
AUDIT REPORT



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

2005-NY-1008

September 27, 2005

OFFICE OF AUDIT
New York/New Jersey Region



Issue Date September 27, 2005

Audit Report Number 2005-NY-1008

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

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

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

HIGHLIGHTS

What We Audited and Why

Pursuant to a congressional mandate, we performed the fifth of our ongoing audits of the Lower Manhattan Development Corporation's (the auditee) administration of the Community Development Block Grant (Block Grant) Disaster Assistance funds provided to the State of New York following the September 11, 2001, terrorist attacks on the World Trade Center in New York City. The U.S. Department of Housing and Urban Development (HUD) has allocated \$2.783 billion in Disaster Assistance funds to the auditee, and during our audit period of October 1, 2004, through March 31, 2005, the auditee disbursed \$47 million of these funds for activities related to the rebuilding of lower Manhattan.

Our audit objectives were to determine whether the auditee (1) disbursed Disaster Assistance funds in accordance with HUD-approved action plans, (2) expended Disaster Assistance funds for eligible planning and administrative expenses in accordance with applicable laws and regulations, (3) maintained a financial management system that adequately safeguarded Disaster Assistance funds, and (4) developed and implemented procedures to recover funds owed to the Residential Grant Program.

What We Found

We found that the auditee generally disbursed Disaster Assistance funds in accordance with the HUD-approved action plans. The auditee also expended Disaster Assistance funds for eligible planning and administrative expenses in accordance with applicable laws and regulations, and maintained a financial management system that adequately safeguarded the funds. However, the auditee disbursed \$2,028,282 in Disaster Assistance funds for items either not included in the budget of the subrecipient agreement for the Hudson River Park Improvements Program, or for costs incurred before the time of performance specified in the agreement. Additionally, the auditee developed and implemented collection procedures to recover funds owed to the Residential Grant Program. However, its collection efforts were not always fully documented, and there is a need to consider additional actions to recover amounts owed.

What We Recommend

We recommend that HUD's general deputy assistant secretary for community planning and development require the auditee to reimburse the \$2,028,282 disbursed for expenses either not included in the budget of the subrecipient agreement for the Hudson River Park Improvements Program, or for costs incurred before the time of performance specified in the agreement. This reimbursement should be from nonfederal funds so that the funds can be put to better use. We also recommend that the auditee maintain complete documentation of its efforts to collect amounts owed to the Residential Grant Program and consider additional actions to address the collection of the \$6.4 million owed to the Residential Grant Program as of March 31, 2005.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

Auditee officials generally agreed with our findings, and noted that action has been taken to address the issues raised. Specifically, the auditee advised that it obtained additional invoices for costs that conform to the subrecipient agreement under the Hudson River Park Improvement Program to substitute for the costs found not to conform to the agreement. The auditee is also considering additional procedures to collect funds owed to the Residential Grant Program. We discussed the contents of the report with the auditee during the audit and at an exit conference on September 14, 2005, and they provided written comments on September 21, 2005.

The complete text of the auditee's comments can be found in Appendix B.

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BACKGROUND AND OBJECTIVES

The September 11, 2001, terrorist attacks on the World Trade Center in lower Manhattan took a devastating toll on New York City. Negative impacts were immediately felt in both the housing market and the quality-of-life in lower Manhattan. The development of programs with significant incentives, encouraging individuals to remain in or move to housing in lower Manhattan, as well as improving the living conditions in lower Manhattan, was greatly needed. In the aftermath of the terrorist attacks, Congress authorized the U.S. Department of Housing and Urban Development (HUD) to provide the State of New York with \$3.483 billion in Community Development Block Grant (Block Grant) Disaster Assistance. On November 5, 2001, the Office of Management and Budget designated \$700 million in Block Grant funding for New York City out of the Emergency Response Fund that Congress had appropriated.¹ On January 10, 2002, Congress appropriated an additional \$2 billion for Block Grant funding, earmarking at least \$500 million to compensate small businesses, nonprofit organizations, and individuals for their economic losses.² On August 2, 2002, Congress appropriated an additional \$783 million in Block Grant funding.³

The Lower Manhattan Development Corporation (auditee) was created in December 2001 as a subsidiary of the Empire State Development Corporation to function as a joint city-state development corporation. The auditee was 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 and August 2002 Emergency Supplemental Acts. The Empire State Development Corporation, the parent company of the auditee, administers the remaining \$700 million.

