



Overview of
HUD-OIG's Audit Efforts
Pertaining to the
CDBG DISASTER
ASSISTANCE FUNDS TO
NEW YORK STATE

Background

Negative Impact

The September 11, 2001 terrorist attacks on the World Trade Center had a devastating toll on New York City resulting in:

- A negative economic impact on a broad area in Lower Manhattan.**
- The destruction or displacement of many New York City businesses.**
- The displacement of many residents of Lower Manhattan.**

Congressional Response

- **Over 20 billion to NEW YORK STATE.**
- **Over \$3.4 billion CDBG Disaster Assistance Funds to be provided by the U.S Department of Housing and Urban Development (HUD).**
- **HUD Office of Inspector General (OIG) requirement to audit and report every six months.**

ALLOCATION OF CDBG FUNDING

\$700,000,000 **Empire State Development Corp. (ESDC)**

ESDC was designated by New York State to develop and administer the economic & business recovery grant & loan programs.

\$2,783,000,000 **Lower Manhattan Development Corporation (LMDC)**

LMDC is a subsidiary of ESDC. It was established to administer & help develop programs to rebuild & revitalize Lower Manhattan after the 9/11/01 attacks on the World Trade Center.

\$3,483,000,000 **GRAND TOTAL**

Empire State Development Corp. Budget as of 02/11/2006

PROGRAM	BUDGETED	Cumulative Disbursements
Bridge Loan	\$5,261,500	\$0
Business Recovery Grant	339,860,000	339,687,046
Business Recovery Loan	42,638,500	42,638,500
Compensation to Other Business	13,240,000	\$13,240,000
Technical Assistance for Small Business	5,000,000	4,347,203
Job Creation and Retention	170,000,000	170,000,000
Small Firm Attraction	105,000,000	\$104,999,772
Business Information	5,000,000	\$3,978,563
Administration & Planning	14,000,000	11,618,366
TOTALS	\$700,000,000	\$690,509,450

LMDC Budget as of 02/11/2006

PROGRAM	BUDGETED	Cumulative Disbursements
Residential Grant	\$280,500,000	\$235,704,744
Employment Training Assistance	500,000	345,909
Memorial Design & Installation	350,000	299,969
Columbus Park Renovation	428,571	0
Mktg Hist/Heritage Museums	4,664,000	2,647,990
Downtown Alliance Streetscape	4,000,000	4,000,000
NYSE Area Improvements	10,160,000	5,468,467
Parks and Open Space	27,481,689	5,427,145
Hudson River Park Improvements	2,600,000	2,466,968
Millennium High School	3,007,500	0
West Street Pedestrian Crossing	21,155,811	12,840,920
Public Service Activities	7,296,900	4,456,929
LM Community Outreach	1,000,000	897,153
Green Roof Project	100,000	0
Chinatown Tourism & Marketing	1,000,000	919,925
Lower Manhattan Information	2,570,000	1,752,391
Business Recovery Grant @	224,500,000	213,879,103
Job Creation and Retention @	150,000,000	62,089,389
Small Firm Attraction @	50,000,000	5,427,750
WTC Memorial and Cultural Program	308,117,180	206,245,905
Lower Manhattan Tourism	3,450,000	3,786,650
Disproportionate Loss of Workforce	33,000,000	34,148,427
URIR	735,000,000	190,313,178
Administration & Planning	87,725,187	56,242,804
TOTALS	\$1,958,606,838	\$1,049,361,716
UNALLOCATED FUNDS	\$824,393,162	
TOTAL FUNDING	\$2,783,000,000	\$1,049,361,716
@ - These programs were originally ESDC's programs as such, these funds are supplemental funding by LMDC to ESDC for continuation of the programs.		

OIG RESPONSE

Two separate audit efforts:

- Empire State Development Corporation (ESDC)**
- Lower Manhattan Development Corporation (LMDC)**

Audit objectives were to determine whether ESDC and LMDC:

- 1. Disbursed the CDBG disaster funds to applicants in a timely manner.**
- 2. Disbursed the CDBG funds to eligible applicants in accordance with HUD Approved Action Plans.**
- 3. Had financial management systems to adequately safeguard the funds.**
- 4. Developed and implemented adequate procedures for monitoring the CDBG disaster assistance programs.**

Unusual Nature of Audit

1. Need to Disburse Funds Quickly
2. HUD Waivers of CDBG Requirements
3. Real Time Auditing
4. Media Attention
5. Coordination with Other Entities

Audit Finds State Agency Mishandled Some Post-9/11 Grants

By EDWARD WYATT

The New York State agency overseeing a program of federal grants to businesses hurt by the World Trade Center attack paid too much or too little to several companies, a federal audit has found.

The agency, the Empire State Development Corporation, made a small number of faulty payments, for relatively small sums, the audit found. But the agency paid millions of dollars to companies without getting details on how they had calculated their losses, a flaw that persisted despite a preliminary audit that flagged the problems.

