

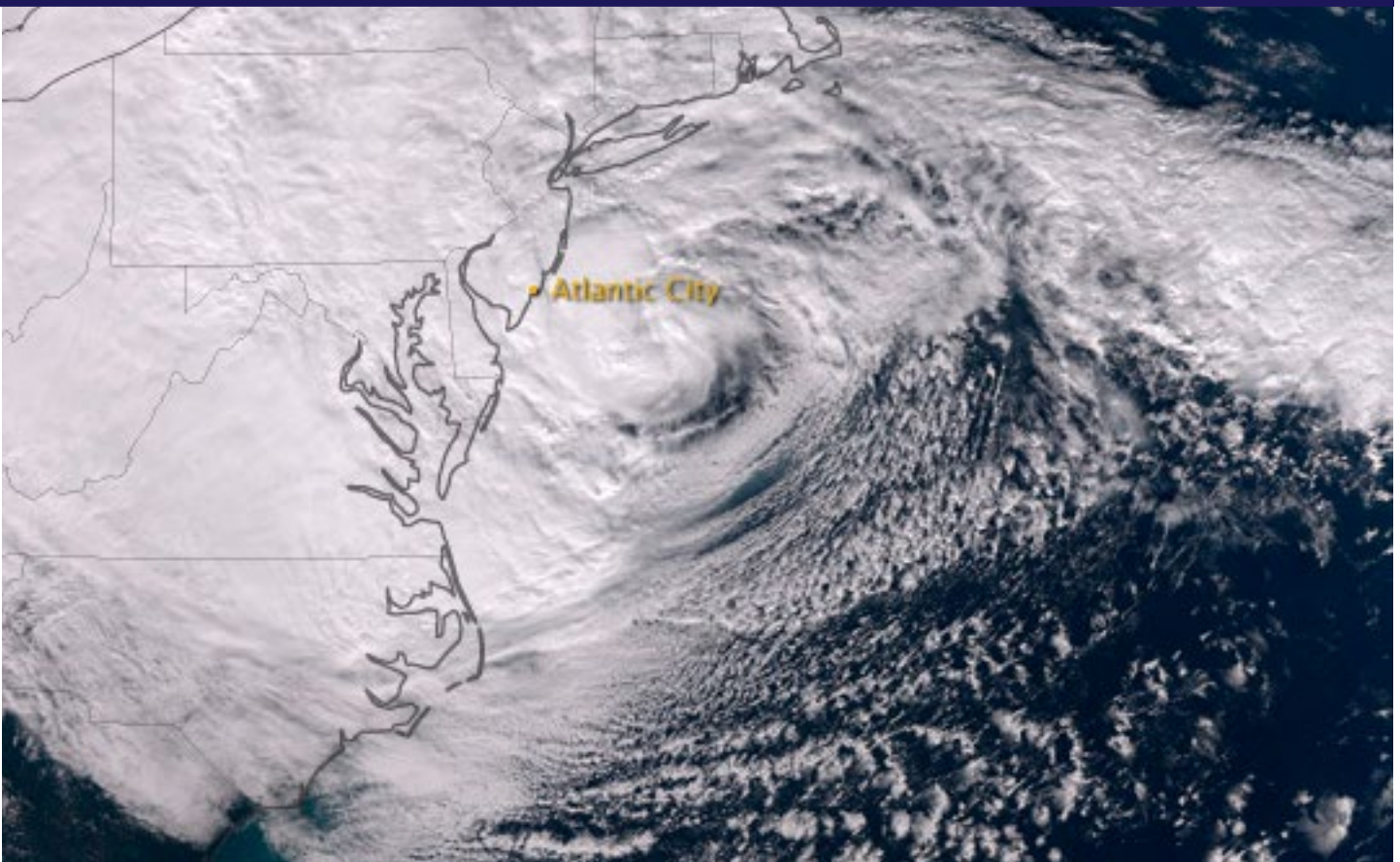


Recovery Accountability and Transparency Board

# Final Report to Congress

*on Activities Related to Hurricane Sandy Funds*

May 2015





This is the Recovery Accountability and Transparency Board's (Board) seventh and final report pursuant to the Disaster Relief Appropriations Act, 2013 (Hurricane Sandy Supplemental). This report covers the period beginning October 1, 2014, through March 31, 2015. The Hurricane Sandy Supplemental extended the Board through September 2015 and expanded its mission to include:

- Development and use of information technology resources and oversight mechanisms to detect and remediate fraud, waste, and abuse in the obligation and expenditure of funds appropriated for purposes related to the impact of Hurricane Sandy; and,
- Coordination of oversight efforts with the Director of the Office of Management and Budget, the head of each federal agency receiving appropriations related to the impact of Hurricane Sandy, and the respective Office of Inspector General (OIG) of each such agency.