A 16-member board of directors, appointed equally by the governor of New York and the mayor of New York City, manages the affairs of the auditee. The Auditee's chairman of the board is Mr. John C. Whitehead, and its president is Mr. Stefan Pryor. The Empire State Development Corporation performs all accounting functions for the auditee, including payroll, payments to the auditee's vendors, and drawing down funds from HUD.

As of March 31, 2005, HUD had approved 10 partial action plans for the auditee, which allocated approximately \$1.9 billion, or 68.7 percent, of the \$2.783 billion appropriated (See appendix C for programs and amounts). As of March 31, 2005, the auditee had disbursed \$877 million, or 46 percent, of the \$1.9 billion allocated.

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

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

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

For the audit period of October 1, 2004, through March 31, 2005, we reviewed disbursements related to the following: (1) the World Trade Center Memorial and Cultural Program; (2) the Hudson River Park Improvements Program; (3) the Lower Manhattan Tourism Program, and (4) the auditee's planning and administrative expenses. In addition, we reviewed the auditee's efforts to collect amounts owed to the Residential Grant Program, as well as funds disbursed for planning and administrative expenses related to the Utility Restoration and Infrastructure Rebuilding Program.

For the items tested, our review disclosed expenditure exceptions under the Hudson River Park Improvements Program and in the auditee's documentation of collection efforts taken to recover funds owed to the Residential Grant Program.

Hudson River Park Improvements Program

Under Partial Action Plan No. 4, approved by HUD on August 6, 2003, the auditee proposed to provide up to \$2.6 million for improvements to Hudson River Park. The improvements include creating a set of new tennis courts and converting the courtyard of the Pier 40 complex at Houston Street into recreational field space for use as baseball and soccer fields. The auditee believes that the creation of these public recreational facilities will improve the quality of life in lower Manhattan, making it a more desirable place to live, which will not only help retain existing residents, but also attract more residents and visitors to the area. The auditee executed a subrecipient agreement appointing the Hudson River Park Trust as the administrator of the program. Funds for this program come from the initial \$2 billion appropriation Congress authorized on January 10, 2002, under the Defense Appropriations Act of 2002, Public Law 107-117.

Residential Grant Program

On June 7, 2002, HUD approved Partial Action Plan No. 1, which allocated \$280,500,000 to the Residential Grant Program. This program seeks to compensate individuals for the extraordinary expenses they may have incurred as a result of the disaster, as well as create incentives for individuals and families to rent, purchase, or remain in housing in lower Manhattan. We audited the Residential Grant Program in two of our prior audits. The auditee established a master repayment list to monitor funds owed the Residential Grant Program due to processing errors and/or recipients that broke the grant commitment to reside at an eligible address for two years.

Our audit objectives were to determine whether the auditee (1) disbursed Disaster Assistance funds in accordance with HUD-approved action plans, (2) expended Disaster Assistance funds for eligible planning and administrative expenses in accordance with applicable laws and regulations, (3) maintained a financial management system that adequately safeguarded Disaster Assistance funds, and (4) developed and implemented procedures to recover funds owed to the Residential Grant Program.

RESULTS OF AUDIT

Finding 1: Disaster Assistance Funds Were Disbursed Contrary to the Terms of the Subrecipient Agreement for the Hudson River Park Improvements Program

Our review disclosed that the auditee disbursed Disaster Assistance funds for costs that did not conform to the subrecipient agreement for the Hudson River Park Improvements Program. It allowed Disaster Assistance funds to be disbursed for (a) items not included in the budget of the subrecipient agreement and (b) costs incurred before the time of performance date specified in the subrecipient agreement. These deficiencies occurred because the auditee did not ensure that the invoices submitted for payment complied with the subrecipient agreement. As a result, \$2,028,282 was disbursed for items either not included in the budget of the subrecipient agreement for the Hudson River Park Improvements Program, or for costs incurred before the time of performance specified in the subrecipient agreement. Consequently, the auditee should be required to reimburse the \$2,028,282 disbursed so that these funds can be put to better use.

