and the associated grant payments of \$86,050 is considered unsupported due to insufficient supporting documentation. As such, we believe that further reviews by officials of LMDC, its program administrator, and HUD is needed. 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.

**\$86,050 in grant  
payments is  
unsupported**

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

In consulting with a statistician, we evaluated the results of our testing and projected them over the entire population of new RGP recipients. Our stratified variable sample consisted of 272 of a total population of 12,490 new RGP recipients, representing

\$1,409,172, of \$43,516,509 in disbursements made during the period of April through September 2003. Based on the results of our sample, we estimated that the population contains approximately 827 questionably supported grant awards, totaling approximately \$3,415,306. Note that our sample was selected using a 95 percent confidence level and 3 percent materiality level.

Considering the significance of these projections, we believe that LMDC and its program administrator need to take the necessary steps to ensure that all documentation needed to support recipients' eligibility is properly obtained and maintained, and/or scanned into the program administrator's OIT system. Accordingly, we believe that LMDC and its program administrator should continue to correct these deficiencies during the recertification process.

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**Auditee  
comments**

In response to the HUD OIG draft audit report, LMDC officials contend that corrective actions have been taken on all items identified in the report. LMDC officials conducted a full audit of each of the 18 applications and, in some instances, made phone calls to landlords to verify the residency for applicants missing one or more pieces of documentation. LMDC officials stated that their review confirmed that all 18 applicants cited in the OIG draft report were fully eligible for the grants they were awarded. Specifically, LMDC officials stated that of the 18 applicants cited, 8 were eligible per LMDC's procedures and the supporting documentation was found in the scanned files at the time of the award. Of the remaining 10 applicants, some documents were not scanned or found in the hard copy files during the HUD IG audit. However, in each instance, LMDC officials stated that they located other documents in the files that provided evidence of each applicant's eligibility. LMDC has and continues to obtain supporting documentation as required.

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**OIG evaluation  
of Auditee  
comments**

Part of our review of the RGP Program focused on whether new grant recipients, at the time of the grant award, provided supporting documents in accordance with the eligibility criteria set forth in LMDC's "One Page Fact Sheet" and "Supporting Documentation List." LMDC officials admit that some documents that support a recipient's eligibility were not scanned into the administrators computer system or found in hardcopy files during our review. At the conclusion of our fieldwork, the documentation in the files of 18 of the recipients in our sample did not fully support their eligibility for a grant from the RGP; therefore, we disagree with LMDC officials' comment that the supporting documentation was

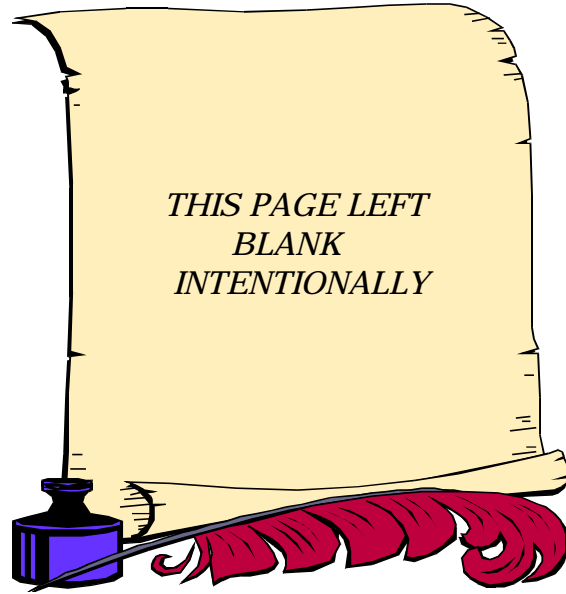
found in scanned files at the time of the award for 8 of the 18 recipients cited in our draft report. Furthermore, the fact that LMDC officials attempted to provide other alternative documents that was not on LMDC's Supporting Document List to justify a grant recipient's eligibility indicates that the information provided was not adequate. LMDC officials and its program administrator were kept fully abreast of all deficiencies uncovered during the audit, and were given an opportunity to resolve some of the missing documentation issues prior to the completion of our fieldwork. However, at the conclusion of our fieldwork, documentation to support the eligibility of 18 grant recipients was still missing and/or incomplete.

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## **Recommendations**

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

- 1A. Continue to obtain and maintain all missing documents needed to support the eligibility of the 18 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 to the RGP program any amount of the \$86,050 that cannot be supported.
- 1C. Continue to perform post reviews of the eligibility of grant recipients and computations of grant amounts during the recertification process to identify and correct processing deficiencies to the extent deemed necessary.



## Duplicate Payments Under The Residential Grant Program Should be Recovered

During the current audit, we continued our review of grants awarded and paid under the Residential Grant Program (RGP) by analyzing the payment data provided by the Lower Manhattan Development Corporation (LMDC). Our review disclosed that contrary to program requirements, LMDC continued to issue monthly duplicate grant payment checks either to the same individual or to two individuals residing in the same housing unit. Specifically, our review disclosed that duplicate grant payment checks, totaling \$5,850, were issued to eight (8) individuals because each individual was approved to receive a grant check under two different identification numbers. It also disclosed one instance where grant payments in the amount of \$11,000 were issued to an individual who resides in a housing unit with another individual who is receiving payments for the same type of grant. Thus, \$16,850 of CDBG Disaster Assistance Funds was improperly used. The duplication occurred because the processing controls designed to prevent an individual and/or a housing unit from being entered into the program's computerized grant processing system twice were flawed. However, we noted that LMDC and its program administrator have instituted procedures to prevent the monthly processing of payment checks, under its two-year grant program, once a duplication is identified. Accordingly, we recommend that LMDC continue its efforts to recover all duplicate payments and to return all recovered funds to the CDBG Disaster Assistance Funds.

### 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 LMDC Partial Action Plan, which was 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 are restricted to zones specified by LMDC, and each eligible housing unit is entitled to receive only one of each type of grant as prescribed for that zone. The two-year commitment-based

grants are paid over a period of 24 months while 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 two of the same grants either for the same individual 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 periods from September 1, 2002 through September 30, 2003. The results of the analysis disclosed that eight individuals received duplicate grant awards and payments because each individual was assigned two different identification numbers. Also, for one (1) instance there were two different individuals residing in the same housing unit who received payments for the same type of grant. Pursuant to program requirements, each eligible housing unit is only entitled to one of each type of 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 informed that there are processing controls within the system that would prevent an individual from being assigned more than one HOH ID number. We were further informed that the system would prevent duplicate grant awards to the same housing unit. The program administrator's procedures provide that the initial step in processing an application, is for staff to search the computer database for four unique identifiers: 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. However, the system only recognizes a duplication if all four of the unique identifiers are present. Thus, allowing a duplication to occur if one to three identifiers are the same.