Among the problems the audit found was the fact that the agency had failed to install appropriate administrative controls, including measures to ensure that businesses could not apply for and receive the same grant twice.

The deficiencies in Empire State Development's procedures were detailed in a federal report released two weeks ago by the Office of the Inspector General of the Department of Housing and Urban Development. The department was designated by Congress to oversee \$2.7 billion in Community Development Block Grants to businesses and individuals in Lower Manhattan as part of the \$21 billion in federal aid pledged to New York City after the 9/11 attack.

Overall, the audit report said, Empire State Development has disbursed the disaster-relief money quickly and in accordance with federal rules, and its financial system "is capable of safeguarding the funds." And the inspector general acknowledged that Empire State Development was under pressure to quickly plan and put in place a system to aid companies that were in danger of going out of business.

But the report notes that the state agency failed to put into effect several changes it had promised to make after a preliminary audit report released last May, including a requirement for grant applicants to provide details on how their economic losses were determined.

Coordination with Other Entities

- U.S. Small Business Administration (SBA)
- Federal Emergency Management Agency (FEMA)
- Internal Revenue Service (IRS)
- Social Security Administration (IRS)

Audit Results

The OIG has issued ten audit reports as follows :

▪ ESDC

- Interim Report, 2002-NY-1802, May 22, 2002.
- 2003-NY-1003, March 25, 2003
- 2003-NY-1005, September 30, 2003
- 2004-NY-1001, March 25, 2004

▪ LMDC

- 2003-NY-1006, September 30, 2003
- 2004-NY-1002, March 25, 2004
- 2004-NY-1004, September 30, 2004
- 2005-NY-1003, March 23, 2005
- 2005-NY-1008, September 27, 2005
- 2006-NY-1006, March 31, 2006

Audit Results

Significant Audit Results

ESDC:

- **Duplication of benefits**
 - Identified and prevented duplicate SBA and CDBG grants totaling \$21.8 million.

- **Duplicate payments**
 - \$12,000 duplicate Small Firm Attraction and Retention Program payments.

- **Overpayments**
 - Identified \$547,000 of Business Recovery Grant (BRG) Program overpayments.
 - Potential \$3.7 million in BRG overpayments in the universe.

- **Ineligible and unsupported costs**
 - \$115,000 identified as ineligible grants under the Small Firm Attraction and Retention program.

 - Discrepancies in Federal income tax data provided by recipients- an estimated \$15.2 million in grants had potential discrepancies in income tax data, which may have affected recipient eligibility. ¹³

Audit Results (Continued)

LMDC:

Residential Grant Program

- **Duplicate payments**
 - \$26,709 duplicate Residential Grant payments.
 - \$93,214 duplicate Residential Grant checks not disbursed.

- **Ineligible and unsupported costs**
 - \$158,533 unsupported Residential Grant costs.

 - Estimated that the universe had \$7.2 million of unsupported and/or incorrectly computed Residential Grant awards.

Audit Results (Continued)

Collection Efforts Need to be Improved

- **\$6,441,103 owed to the program by grant recipients who are not entitled to the funds they received. LMDC needs to improve its collection efforts to recover these funds so that they can be put to better use.**

Employment Training Assistance Program

- **\$87,394 in grant payments issued to recipients with insufficient documentation to adequately support grant awards.**

Audit Results (Continued)

Hudson River Park Improvements Program

- \$2,028,282 disbursed contrary to the terms of the subrecipient agreement.

Utility Restoration and Infrastructure Rebuilding Program

- LMDC disbursed \$141,347 to its parent company for ineligible expenses for administering the program.

OIG IMPACT

Our continuous presence at ESDC and LMDC has had a significant impact on the development of both Agencies' operating controls and procedures. As a result of our audit work, ESDC and LMDC:

- **Revised and enhanced their controls and procedures**
- **Recovering erroneous grant payments**
- **Taking action and implementing procedures to correct duplicate and erroneous grant payments**

OIG IMPACT

- **Significantly increased their internal audit staff.**
- **Creating a working relationship with IG auditors and their internal auditors to prevent duplication of effort.**
- **Created a working relationship with our Office of Investigation to report possible fraudulent activity.**

Office of Investigation

- The Office of Investigation in cooperation with the United States Attorneys Office has prosecuted many of the recipients that fraudulently obtain CDBG Disaster Assistance funds.
- Amnesty program established with for LMDC's Residential Grant Program

Investigative Relationships

- **United States Attorney's Office-Southern District of New York City**
- **U.S. Department of Transportation-Office of Inspector General (DOT-OIG)**
- **New York City-Department of Investigation (NYC-DOI)**
- **Small Business Administration-Office of Inspector General (SBA-OIG)**

Investigative Relationships

- **Federal Emergency and Management Agency–Office of Inspector General (FEMA-OIG)**
- **U.S. Department of Environmental Protection–Office of Inspector General (EPA-OIG)**
- **Internal Revenue Service (IRS)**
- **Social Security Administration–Office of the Inspector General (SSA-OIG)**