Funds Disbursed for Costs Not Approved in the Subrecipient Agreement

The auditee disbursed \$734,651 for costs that were not initially approved as budgeted items under the subrecipient agreement related to the Hudson River Park Improvements Program. Section III of the subrecipient agreement, entitled “Budget,” provides that the auditee is to fund \$2.6 million of the \$6,652,506 overall program budget. The agreement allocated the \$2.6 million between two activities: tennis courts (budget line item C 4082), funded at \$1,002,229 and Pier 40 general construction (budget line item C 4108), funded at \$1,597,771. Section X, item D.2, of the subrecipient agreement, entitled “Subcontracts,” provides that the “Subrecipient shall not enter into any subcontracts with any agency or individual in the performance of this agreement without the written consent of Grantee [the auditee] prior to the execution of such subcontract agreement.”

The subrecipient submitted and the auditee reimbursed four invoices totaling \$670,078 for work done by an electrical subcontractor under budget line item C 4110, which was not approved to be funded by the auditee under the subrecipient agreement. These invoices were dated between July and November 2004 and were paid in January 2005. We found no evidence that the auditee gave written consent to the subrecipient for the services of the electrical subcontractor. We also found that the auditee reimbursed the subrecipient \$64,573 for granite materials purchased directly by the subrecipient from a supplier and invoiced to the auditee as a reimbursement to the general contractor. However, granite materials were not identified in the subrecipient agreement as being funded by the auditee.

Funds Disbursed for Services Performed Before the Time of Performance Specified in the Subrecipient Agreement

Section II of the subrecipient agreement, entitled “Time of Performance,” provides that services of the subrecipient are to start on August 1, 2004. Section IV, entitled “Payment,” provides that payment of eligible expenses shall be made against the line item budgets specified in section III (“Budget”) and in accordance with performance as specified in sections I and II (“Scope of Service” and “Time of Performance”). However, during our review of the supporting documentation for the invoices submitted by the subrecipient, we found four invoices totaling \$1,293,631 for services performed before August 1, 2004, which were reimbursed by the auditee. Although these services were for tennis courts (\$440,721) and Pier 40 general construction (\$852,910), the costs were incurred before the time of performance specified in the subrecipient agreement; therefore, they should not be allowed.

Recommendations

We recommend that HUD’s general deputy assistant secretary for community planning and development require the auditee to

- 1A. Reimburse from nonfederal sources the \$2,028,282 disbursed under the Hudson River Park Improvements Program so that these funds can be put to better use.
- 1B. Review and enhance its control procedures to ensure that Disaster Assistance funds are disbursed for only contracted items and costs incurred during the time of performance specified in the subrecipient agreement.

Finding 2: Residential Grant Program Collection Efforts Need to be Fully Documented and Additional Actions Should Be Considered

The auditee developed and implemented procedures to recover funds owed to the Residential Grant Program; however, its collection efforts were not always fully documented, and there is a need to consider additional actions to recover amounts owed. To date, the auditee concentrated on disbursing program funds to encourage individuals to maintain housing in lower Manhattan rather than on collection activities. Consequently, the auditee needs to fully document its collections efforts and consider additional actions to address recovery of the \$6,441,103 owed by Residential Grant Program recipients as of March 31, 2005, so that these funds can be put to better use.

Auditee Collection Procedures

As of March 31, 2005, Residential Grant Program recipients owed \$6,441,103 to the program. While some of the \$6.4 million was due to erroneous payments, \$6.1 million, or 95 percent, was the result of program recipients who broke the commitment made under the program regulations to reside in lower Manhattan for at least two years.