**The program administrator processed and issued duplicate grant payments**

Our review disclosed that duplicate grant payment checks, totaling \$5,850, were processed and issued to eight individuals who were approved to receive payments under two different identification numbers. We also noted one instance where payments totaling \$11,000 were made to an individual residing in a housing unit with a different individual who is receiving monthly payments for the same type of grant. However, LMDC and its program

administrator stopped making monthly payments to this individual once they identified the duplication.

Apparently, the search performed by the program administrator’s staff of the program’s computerized database did not identify the individuals or the same address (housing unit) before creating another HOH ID number in the system for those individuals. Thus, a flaw in the program’s computerized processing system allowed duplicate grant awards and payments to be generated for certain individuals. These duplicate payments are ineligible costs that should be removed from total program cost. Details pertaining to the duplicate payments are as follows:

<b>Original HOH ID</b>	<b>Additional HOH ID *</b>	<b>Duplicate Period Paid</b>	<b>Duplicate Amount</b>
16938	244	12/31/2002	\$ 1,950.40
90	11412	05/31/2003	149.73
63591	10690	12/31/2002-02/28/2003	249.99
28237	40728	06/30/2003	1,750.00
82	6311	05/31/2003	250.00
26597	21882	04/30/2003	500.00
5431	7061	05/31/2003	500.00
676	1257	04/30/2003	500.00
18042	18047	02/28/2003-03/31/2003	11,000.00
<b>Total Ineligible</b>		<b>Amount</b>	<b><u>\$16,850.12</u></b>
* Relates to an applicant who already has an HOH ID or two different individuals in the same housing unit.			

**LMDC instituted procedures to discontinue processing duplicate payment checks**

Although we identified the above duplicate payments during our review, we noted that LMDC and its program administrator have instituted procedures to discontinue the processing of monthly checks under one of the HOH ID numbers once a duplication of monthly grant payments is identified. Specifically, the program administrator removes one of the HOH ID numbers from the “Active” database file and places it in an “Inactive” database file; thus preventing additional duplicate payment checks from being processed.



**LMDC has undertaken action to recover duplicate payments**

Furthermore, LMDC has undertaken action to recover duplicate payments by issuing demand letters to those individuals who received the duplicate payments. However, as of the date of the completion of our fieldwork, LMDC had not received reimbursements for the duplicate payments cited in this finding.

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**Auditee comments**

LMDC officials concur with the audit finding that duplicate payments were made for the nine (9) cases identified in the audit. However, LMDC officials contend that all of the cases had already been discovered by the RGP Program Administrator through its quality assurance process or by the RGP Compliance Auditor and in all nine cases the duplicate identification number was deactivated and frozen to prevent further processing of checks for the duplicate identification number. For seven of the nine cases identified by the HUD-OIG, the grant recipient was still owed payments for the eligible two-year grant award and the RGP Program Administrator made adjustments to the still active identification number to recoup the ineligible payments that were made to the duplicate identification numbers. For the other two cases (HOH 18047 and HOH 40728), LMDC officials sent recoupment letters to the grant recipients to recover the duplicate payments resulting in the repayment of \$11,000 by one of the individuals.

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**OIG evaluation of Auditee comments**

The actions taken by LMDC are responsive to our audit recommendations. However, for the seven cases referred to above, LMDC officials did not make the adjustments until after the end of our audit fieldwork. In addition, the \$11,000 repayment did not occur until after our audit exit conference.

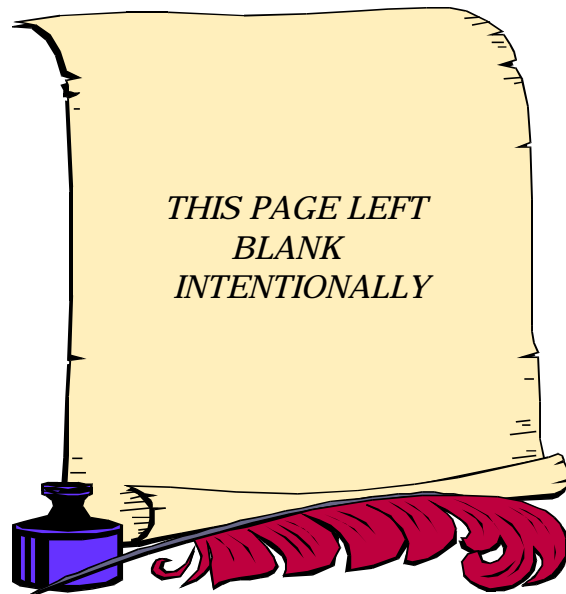
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**Recommendations**

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

- 2A. Require LMDC to continue its efforts to recover the \$16,850 in duplicate payments cited in the finding and return the money recovered to the CDBG Disaster Assistance Funds.

- 2B. Require LMDC to continue its procedures to discontinue the processing of monthly checks under one of the HOH ID numbers when a duplicate is identified.
- 2C. Require LMDC and/or the program administrator to continue to perform quality control reviews designed to identify duplicate grant payments.



## Accounting Controls Over The Recovery of Funds Should be Strengthened

Our review disclosed a weakness in LMDC's accounting controls pertaining to the recovery of funds disbursed from the CDBG Disaster Assistance Funds. Specifically, we noted that LMDC has not established a Receivable Account, within its accounting system, to record funds to be recovered from grant recipients who did not comply with the established criteria for keeping a grant from the RGP or who received grant payments for which they were not entitled. LMDC provided us with an informal Master Repayment List, which showed in excess of \$690,000 owed to the RGP; however, its General Ledger does not contain a receivable account to which collectible amounts due the RGP can be posted. LMDC officials believe that it is not necessary to establish a formal "Accounts Receivable" in its General Ledger to record potential recoveries because the Master Repayment List, which was developed and being maintained by an independent consultant, serves as the control record for the amounts due to the program. Furthermore, they believe that there is a high probability that most of the amounts on the list will not be collected. However, we believe that the amounts that are collectible should be periodically recorded on LMDC formal accounting records, therefore, we believe that the absence of such records is a weakness in LMDC's accounting controls that could result in a misuse of RGP recoveries. Furthermore, we believe that the establishment of a receivable account for recoveries will strengthen the accounting procedures, and enhance LMDC's accountability over the CDBG Disaster Assistance Funds.