The Board developed expertise in analyzing financial spending and identifying potential fraud and high-risk indicators through its oversight efforts related to the \$840 billion American Recovery and Reinvestment Act of 2009 stimulus program and other federal spending. While it continues such efforts, the Board's Recovery Operations Center's (ROC) emphasis is now on preventing and detecting fraud, waste, and abuse of funds made available by the Hurricane Sandy Supplemental.

The Board's development of oversight mechanisms related to Hurricane Sandy spending have centered on three primary areas: 1) examining such spending by applying existing and new techniques and processes developed and implemented by the ROC in collaboration with the Board's OIG partners; 2) interfacing with federal and state stakeholders to identify and obtain spending and other related data for the Board's fraud detection and risk identification efforts; and 3) leveraging technologies developed through the Board's implementation and operation of Recovery.gov in the display of available Hurricane Sandy data.



## Final Report 2015 -- Board and OIG Activities

As March 31, 2015, the Federal Emergency Management Agency (FEMA) Sandy Program Management Office reported that \$26 billion of the \$47.9 billion (post-sequester) in funding appropriated by the Hurricane Sandy Supplemental had been awarded. A total of \$15 billion in awarded funds has been paid out. The Board and OIGs are actively partnering to prevent and detect fraud, waste, and abuse involving such funds by examining relevant contracts, grants, and loans, and conducting analyses in support of Hurricane Sandy-related audits and investigations. Pertinent OIG reports can be found on the [Accountability](#) page of the Hurricane Sandy section of [Recovery.gov](#).

To date, the Board has conducted research on more than 2,050 entities that received funds from the Hurricane Sandy Supplemental. These entities were submitted to the Board for review through Requests for Analysis (RFA) received from OIGs and represent a total of \$1.3 billion in awards.

### **Board Activities**

During this period, the Board continued analyses of \$232 million of Hurricane Sandy awards and \$404 million of other disaster-related analytical work in support of OIGs' audits and investigations. The following are examples of the Board's work:

#### **Hurricane Sandy-Related Work:**

- Provided analytical support to the Department of Homeland Security (DHS) OIG on investigations involving individuals receiving duplicate payments for property losses from FEMA disaster assistance funds and private insurance. In the course of their analysis, Board analysts also found instances of potential tax evasion, claims filed on secondary residences, as well as information indicating that an individual was involved in mortgage fraud related to a home loan modification scheme.
- Provided analytical support to DHS OIG on an inquiry involving a municipality receiving Hurricane Sandy funding. Analysis identified possible instances of public corruption, a lawsuit from a contractor claiming it was wrongfully terminated and replaced on the contract, and an open lawsuit filed by residents of the municipality claiming a conflict of interest.
- Provided a risk assessment to DHS OIG on contractors of the Port Authority of New York and New Jersey. Board analysis identified a sub-contractor currently in the Excluded Parties List System, three contractors that had previous federal contracts terminated for default, and a contractor previously indicted for fraudulently overbilling clients for over ten years. This information was used by DHS OIG as part of audit selection criteria.



## Final Report 2015 -- Board and OIG Activities (cont.)

### **Other Disaster-Related Work:**

- Board analysts continued to provide DHS OIG analytical support for non-Hurricane Sandy related disaster audits. For example, analysis of a grant recipient associated with Hurricane Katrina revealed findings of:
  - Insufficient controls resulting in a negative cash balance of over \$10 million;
  - A lack of internal controls resulting in more than \$4 million of questionable costs; and
  - DHS grant funds improperly deposited into interest-bearing accounts.
- Board staff conducted a proactive unstructured text analysis identifying high-risk recipients associated with public assistance grants for a disaster declaration in 2014. As a result of this analysis, DHS OIG opened a criminal investigation.