The auditee tracks amounts owed to the Residential Grant Program through its master repayment list and has established procedures to recover funds owed. The program administrator for the Residential Grant Program sends a letter to recipients who have broken their commitment to reside at an eligible address for two years in accordance with the guidelines. The auditee sends an initial letter to recipients requesting repayment of funds owed 30 days after the program administrator's letter. If no response is received, the auditee sends another letter 60 days after the initial request for repayment. For those Residential Grant Program recipients who have been identified as owing funds due to errors, the auditee sends a letter requesting repayment, and if no response is received, the auditee sends another letter 60 days after the initial request for repayment. To date, additional collection procedures have not been established.

Documentation of Collection Efforts Was Incomplete

Our review and testing of grant recipients listed on the master repayment list as of March 31, 2005, found that the auditee properly accounted for funds repaid to the Residential Grant Program. We also found that the auditee maintained several files that track the date and type of letter sent, as well as the postal service certified letter number, if applicable. However, the auditee did not have complete documentation of the actions taken to collect all amounts owed to the

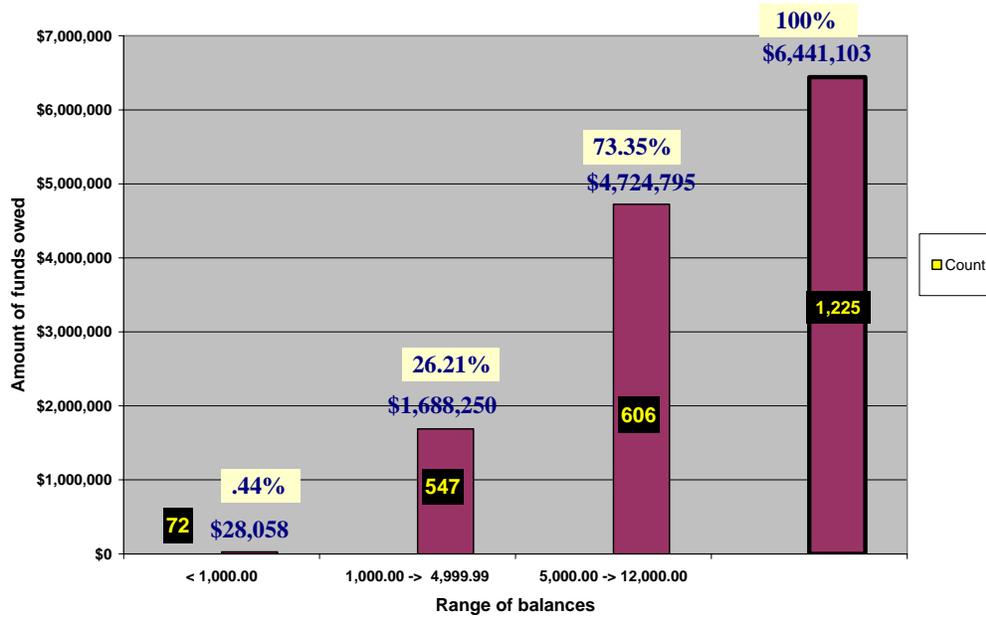
Residential Grant Program. Our review of 110 Residential Grant Program recipients to whom the auditee sent 30 or 60 day letters disclosed that the auditee did not document that letters were sent to 25 recipients. Auditee officials advised that letters were sent to the 25 recipients by its consultant that maintained the master repayment list. Nevertheless, to document a complete audit trail, all correspondence related to the auditee's collection actions, should be maintained to facilitate review and audit by HUD as required by the alternative procedures published in the Federal Register.

Additional Collection Action Needs to Be Considered

The auditee's collection procedures consist of sending 30 and 60 day letters, permitting an appeal process, and allowing amounts owed to be written off if certain conditions have been met. Through March 31, 2005, the auditee had granted appeals, reversed denials, collected, and/or written off \$3,093,947 of amounts originally owed to the Residential Grant Program. Auditee records report that \$6.4 million is currently owed the Residential Grant Program. However, to ensure collection of these funds, additional analysis of the balance should be initiated to determine the collection potential of the accounts and what if any alternative collection activity is needed.