### 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. The requirements must: (i) Be sufficiently specific to ensure that funds received are used in compliance with all applicable statutory and regulatory provisions and (ii) Ensure that funds received are only spent for reasonable and necessary costs of operating programs. Part 570.490 provides in part 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.

### LMDC maintains a Master Repayment List

LMDC provided us with a Master Repayment List that shows the recipients who either failed to comply with established criteria for keeping a grant from the RGP, or were not entitled to receive a grant from the RGP. The list is comprised of individuals who: violated the commitments upon which the grant awards were based, received duplicate grant payments, responded to LMDC's advertised RGP Amnesty Program, and received grants fraudulently. As of January 23, 2004, the list showed a balance of \$691,582 as the amount owed to the RGP by individuals.

**Grant recipients broke their commitments**

During our review of duplicate household units, we identified four instances where the grant recipients broke their commitments to live in Lower Manhattan; however, the amounts paid to them were not included in the above balance. We believe that the payments made to these recipients should be added to the balance. The identification numbers and the potential amounts to be collected from these recipients total \$18,509.60, as detailed below:

<u>HOH ID#</u>	<u>Amount</u>
1572	\$6,000.00
12703	\$5,500.00
28519	\$5,500.00
24958	\$1,509.60
Total	<u>\$18,509.60</u>

**An independent consultant developed and maintains the Master Repayment List**

We were informed by LMDC officials that an independent consultant developed and maintains the Master Repayment List based on RGP information on broken commitments, repayments, etc., that is retrieved from the program administrator’s computer system. Repayments due from RGP recipients are sent primarily to the program administrator who is responsible for scanning a copy of the payments into the grant recipients’ file along with an explanation detailing the reason for the repayment. The program administrator then transmits the payments to LMDC’s Finance Department who forwards the receipts to its Parent Company, the Empire State Development Corporation (ESDC), to be deposited into LMDC’s bank account. At the end of the month, when the RGP grant payment roster is prepared, the amount to be drawn down from HUD is reduced by the amount of the repayments received.

**Repayments received are used to reduce draw down requests from HUD**

**LMDC officials believe the controls over repayments are adequate**

LMDC officials believe that the current method of utilizing a consultant to maintain the Master Repayment List provides adequate controls over the repayments because the consultant is independent of the program administrator. Furthermore, they believe that since there is adequate segregation of duties regarding this list, and it is not probable that most of the amounts on the Master Repayment list will be collected, there is no need to establish a formal receivable account in the General Ledger.

**LMDC should establish a formal Receivable account in its General Ledger**

However, we believe that LMDC should establish a formal Receivable account in its General Ledger. Since the Master Repayment List contains amounts related to grant recipients who: have come forward under the amnesty program, moved within city limits; were prosecuted, and were identified as recipients of

duplicate payments etc., we believe that there is a probability of collecting these amounts. Accordingly, we believe that a receivable account should be established to reflect the amounts that have a reasonable probability of being collected. Furthermore, we believe that maintaining the accounts receivable in an “off-book” informal manner makes the funds vulnerable to misappropriation since the amounts owed to the program can be manipulated without leaving an accounting trail. Also, after the RGP has ended, a formal receivable account will ensure that funds still owed are tracked for collection.

As such, we believe that LMDC should strengthen its accounting controls by establishing a formal Accounts Receivable in its General Ledger to record amounts for which there is a reasonable expectation for recovery. We believe this will enhance its accountability over the CDBG Disaster Assistance Funds.

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**Auditee  
comments**

LMDC officials believe that its current processes and controls are adequate for safeguarding CDBG funds. However, they will undertake an additional review to determine if there are any benefits to establishing a receivable account in their accounting records. In addition, LMDC officials state that they agree with three (3) of the four (4) additional cases that we identified as broken commitments, and that they have added these three cases to the Master Repayment List. However, LMDC officials state that the fourth case is not a broken commitment because the grant recipient moved within an eligible zone and therefore is not obligated to repay the grant.

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**OIG evaluation  
of Auditee  
comments**

To strengthen the accounting controls and enhance its accountability over the CDBG Disaster Assistance Funds, we still believe that LMDC should establish a receivable account in its General Ledger for the recovery of RGP funds. Regarding the fourth case that LMDC maintains is not a broken commitment, we believe that HUD management should review the files of this case to ensure that the grant recipient still meets all requirements of the RGP.

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**Recommendations**

We recommend that HUD, General Deputy Assistant Secretary for Community Planning and Development, require LMDC to:

- 3A. Establish a formal Receivable account in its accounting records to track the collectable funds owed to the RGP.

- 3B. Add the appropriate amount of the \$18,509.60 discussed in the finding as funds associated with broken commitments to its Master Repayment List. Also, any portion of this amount that is reasonable expected to be collected should be added to the receivable account when established.

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# Management Controls

In planning and performing our audit, we considered the management controls of LMDC 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.

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## 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.

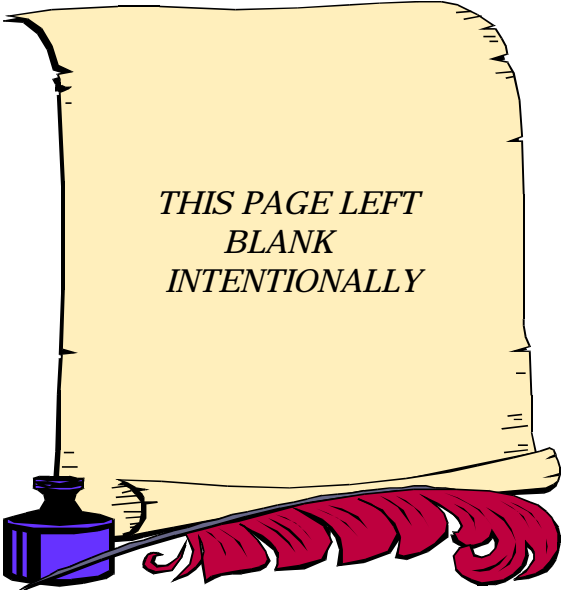
We assessed all the relevant controls identified above.

It is a 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.

## Weaknesses

Our review disclosed weaknesses in the application and processing controls of the Residential Grant Program (RGP), as well as, in the controls over the accountability of potential recoveries due from grant recipients (see Findings 1, 2, and 3).