### **OIG Hurricane Sandy Supplemental Activities:**

OIGs continued their Hurricane Sandy Supplemental oversight efforts. These included:

- The New York regional office of the Department of Transportation (DOT) OIG continued extensive outreach and collaboration with state and federal counterparts, including officials from:
  - New Jersey Transit;
  - Port Authority of New York;
  - Port Authority of New Jersey;
  - Federal Transit Authority (FTA) regional office; and
  - New York City Metropolitan Transportation Authority OIG.
- The Hurricane Sandy Supplemental designated more than \$10 billion to fund FTA's new Public Transportation Emergency Relief Program. In December 2013, DOT OIG reported that FTA had yet to complete all Hurricane Sandy risk assessments and oversight guidance for its emergency relief program. DOT OIG has initiated an audit to determine whether FTA provides effective oversight of grantees' contracting practices using Hurricane Sandy funds.
- Housing and Urban Development (HUD) OIG completed an audit of the New York City, Office of Management and Budget's administration of the Community Development Block Grant Disaster Recovery Assistance (CDBG-DR) funds awarded to the city as a result of damages caused by Hurricane Sandy. This review was related to the disbursement of \$183 million as reimbursement to the Health and Hospitals Corporation under the city's Public Service activity. The objectives of the audit were to determine whether the city disbursed CDBG-DR funds in accordance with the guidelines established under



the HUD-approved action plan and HUD rules and regulations and if it maintained effective program and financial management controls.

The audit found that the city disbursed \$183 million to the city’s subrecipient for unsupported salary and fringe benefits, unreasonable and unnecessary expenses and did not adequately monitor their sub-recipient or sufficiently document national objectives. In addition, the city had weaknesses in its financial management controls and allowed the disbursement without a proper review to support the claim. As a result, city officials could not assure HUD that the CDBG-DR funds were disbursed for eligible, reasonable, and necessary program expenses in compliance with HUD rules and regulations. Further, the remaining allocation of \$40 million would be considered funds put to their intended use only if city officials establish adequate monitoring controls. ([Audit Report: 2015-NY-1001](#))

- HUD OIG audited the city of Minot, North Dakota’s CDBG-DR program that was initially awarded more than \$67.5 million for its jurisdiction through Section 239 of the Consolidated and Further Continuing Appropriations Act, 2012 (Public Law 112-55) due to the impact of severe flooding in June 2011, followed by an additional \$35 million in the Sandy Supplemental<sup>1</sup>. It was determined that the city did not fully comply with federal and local procurement requirements. Additionally, the city did not

<sup>1</sup> The Hurricane Sandy Supplemental included appropriations for other disasters, in addition to Hurricane Sandy.

### Inspector General Oversight Reporting Data, Quarter 2, 2015

#### Investigations

	Oct. '14 - Mar. '15	Cumulative Total
Number Opened	46	225
Number Closed	41	95
Completed Criminal Actions	15	39
Arrests	16	79
Civil Actions	0	0
Suspension and Debarments	0	0
Criminal Indictments/ Information	8	52
Investigative Recoveries	\$276,082	\$759,662

#### Audits/Inspections/Evaluations

	Oct. '14 - Mar. '15	Cumulative Total
Audits Initiated	12	72
Audit Reports Issued	7	28
Interim Reports Issued	0	2
Inspection/Evaluation Reports Issued	1	2
Recommendations for Better Use of Funds	\$47,811,286	\$76,714,137
Questioned Costs	\$198,894,137	\$226,941,783

#### Additional Activity

	Oct. '14 - Mar. '15	Cumulative Total
Congressional Testimony	0	4
Number of Hotline (and other externally received) Complaints Processed	565	2,686
Training Sessions	11	74
Outreach Sessions	5	129