Our analysis of these accounts is presented in the chart below. Of the total 1,225 accounts, 72 accounts owing \$1,000 or less comprised less than half a percent of all amounts owed. In addition, 606 recipients, owing more than \$5,000 but less than \$12,000, accounted for 73 percent of all funds owed. Therefore, the auditee should analyze these accounts for collectibility and consider additional action to address the recovery of the \$6,441,103 owed, so that any recovered funds can be put to better use.

Residential Grant Program recipients with balances owed



Auditee officials stated that their efforts were concentrated on disbursing Residential Grant Program funds to individuals to encourage them to maintain housing in lower Manhattan. Further, the auditee stated that it is exploring the possibility of contracting with a collection agency or having in-house legal personnel pursue outstanding Residential Grant Program amounts owed. The auditee should consider these viable options.

Recommendations

We recommend that HUD's general deputy assistant secretary for community planning and development require the auditee to

- 2A. Ensure that its efforts to collect amounts owed to the Residential Grant Program are fully documented.
- 2B. Consider additional actions to address the collection of the \$6,441,103 owed to the Residential Grant Program so that these funds can be put to better use.

SCOPE AND METHODOLOGY

The auditee received \$2.783 billion in Disaster Assistance Funds from HUD. During our audit period, October 1, 2004, through March 31, 2005, the auditee disbursed \$47 million of these funds for activities related to the rebuilding of lower Manhattan. We tested \$24 million, representing approximately 51 percent of the amount disbursed for the period.

To achieve our audit objectives we reviewed

- Applicable laws, regulations, and program requirements;
- HUD-approved partial action plans; and
- The auditee's accounting books and records.

We examined and tested the documentation supporting disbursements related to the following programs:

- World Trade Center Memorial and Cultural
- Hudson River Park Improvements
- Lower Manhattan Tourism

In addition, we reviewed the payroll records and timesheets of the auditee's subrecipient for the Utility Restoration and Infrastructure Rebuilding Program. We also reviewed the Auditee's procedures for recovering funds owed to Residential Grant Program.

In review of the Hudson River Park Improvements Program, we tested 100 percent of the disbursements made for the period because the population was relatively small and it was feasible for us to review each item in the population. We used representative (nonstatistical) sampling to assess the auditee's procedures for recovering funds owed to the Residential Grant Program.

The audit covered the period from October 1, 2004, through March 31, 2005, and was expanded when necessary. We performed our on-site work at the auditee's office, the office of program administrator for the Residential Grant Program, and the office of the auditee's parent company, the Empire State Development Corporation, from April through August 2005.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal 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 the relevant controls identified above.

A weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Weaknesses

Based on our review, we believe that the following controls contain reportable weaknesses:

- Program operations –The Auditee’s collection efforts were not always fully documented and additional actions to recover funds owed to the Residential Grant Program need to be considered (see finding 2).
- Compliance with laws and regulations – Funds were disbursed for either items not included in the budget of the subrecipient agreement for the Hudson River Park Improvements Program, or for costs incurred before the time of performance specified in the subrecipient agreement (see finding 1).

FOLLOWUP ON PRIOR AUDITS

Prior Report Number and Date

We issued Audit Report number 2005-NY-1003 on March 23, 2005. The report contained two audit findings with recommendations for corrective action. The findings involved deficiencies in the administrative costs related to the Utility Restoration and Infrastructure Rebuilding Program and lack of written documentation to ensure monitoring was performed. The auditee has implemented corrective actions to address our cited deficiencies, and the HUD Office of Community Planning and Development established September 30, 2005, as the target date for the Auditee to complete its corrective actions and for HUD to verify the corrective actions were taken.