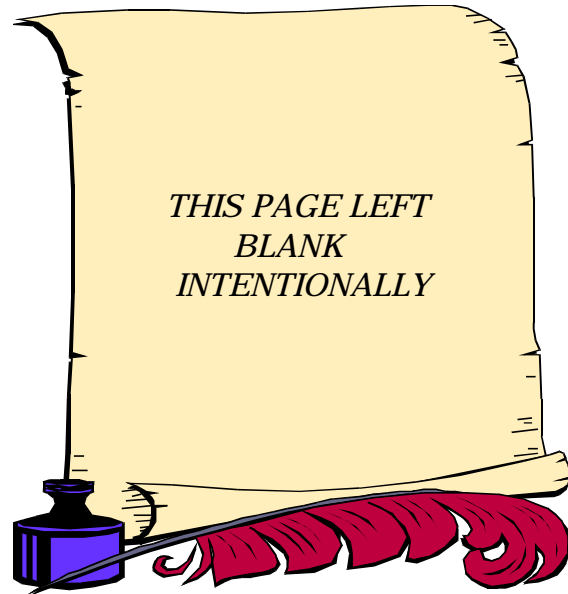


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## Follow Up On Prior Audits

We issued Audit Report number 2003-NY-1006 on September 30, 2003. The report contains two audit findings with recommendations for corrective action. The findings involve processing deficiencies in the RGP and duplicate payments made to grant recipients. All recommendations related to these audit findings have been sustained and LMDC has implemented corrective actions to close all except recommendation 2A. In this recommendation, LMDC was instructed to recover \$7,500 in duplicate payments that were disbursed to grant recipients. As of September 30, 2003, only \$3,000 of the \$7,500 had been recovered.

Although corrective actions related to these findings have been implemented during the current review period, we noted that there is still a need to resolve processing deficiencies and duplicate payments within the RGP. Deficiencies noted during the current review are being reported on again in this audit report under Findings 1 and 2.



## Issues Needing Further Study and Consideration

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During our review, we noted two practices that warrant further examination by HUD Management. These issues involve the use of CDBG Disaster Assistance Funds to pay for: (1) annual leave accrued and transferred from various New York State Departments and Institutions, and (2) the salary and fringe benefits of a part-time employee who does not report to a Department Head or supervisor employed within LMDC's organizational structure. The details are provided below:

**A reciprocal agreement between ESDC and the New York State Department of Civil Service allows employees to transfer leave and service credits**

Our review disclosed that LMDC has adopted a personnel policy established by its Parent Company, ESDC, which we believe requires further evaluation by HUD, in light of the fact that LMDC is funded solely by HUD CDBG Disaster Assistance Funds. Although neither LMDC nor ESDC is considered a State Agency, there is a reciprocal agreement between ESDC and the New York State Department of Civil Service which allows employees to transfer leave and service credits between positions from New York State Departments and Institutions to ESDC/LMDC, and conversely. Accordingly, employees from various New York State Agencies can transfer up to twenty days of accrued annual leave. Furthermore, at the discretion of the ESDC's Chairman, the Parent Company offers an Annual Leave Cash-In Program that allows newly hired transferees to LMDC to receive cash payments in exchange for one or two weeks of accrued annual leave subject to several conditions. One of which is that the annual leave "cashed-in" must not reduce the employee's remaining accrued annual leave to less than two weeks (75 hours). In addition, LMDC has adopted ESDC's Cash-Out Program wherein employees are paid a maximum of 350 hours of accrued annual leave at termination. It should be noted that although the New York State Department of Civil Service has a policy regarding Cash-Outs, no such policy exists concerning Cash-Ins.

**The Annual Leave Cash-In/Cash-Out Programs allow employees to receive cash payments for annual leave transferred into the Corporation**

During our review of LMDC's salaries and fringe benefits charged to planning and administrative expenses, and reimbursed with HUD CDBG Disaster Assistance Funds, we noted that several employees received cash payments in exchange for annual leave earned and transferred from various New York State Agencies. Because this leave was earned prior to the employees' tenure with LMDC, and LMDC is financed solely by the HUD grant, we question whether the payment of such expenses has relevance to the purpose for which the CDBG grant funds were intended. Moreover, our analysis revealed that during the period of February 2002 through September 2003, LMDC made cash payments totaling \$34,260

**\$34,260 in HUD CDBG Disaster Assistance Funds was used to pay for annual leave transferred from various New York State Agencies**

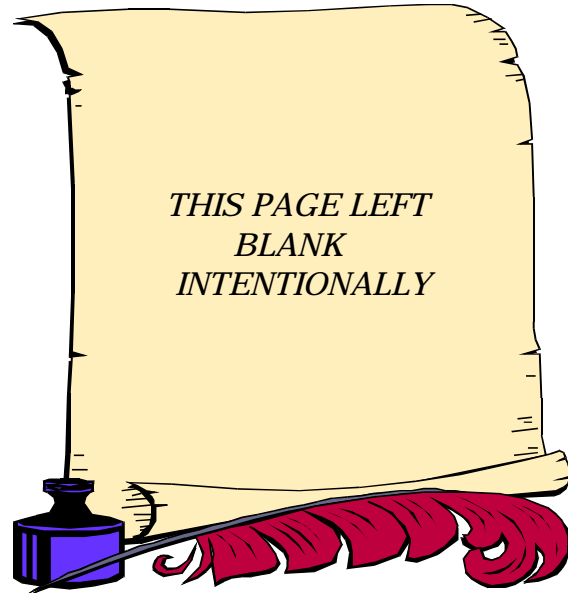
to six employees in exchange for 707.25 hours of annual leave earned and transferred from various State agencies. It is our contention that compensation to employees should be commensurate with the amount of time or effort actually devoted to the CDBG Disaster Grant activities designed under the Partial Action Plans to rebuild and revitalize Lower Manhattan. Accordingly, we question whether these payments should have been made with CDBG Disaster Assistance Funds. As such, HUD should determine the reasonableness of LMDC's Cash-In/Cash-Out Programs, which allow transferees to receive cash payments made with HUD CDBG Disaster Assistance Funds in exchange for leave accrued outside of an employee's tenure with LMDC. If the policy is deemed unreasonable, then HUD should direct LMDC to cease the practice.