## Inspector General Audit & Investigation Data by Agency, Cumulative from January 2013

Agency IG	Investigations Opened	Investigations Closed	Criminal Indictments	Arrests	Completed Criminal Actions	Audits Initiated	Audit Reports	Recommendations for Better Use	Hotline Complaints	Training/Outreach
DHS	122	49	3	38	0	22	9	\$15,670,851	2,563	0
DOC	1	1	0	0	0	1	0	\$0	1	0
DOD	1	0	0	0	0	0	0	\$0	0	0
DOI	5	4	0	0	0	7	2	\$0	9	93
DOJ	0	0	0	0	0	0	0	\$0	2	0
DOL	1	0	1	0	1	1	1	\$7,811,286	2	0
DOT	1	1	0	0	0	3	1	\$0	0	4
EPA	0	0	0	0	0	0	1	\$0	0	0
GSA	0	0	0	0	0	1	0	\$0	0	0
HHS	2	0	0	0	0	8	1	\$0	0	33
HUD	71	29	7	14	9	19	6	\$53,232,000	4	47
Legal Services Corp.	0	0	0	0	0	1	0	\$0	0	0
NASA	0	0	0	0	0	0	0	\$0	0	0
SBA	19	11	14	0	8	6	3	\$0	76	19
SSA	0	0	0	0	0	0	2	\$0	28	0
USDA	0	0	27*	27*	21	3	2	\$0	0	3
VA	2	0	0	0	0	0	0	\$0	1	0
RATB	0	0	0	0	0	0	0	\$0	0	4
<b>TOTALS</b>	<b>225</b>	<b>95</b>	<b>52</b>	<b>79</b>	<b>39</b>	<b>72</b>	<b>28</b>	<b>\$76,714,137</b>	<b>2,686</b>	<b>203</b>

\*Resulted from on-going, previously, initiated investigations

prepare independent cost estimates before receiving bids or proposals for two grant administration and project delivery services contracts, the five amendments to those contracts, or for the change orders for four construction projects. Lastly, the city did not complete background and debarment checks prior to awarding three contracts. The audit determined that these conditions occurred because the city lacked detailed operational procedures and checklists for implementing applicable procurement regulations. As a result, HUD was not assured the city received the best value and greatest overall benefit for more than \$11.6 million in various CDBG-DR procurement contracts, amendments, and change orders. ([Audit Report: 2015-KC-1002](#))

- In December 2014, HUD OIG held a two-day briefing session in New York City. The meetings included status updates of current disaster audit reviews, planning for future Hurricane Sandy audits and a presentation by HUD Office of Community Planning and Development Deputy Secretary for Grant Programs, Marion McFadden.



## Final Report to Congress - May 2015 OIG Activities (cont.)

- The General Services Administration (GSA) OIG continued to monitor the outlays of Hurricane Sandy funds, as well as the delivery of ongoing Hurricane Sandy projects, reporting that as of March 24, 2015, GSA outlaid \$1.02 million of the \$1.1 million obligated Hurricane Sandy funds. Additionally, GSA OIG identified that 10 of 12 GSA Hurricane Sandy projects are substantially complete, and determined that the delays associated with the remaining two projects are reasonable.
- The Small Business Administration (SBA) OIG issued an audit entitled “SBA’s Evaluation of Principal’s Repayment Ability for Hurricane Sandy Business Loans” on February 24, 2015. During the audit, SBA OIG found that loan officers did not have guidance for performing the required financial analysis needed to determine whether Hurricane Sandy business loan applicants had repayment ability. Specifically, SBA OIG found that while SBA standard operating procedures (SOP) state that “[f]or business loans, we determine repayment ability by the results of the financial analysis performed on the business,” the SOP provided no additional guidance regarding how to perform the financial analysis. Due to a lack of guidance, SBA OIG found that loan officers used inconsistent methodologies when evaluating Hurricane Sandy business loans for repayment ability. SBA OIG estimated that the agency approved at least 537 Hurricane Sandy disaster business loans, totaling at least \$17.9 million, without sufficiently considering the principal’s living expenses when determining repayment ability. Therefore, SBA OIG opined that for these loans, SBA did not have reasonable assurance that the borrowers had repayment ability, and that these loans are at a higher risk of default.

SBA OIG recommended that the agency establish and implement clear, written policies and procedures for analyzing the repayment ability of disaster business loan applicants, including business loan principals and guarantors. SBA OIG further recommended that SBA should ensure that these procedures, whether included in the SOP or other written guidance, are reviewed and officially approved by the headquarters management responsible for administering the disaster loan program. SBA management generally agreed with the report findings and recommendations. However, management did not agree with the OIG’s projection that borrowers of at least \$17.9 million in Hurricane Sandy disaster business loans did not have repayment ability. ([Audit Report 15-05](#))

## **Conclusion**

The Board sunsets on September 30, 2015, but will continue its ongoing collaborative oversight efforts with the OIG community as well as maintaining and updating the Hurricane Sandy Funding section on Recovery.gov to enhance transparency of Hurricane Sandy activities for as long as it is feasible. The Board appreciates the opportunity to inform Congress of its progress under the Disaster Relief Appropriations Act, 2013.



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