We issued Audit Report number 2004-NY-1004 on September 15, 2004. The report contained one audit finding with recommendations for corrective action. The finding involved deficiencies in the processing of businesses applications for grants under the Employment Training Assistance Program. The auditee has implemented corrective actions to address our cited deficiencies, and the HUD Office of Community Planning and Development has extended the established target date to September 30, 2005, to verify the corrective actions.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation number</u>	<u>Funds to be put to better use 1/</u>
1A	\$ 2,028,282
2A	<u>\$ 6,441,103</u>
Total	<u>\$ 8,469,385</u>

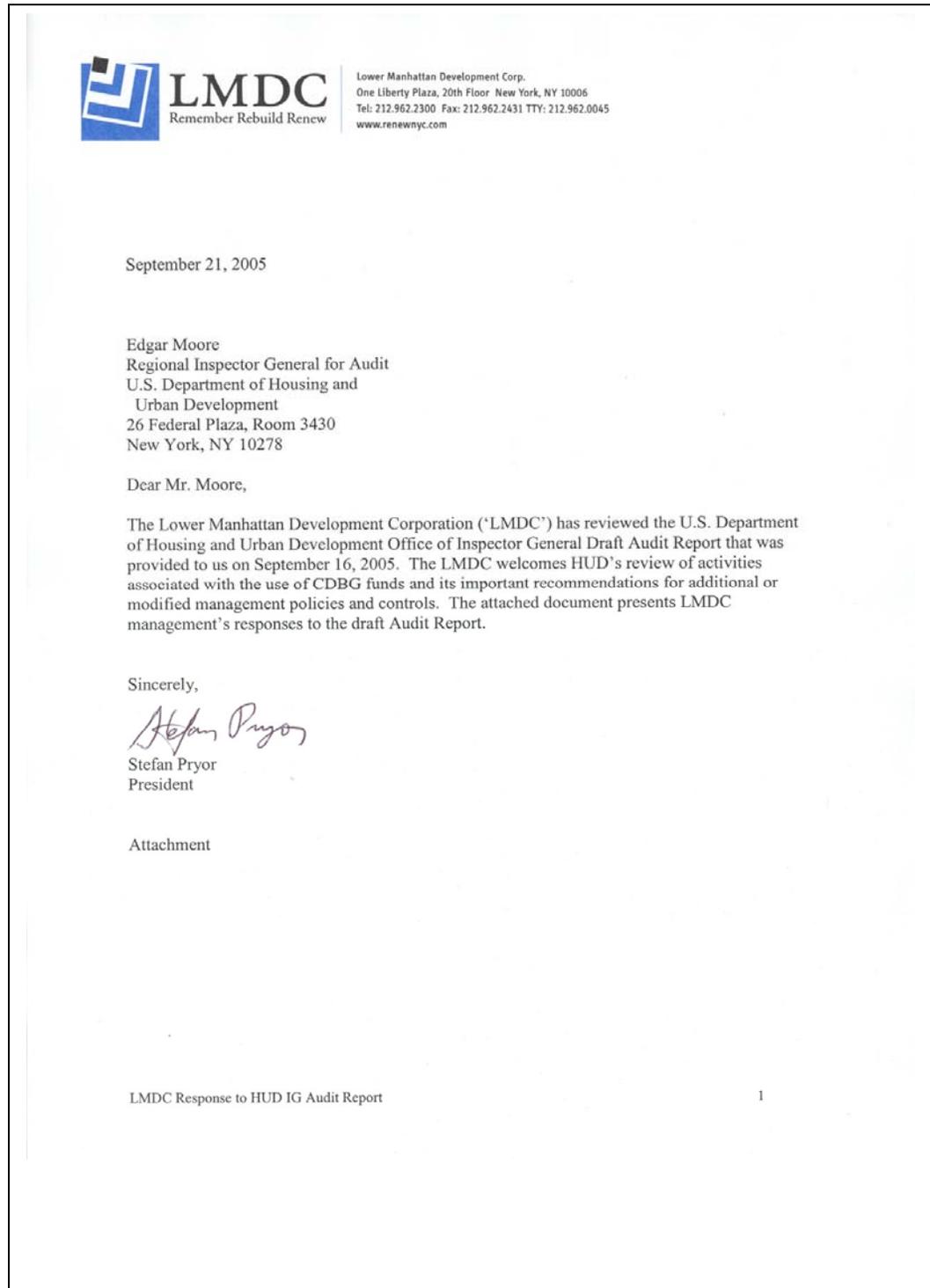
1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