**LMDC has a part-time employee who is not assigned to a supervisor employed within the organizational structure**

In addition to the above, our review disclosed that LMDC retains a part-time employee whose position is deemed questionable, given that he does not report to a Department Head or supervisor employed within the corporation's organizational structure. The employee serves in the capacity of Senior Advisor to the Chairman of the Board of Directors, and performs tasks exclusively for the Chairman. Moreover, since this employee is not assigned to a supervisor, does not have office space, or a telephone number at LMDC's site, and works remotely from his private office, we are not assured that his efforts benefit the organization as a whole. As such, we question whether he should be on LMDC's payroll, especially in view of the fact that his timesheets are authorized by the Chairman (a non-LMDC employee) and then faxed to the Payroll Department for processing. Customarily, timesheets are authorized by a Department Head or supervisor and submitted through LMDC's automated Time and Attendance System (TAS).

As Senior Advisor to the Chairman, the employee is required to work twenty-three hours per week including weekends. Based upon discussions with the employee and his position description, we learned that his responsibilities consist of advising the Chairman on all matters concerning public appearances and media related activities. As a result, we are not certain that his duties further the overall mission of LMDC, which is to rebuild and revitalize Lower Manhattan. In this regard, we request that HUD evaluate the reasonableness and necessity of this position and determine whether this employee

should be on LMDC's payroll. The results of HUD's evaluation should be properly communicated to LMDC in writing.



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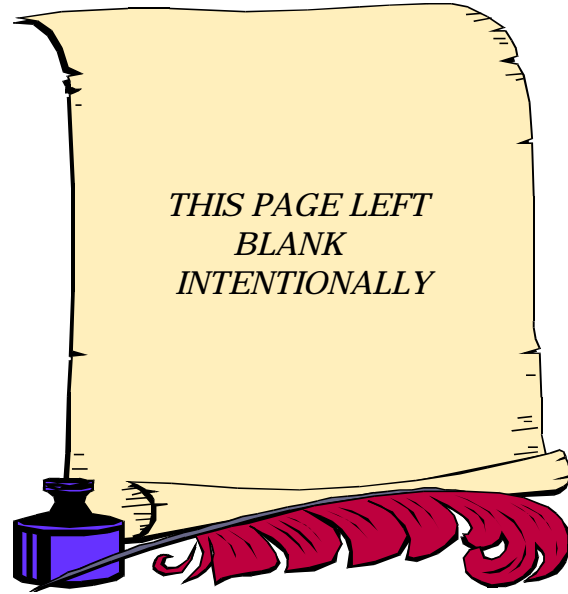
## Schedule of Questioned Costs

Finding Number	<u>Type of Questioned Cost</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1		\$86,050
2	\$16,850	
3	-	-
Totals	<u>\$16,850</u>	<u>\$86,050</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.

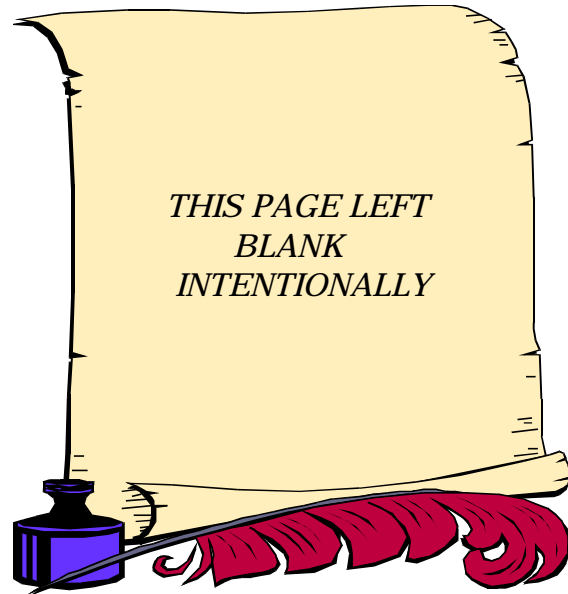




Lower Manhattan Development Corporation  
CDBG Disaster Assistance Funds

Schedule of Programs under Partial Action Plans and Amounts Drawn  
Down as of 09/30/2003

PROGRAM	LMDC Partial Action Plan No. 1	LMDC Partial Action Plan No. 2	LMDC Partial Action Plan No. 3	LMDC Partial Action Plan No. 4	LMDC Partial Action Plan No. S1	LMDC Partial Action Plan No. S2	Total	Draw Down As Of 09/30/03
<b>Date HUD Approved</b>	06/07/ 2002 & 09/25/2002	11/22/2002	06/14/2003	08/06/2003	09/15/2003	09/15/2003		
Residential Grant Program	\$280,500,000	\$0	\$0	\$0	\$0	\$0	\$280,500,000	\$143,857,980
Employment Training Assist.	\$ 10,000,000	\$0	\$0	(\$9,500,000)	\$0	\$0	\$500,000	\$129,017
Design/ Install. Of Interim Memorial	\$350,000	\$0	\$0	\$0	\$0	\$0	\$350,000	\$0
WTC Business Recovery Grant Program	\$0	\$150,000,000	\$0	\$74,500,000	\$0	\$0	\$224,500,000	\$212,995,384
Small Firm Attraction and Retention Grant	\$0	\$50,000,000	\$0	\$0	\$0	\$0	\$50,000,000	\$0
Large Firm Job Creation & Retention	\$0	\$150,000,000	\$0	\$0	\$0	\$0	\$150,000,000	\$4,000,000
Renovation of Columbus Park Pavilion	\$0	\$0	\$428,571	\$0	\$0	\$0	\$428,571	\$0
History & Heritage Downtown NYC Marketing Initiative	\$0	\$0	\$4,664,000	\$0	\$0	\$0	\$4,664,000	\$0
Short Term Capital Projects	\$0	\$0	\$0	\$69,405,000	\$0	\$0	\$69,405,000	\$0
Long Term Planning	\$0	\$0	\$0	\$13,894,848	\$0	\$0	\$13,894,848	\$0
Business Recovery from Disproportionate Loss of Workforce	\$0	\$0	\$0	\$0	\$33,000,000	\$0	\$33,000,000	\$0
Emergency and Temporary Service Response	\$0	\$0	\$0	\$0	\$0	\$250,000,000	\$250,000,000	\$0
Permanent Restoration and Infrastructure Improvements	\$0	\$0	\$0	\$0	\$0	\$330,000,000	\$330,000,000	\$0
Service Interference	\$0	\$0	\$0	\$0	\$0	\$60,000,000	\$60,000,000	\$0
Construction for Carrier Neutral Lateral Conduits	\$0	\$0	\$0	\$0	\$0	\$50,000,000	\$50,000,000	\$0
Redundant Fiber Connections to Critical Facilities	\$0	\$0	\$0	\$0	\$0	\$20,000,000	\$20,000,000	\$0
Mandated Infrastructure Improvements	\$0	\$0	\$0	\$0	\$0	\$25,000,000	\$25,000,000	\$0
Administration	\$15,042,500	\$0	\$18,954,477	\$7,805,255	\$0	\$15,000,000	\$56,802,232	\$16,044,976
<b>TOTALS</b>	<b>\$305,892,500</b>	<b>\$350,000,000</b>	<b>\$24,047,048</b>	<b>\$156,105,103</b>	<b>\$33,000,000</b>	<b>\$750,000,000</b>	<b>\$1,619,044,651</b>	<b>\$377,027,357</b>



## Auditee Comments



Lower Manhattan Development Corp.  
One Liberty Plaza, 20th Floor, New York, NY 10006  
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www.RenewNYC.com

March 12, 2004

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

Dear Mr. Malloy,

The Lower Manhattan Development Corporation ('LMDC') has reviewed the U.S. Department of Housing and Urban Development Office of Inspector General draft Audit Report, that was originally provided to us on February 23<sup>rd</sup>. 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 management policies and controls. The attached document presents LMDC management's response to the draft Audit Report.

Sincerely,

Kevin Rampe  
President

Attachment

LMDC Response to HUD IG Audit Report

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## Auditee Comments

### **LMDC Response to HUD OIG Draft Report for March 2004**

LMDC has reviewed the draft audit report from the HUD Office of the Inspector General (IG). This audit covered the period from April 2003 through September 2003 and reviewed whether LMDC (1) disbursed CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plans, (2) implemented adequate monitoring efforts over the Residential Grant Program (RGP); and (3) has a financial management system in place that adequately safeguards CDBG funds. LMDC has taken corrective actions on all of the specific RGP 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 August 2003. With regard to HUD's recommendation to establish a receivable account in our financial account system, LMDC believes that its current processes and accounting controls are adequate to safeguard CDBG funds. However we will undertake an additional review to determine whether it is appropriate to implement additional accounting or administrative controls.

#### **LMDC Residential Grant Program**

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. LMDC's procedures include specific instructions on alternative methods to document eligibility for low- and moderate-income residents in specialized housing. Of the 18 cited applicants, 8 are eligible per LMDC's procedures and the documentation found in the scanned file at the time of award. LMDC found that for the remaining 10 applications some complete documentation was not scanned or 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 has and continues to take corrective actions to obtain supporting documentation as required for the 10 cases cited by the HUD IG.

Eight of the nine duplicate payments issues raised by the HUD IG are 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 nine duplicate payments identified by the HUD IG for their sample, seven of the applicants had their monthly payments adjusted to ensure they receive the correct amounts by the end of their two-year lease periods. Of the two remaining applicants one was the

roommate (HOH 18047) of a previously approved applicant living in the same housing unit (HOH 18042). The roommate (18047) repaid LMDC \$11, 000, the full amount of their overpayment. In the other case, an applicant received a duplicate grant award for both the September 11<sup>th</sup> and Family grants (HOH 28237/40728). LMDC has initiated the recoupment process for this applicant.

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 other detective 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.

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 included 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 April 1, 2003 through September 30, 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 August 2003.

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.

**Finding 1: Processing Deficiencies in the Residential Grant Program Should be Resolved**

***LMDC Review, Response, and Corrective Actions***

HUD OIG indicate in the draft Report that LMDC was unable to provide all required documentation to support the eligibility of some grant recipients. LMDC has reviewed the 18 applicants identified by HUD OIG.

Please find below LMDC's review of the 18 files:

- All of the 18 applicants cited were fully eligible for the grants they were awarded. Even though some documents for the cases cited in this report were illegible, not scanned or, in a few cases, unlocatable, other documents were on file to provide evidence of each applicant's eligibility. Due to established controls requiring multiple forms of documentation, none of the 18 files listed in this report were ineligible. Consequently, the total value of approved applications that are not eligible is \$0.
- HUD IG reported that the proof of two-year housing cost for HOH 63546 that was scanned was illegible. The hard copy file was pulled and the proof of two-year housing cost was rescanned into the system on 1/23/04. This applicant is fully eligible.
- HUD IG reported that the proof of identification for HOH 47030 and HOH 29810 that was scanned was illegible. The hard copy files were pulled and the identification was rescanned into the system on 1/23/04 for HOH 47030 and on 2/05/04 for HOH 29810. These applicants are fully eligible.
- HUD IG reported that the proof of identification for HOH 24574 that was scanned was illegible. Applicant provided, in addition to illegible birth certificate, a copy of a Social Security Card and a letter from her social worker at the Co-Op Village Senior Care Center satisfying the requirements for proof of identification as delineated in "Acceptable Alternate Forms of Supporting Documentation".<sup>1</sup> This information was scanned on February 18, 2003. This applicant is fully eligible.
- HUD IG reported that one applicant (HOH 28021) was missing proof of identification. Applicant provided valid proof of identification at time of application as well as after getting married. Applicant married between the time of initial application submission and date of approval. Proof of identification was scanned into the system under her married name on 05/19/03. Also, a State of New York Marriage License further clarifying this matter is on file.
- HUD IG reported two applicants' (HOH 45740 and HOH 53029) two-year housing costs were not for the correct time period. HOH 45740 was contacted and updated proof of two-year housing costs was provided. This was scanned into the system on 1/27/04.

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<sup>1</sup> Acceptable Alternate Forms of Supporting Documentation revised 11/12/02

This applicant is fully eligible. HOH 53029 submitted updated proof of two-year housing costs at recertification. This information was scanned on 01/30/04.