LMDC Response to HUD OIG Draft Report

LMDC has reviewed the draft audit report from the HUD Office of the Inspector General (OIG) covering the period from October 2004 through March 2005. As you are aware, the LMDC has and will continue to work diligently to insure Disaster Assistance funds are safeguarded and disbursed for eligible HUD-approved expenses. It should also be noted that efforts to collect funds due to the LMDC are ongoing and analysis of the funds that may be recoverable has been enhanced. Immediate action was taken during your audit to begin addressing the issues raised. Our responses to the findings noted and recommendations are provided below.

HUD IG Recommendation 1A: Reimburse from nonfederal sources the \$2,028,282 disbursed under the Hudson River Park Improvements Program so that these funds can be put to better use.

The LMDC has taken action to resolve this matter. The construction of the Hudson River Park contributes to the overall revitalization of Lower Manhattan and benefits thousands of Lower Manhattan residents, workers, and visitors through the transformation of underutilized waterfront to enhanced open, public space and various public facilities. Through its Hudson River Park Improvement Program, LMDC chose to fund two eligible elements of this program located in Lower Manhattan: public tennis courts and Pier 40 general construction (athletic fields).

Some funds were inadvertently disbursed as reimbursement for subcontracts that were not specifically itemized in the Budget or for work that occurred before the established start date in the Subrecipient Agreement. The invoices in question, dated between July and November 2004 and paid in January 2005, were reviewed for processing in November 2004. The LMDC Project Manager who took over responsibilities for this Subrecipient relationship, after the payments in question were processed, has been working closely with our Chief Financial Officer, Monitoring Staff and the Subrecipient to resolve this matter as described below.

LMDC has taken corrective action to re-allocate the \$2,028,282 that was disbursed under the Hudson River Park Improvements Program to a new set of costs that are in compliance with the Subrecipient Agreement and the Hudson River Park Improvements Program. LMDC has requested and obtained additional invoices totaling \$2,161,314 from its Subrecipient for work that occurred after the start date of the Agreement and was performed through subcontracts specifically itemized in the Agreement's Budget.

This reallocation of funds – from costs identified by the OIG as not conforming to the Subrecipient Agreement to costs that conform with the Subrecipient Agreement – was successfully completed in September 2005. Documentation supporting these reallocations is retained on file at the LMDC.

HUD IG Recommendation 1B: Review, and enhance its control procedures to ensure that Disaster Assistance funds are disbursed for only contracted items and costs incurred during the period of performance specified in the subrecipient agreement.

Subrecipient management responsibilities have been included in our General Administrative Manual and were enhanced in its last update in November 2004. Training addressing these

Comment 2

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 3

topics has also been conducted in the past and will be performed going forward as well. Finance Department staff has and will continue to participate in this training. In future training, emphasis will be placed on ensuring that Disaster Assistance funds are disbursed only for eligible expenses within the scope of the agreements and further efforts will be applied to reinforcing the importance of effectively reviewing invoices to ensure compliance with all contract terms. In addition, LMDC has provided new Project Managers training in preparation for invoice review and approval responsibilities prior to full-staff training sessions.

HUD IG Recommendation 2A: Ensure that its (LMDC's) efforts to collect amounts owed to the Residential Grant Program are fully documented.

LMDC practice has been to retain evidence of collection efforts and we will make sure parties involved in recovery attempts going forward fully document their efforts. LMDC has reached out to the two vendors (IBM and ACS) who were involved in recovery process in an attempt to locate the 25 missing recoupment letters cited in the report. In the interim, on August 31, 2005, LMDC mailed letters to each of the 25 recipients noted in the report requesting repayment. We have maintained copies and postal tracking information for all 25 letters.

Comment 4

HUD IG Recommendation 2B: Consider additional actions to address the collection of the \$6,441,103 owed to the Residential Grant Program so that these funds can be put to better use.