- HUD IG reported one applicant (HOH 52589) was missing proof of two-year housing costs. Applicant supplied proof of two-year housing costs at recertification. This was scanned 03/02/04. This applicant is fully eligible.
- HUD IG reported two applicants (HOH 52809 and HOH 51912) were missing proof of current address. Applicants reside in an Interim Multiple Dwelling (IMD). Applicants residing in an IMD may provide 3 consecutive rent checks as alternative documentation in lieu of a two-year lease.<sup>2</sup> HOH 52809 submitted consecutive cancelled checks for rent payments from July 2002 through month of application March 2003. This was originally scanned 05/06/03. The hard copy was pulled and rescanned on 03/02/04. Applicant HOH 51912 was contacted and submitted consecutive cancelled checks for rent payments from July 2002 through month of application March 2003. This was scanned 3/10/04. These applicants are fully eligible.
- HUD IG reported one applicant (HOH 53297) did not have proof of two-year housing costs. Applicant provided at time of application proof of two-year housing costs in the form of a notarized letter from building's management agent. This was scanned 05/29/03. This applicant is fully eligible.
- HUD IG reported that one applicant (HOH 55791) did not have acceptable proof of current address. The applicant provided a HUD 1 Uniform Settlement Statement. By reviewing additional supporting documentation, it can be determined that the applicant was the owner of and resided at the address at the time of application. This is supported because the applicant provided, in addition to the HUD 1, at the time of application the unit's tax assessment and a mortgage statement clearly demonstrating ownership of the unit. Based on this review the applicant is fully eligible.
- HUD IG reported that one applicant (HOH 51839) was in rent arrears at the time of the eligibility decision. 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. This applicant's current rent statement showed no more than two months rent due. LMDC has not and will not deny eligibility to applicants in this situation.<sup>3</sup> At recertification this applicant provided an updated rent statement showing no arrears. This applicant is fully eligible.
- HUD reported that one applicant's (HOH 47038) proof of identification was no longer valid at the time the eligibility decision was made. The applicant submitted an I-94 with an expiration date of 06/29/03 indicating legal residence through date of application (02/14/03) as proof of identification. LMDC is obtaining updated documentation.
- HUD IG reported that one applicant (HOH 51104) did not have support for the family grant, was missing the rent restriction form, and that two-year housing costs was not for the correct time period. During recertification applicant submitted a copy of the rent restriction form, copy of school letter verifying the child's date of birth and current address. These documents were scanned into OIT on 02/06/04 and 02/19/04 respectively. LMDC is in the process of obtaining required legible rent stubs.

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<sup>2</sup> LMDC RGP Doc 9 LOFT (Rev 0 - 9/06/02)

<sup>3</sup> RGP Rights & Responsibilities – LMDC.RGP.Doc.12 (Rev. 0 – 8/15/02)



- Three applicants have all of the supporting documentation, but the supporting documentation may not be fully compliant. The three non-compliant pieces of documentation are an illegible birth certificate (HOH 52762), a rent statement indicating arrears in excess of thirty days (HOH 57514), and a section 8 landlord tenant agreement not for the correct time period (HOH 31717). 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.

LMDC conducted a full audit of each of the 18 applications and, in some instances, made 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's Response to HUD IG's Statistical Evaluation***

LMDC's review confirms that none of the 18 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 18 grant recipients whose eligibility has been questioned.

**Date started:** December 19, 2003

**Target date complete:** March 30, 2004

**Status:** Thirteen of the 18 cases reported are complete and their eligibility is fully supported. Explanations of these cases and copies of their case files have been or will be provided to HUD IG.

Of the five cases where documents were missing or incomplete, the Program Administrator is collecting or completing documentation. 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 1C:** Continue to perform post reviews of the eligibility of grant recipients and computations of grant amounts during the recertification process to identify and correct processing deficiencies to the extent deemed necessary.

**Status:** ON-GOING

## **Finding 2: Duplicate Payments Under The Residential Grant Program Should be Recovered**

### ***LMDC Review, Response, and Corrective Actions***

HUD IG reported nine 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 nine cases identified by the HUD IG had already been discovered by the RGP Program Administrator through its Quality Assurance (QA) process or by the Compliance Auditor. 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 nine duplicate cases identified by the HUD IG, seven cases were discovered by the Program Administrator prior to the applicant's status end date and the grant payment were adjusted going forward to preclude an overpayment of the applicant's eligible grant award.

Please find below the status of the nine cases:

- All of the nine duplicate cases were deactivated.
- All checks processed where funds were not disbursed have been voided.
- All funds drawn down from HUD where funds were not disbursed were returned to HUD as a credit in a subsequent drawdown.
- Recoupment letters were sent to the two applicants that received duplicate payments for the total amount of \$12,750.00.
- One of the applicants that received duplicate payments (HOH 18047) has repaid LMDC the total value of the duplicate payment for a total amount of \$11,000.00.
- The \$11,000.00 repaid to LMDC will be deposited in the LMDC RGP bank account and will be returned to HUD as a credit in a subsequent drawdown.
- The total value of outstanding funds from the duplicate payments reported is \$1,750.00.

**HUD IG Recommendation 2A:** Recover the \$16,850.00 in duplicate payments and return the recovered amount to the CDBG Disaster Assistance Fund.

**Date started:** August 2003

**Target date complete:** April 30, 2004

**Status:** The Program Administrator has adjusted the grant payments of seven of the applicants going forward who received duplicate payments to preclude an overpayment of the applicant's eligible grant award. LMDC had issued recoupment letters to the two remaining applicants receiving duplicate payments totaling \$12,750. To date, one of the applicants has returned the funds totaling \$11,000.00. The \$11,000.00 will be returned to the CDBG Disaster Assistance Fund in the next month's drawdown request. The total value of outstanding funds in \$1,750.00.

**HUD IG Recommendation 2B:** Continue to discontinue the processing of monthly checks under one of the HOH ID numbers when a duplicate is identified

**Status:** ON-GOING

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

**Status:** ON-GOING

**Finding 3. Accounting Controls Over The Recovery of Funds Should be Strengthened**

***LMDC Review, Response, and Corrective Actions***

LMDC has reviewed HUD OIG’s finding related to accounting controls pertaining to the recovery of funds disbursed from the CDBG Disaster Assistance Grant. HUD identified four instances where it appeared that grant recipients broke their commitments, but the amounts paid to them were not included in LMDC’s outstanding balance. LMDC has reviewed these cases and three of these cases were on LMDC’s Master Repayment List since the end of January:

<u>HOH ID #</u>	<u>Amount</u>
1572	\$6,000.00
12703	\$5,500.00
28519	\$5,500.00

For the other case on the HUD list of omissions (HOH 24958), it has been determined that this is not a broken commitment, and funds are not owed to the RGP program since the grantee moved within an eligible zone.

The report states that “*Informal records could result in a misappropriation of funds*”. There is nothing informal about LMDC’s existing procedures and accounting controls. Procedures are documented in LMDC’s Finance Department GAM and in the RGP operating procedures. A Master Repayment List is maintained by an independent consultant that has no role in the collection or receipt of funds. Changes to this list are made only through an established procedure that requires approval of LMDC RGP staff for any reduction, and is subject to the review of both LMDC’s Compliance Auditor and LMDC’s Internal Auditor. Actual collections are handled by additional groups: the RGP program administrator (ACS), and LMDC’s Investigations Department. Furthermore, all collections pass through LMDC’s Finance Department which maintains a log of all collections, and monitors the return of these funds to the Grant Program.

In addition, the report asserts that “*maintaining the accounts receivable in an “off-book” manner makes the company vulnerable to misuse because amounts owed to the program can be manipulated without an accounting trail*”. In reality, LMDC’s extensive separation of duties, and multiple required approvals for changes to the Master Repayment List provide adequate protection against manipulation. Although it is not part of LMDC’s General Ledger accounting system, there are significant controls over entries and deletions to LMDC’s Master Repayment List. As discussed above, the list is maintained by an independent consultant who has no role in the receipt and handling of funds. No item can be removed from the list by the consultant without approval of LMDC RGP staff. This approval is further subject to review by the RGP Compliance Auditor and LMDC’s Internal Auditor. Furthermore, all collections are handled separately by the RGP Program Administrator or the LMDC Investigations Department. These

collections must pass through the LMDC Finance Department which maintains a log of all collections, and monitors the return of these funds to the Grant Program. Finally LMDC RGP staff maintain another log of repayments which is used to calculate reductions to monthly drawdown amounts.

The report also asserts that because there is some probability of collecting some of the funds owed to the RGP, a receivable account should be maintained on LMDC's General Ledger. LMDC believes that without an established history of collection efforts and repayments, there would be no basis for estimating a receivable amount to be included in our financial statements. We do not think it would be appropriate to treat this possibility of collections as a financial asset.

### ***HUD OIG Recommendations Summary and Status***

*“Establish a formal Receivable account in its accounting records to track the probable funds owed to the RGP”*

LMDC will further review its processes, controls, and accounting practices to determine if there is any benefit to establishing a receivable account in our accounting records. We will re-examine all our existing practices, policies, recordkeeping, and internal controls related to amounts due to the RGP program. We will then make a determination, in consultation with our independent Auditor as to the appropriate steps to take.

However, if we determine that there is an internal control benefit to additional accounting controls for receivables, we will most likely establish a reserve account to offset the full amount of the receivable. Without an established history of collection efforts, it is not appropriate to treat these receivables as an asset in our Financial Statements.

*“Add the additional \$18,509.60 in broken commitments identified in this finding to its Master Repayment List. Also, any portion of this amount that is reasonable expected to be collected should be added to the receivable account when established.”*

LMDC has reviewed these cases and found that three of these cases were on LMDC's Master Repayment List:

<u>HOH ID #</u>	<u>Amount</u>
1572	\$6,000.00
12703	\$5,500.00
28519	\$5,500.00

The other case on the HUD list of omissions (HOH 24958), is not a broken commitment, and funds are not owed to the RGP program. The case came to the attention of LMDC because the recipient's mail was returned, and some checks had not been cashed. However it has since been determined that the grantee moved within an eligible zone, and therefore was not obligated to repay their grant.

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## Auditee Comments

### 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.<sup>1</sup>
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.<sup>2</sup>
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.<sup>3</sup>

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<sup>1</sup> LMDC.RGP.Doc 9 (Rev 1 – 11/17/02)

<sup>2</sup> 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)

<sup>3</sup> LMDC.RGP.Doc 9 (Rev 1 – 11/17/02)

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 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.<sup>4</sup>

#### 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.<sup>5</sup>

#### 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.<sup>6</sup>

#### 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.<sup>7</sup>
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.<sup>8</sup>
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

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<sup>4</sup> LMDC.RGP.Form.1 (Rev 0 – 8/15/02) and LMDC.RGP.Doc 9 (Rev 1 – 11/17/02)

<sup>5</sup> LMDC Residential Grant Program - Program Manual, 7.0 Recertification Policy, Section 7.1 (Version 1, July 2003)

<sup>6</sup> LMDC Building Eligibility System, Appendix B – Data Policies and Procedures (9/11/2003)

<sup>7</sup> LMDC Residential Grant Program - Program Manual, 5.0 Grant Distribution Policy, Section 5.1.1 (Version 2, September 2003)

<sup>8</sup> Detailed System Requirement, Revised 8/8/02

- complete application, confirming that the application is complete,<sup>9</sup> and certifying application completion in the RGP Application and Payment System.
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.<sup>10</sup> All grant calculations are completed by the automated system.<sup>11</sup> The Program Administrator verifies the results of the eligibility processing.<sup>12</sup> 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.<sup>13</sup> 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.<sup>14</sup>
  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.<sup>15</sup> The Compliance Auditor reviewed LMDC's application package and application review and approval process and made recommendations to ensure adequate controls were in place.

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<sup>9</sup> 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)

<sup>10</sup> LMDC Residential Grant Program - Program Manual, Attachment 4D – Process Eligibility Procedure (Rev. 0 – 9-26-02)

<sup>11</sup> LMDC Residential Grant Program - Program Manual, 5.0 Grant Distribution Policy, Section 5.1.1 (Version 2, September 2003)

<sup>12</sup> LMDC Residential Grant Program - Program Manual, Attachments 4D – Process Eligibility Procedure (Rev. 0 – 9-26-02)

<sup>13</sup> 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)

<sup>14</sup> Detailed System Requirement, Revised 8/8/02

<sup>15</sup> Ernst & Young Compliance Auditor Contract, LMDC Contract No. F40950

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.<sup>16</sup> 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 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.<sup>17</sup>
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.<sup>18</sup>
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.<sup>19</sup>
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.<sup>20</sup>

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<sup>16</sup> LMDC Residential Grant Program - Program Manual, 5.0 Grant Distribution Policy, Appendix 5B

<sup>17</sup> LMDC RGP Application and Payment System Testing Results

<sup>18</sup> LMDC.RGP.QA Form 2 (Rev. 0 – 9/19/02)

<sup>19</sup> LMDC RGP Grant Distribution Files, Export/Enrollment Comparison, September 2002 – April 2003

<sup>20</sup> LMDC RGP Grant Distribution Files, QA/QC Reports