In developing the Residential Grant Program to encourage individuals to maintain housing in Lower Manhattan, controls were established to prevent funds from being paid to ineligible recipients and to identify recipients who did not fulfill their grant commitments. "Two-Year Grant" recipients were required to recertify their eligibility by providing documented evidence every six months. Failure to recertify resulted in payments being stopped and the grant being classified as a "broken commitment". LMDC began an amnesty program in September 2003. This program allowed individuals who were inappropriately receiving the funds to avoid prosecution, such as those who have moved out of the zones prior to the end of their commitment but were still receiving the grant. In June 2004 LMDC worked with Thatcher Associates to research current addresses and telephone information for grantees who appeared to have broken their Program commitment. These efforts have contributed to the successful recovery of over \$640,000

While additional collection procedures (including further involvement of our Investigative and Legal staff as well as outside consultants) are being considered, collection efforts continue and existing policies will be followed. We are continually analyzing Residential Grant Program data and policies related to funds that are or may be collectible and put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

- Comment 1** The auditee concurs with the finding. It has obtained additional invoices from the subrecipient for costs that conform to the subrecipient agreement under the Hudson River Park Improvement Program to substitute for the \$2,028,282 in costs that did not conform. We recommend that HUD verify the eligibility of the substituted costs and ensure that the implemented procedures are operating as intended.
- Comment 2** The auditee concurs with the recommendation and plans to conduct training that will emphasize ensuring that Disaster Assistance funds are disbursed only for eligible expenses within the scope of applicable agreements.
- Comment 3** The auditee concurs with the finding.
- Comment 4** The auditee has agreed to consider additional collection procedures, and will continue to implement the current collection procedures.

Appendix C

SCCHEDULE OF PROGRAM FUNDING AND DISBURSEMENTS AS OF MARCH 31, 2005

PROGRAM	Budget as of March 31, 2005	Audit period disbursements October 1, 2004 – March 31, 2005	Cumulative disbursed as of March 31, 2005	Balance remaining as of March 31, 2005
Residential Grant	\$280,500,000	\$11,828,197	\$231,696,699	\$48,803,301
Employment Training Assistance	500,000	38,643	265,452	234,548
Memorial Design and Installation	350,000	0	299,969	50,031
Columbus Park Renovation	428,571	0	0	428,571
Marketing History/Heritage Museums	4,664,000	857,383	1,316,778	3,347,222
Downtown Alliance Streetscape	4,000,000	1,364,129	4,000,000	0
New York Stock Exchange Area Improvements	10,160,000	0	0	10,160,000
Parks and Open Space	27,481,689	0	0	27,481,689
Hudson River Park Improvements	2,600,000	2,466,968	2,466,968	133,032
Millennium High School	3,007,500	0	0	3,007,500
West Street Pedestrian Crossing	21,155,811	1,591,172	12,840,920	8,314,891
Public Service Activities	7,296,900	1,512,258	1,771,044	5,525,856
Lower Manhattan Community Outreach	1,000,000	330,060	540,760	459,240
Green Roof Project	100,000	0	0	100,000
Chinatown Tourism and Marketing	1,000,000	111,000	333,500	666,500
Lower Manhattan Information	2,570,000	921,072	921,072	1,648,928
Business Recovery Grant	224,500,000	-100,112 ⁴	13,909,338	10,590,662
Job Creation and Retention	150,000,000	3,133,000	53,710,020	96,289,980
Small Firm Attraction Grant	50,000,000	0	0	50,000,000
World Trade Center Memorial and Cultural	265,077,400	13,161,057	111,378,213	153,699,187
Lower Manhattan Tourism	3,450,000	1,642,835	1,880,447	1,569,553
Disproportionate Loss of Workforce	33,000,000	0	32,999,997	3
Utility Restoration and Infrastructure Rebuilding	735,000,000	0	160,313,178	574,686,822
Administration and Planning	85,459,938	8,098,062	46,758,704	38,701,234
TOTALS	1,913,301,809	\$46,955,725	\$877,403,059	\$1,035,898,750

⁴ Represents funds collected and returned to the program.