

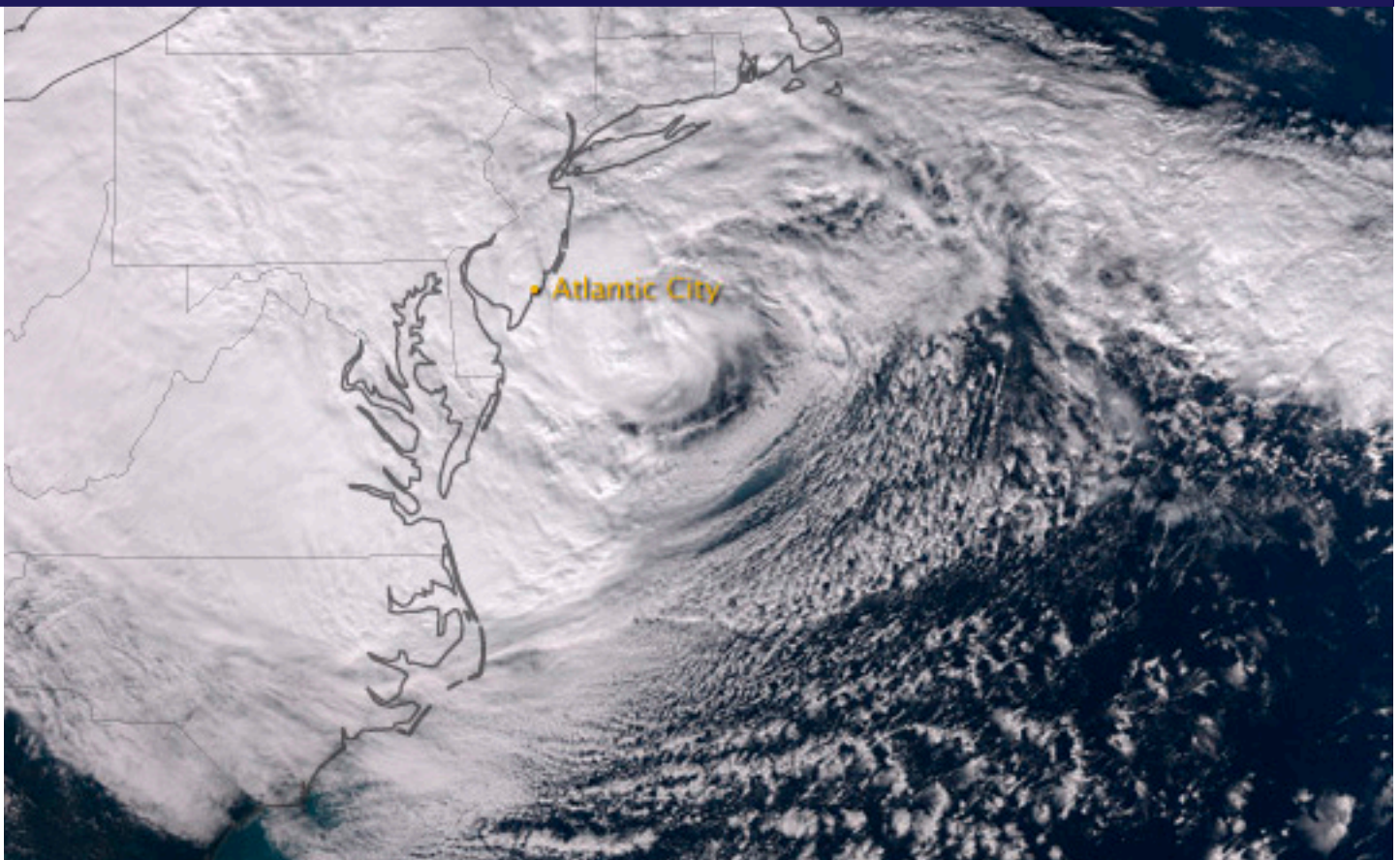


Recovery Accountability and Transparency Board

Report to Congress

on Activities Related to Hurricane Sandy Funds

April - June 2014





This is the Recovery Accountability and Transparency Board's (Board) fifth report pursuant to the Disaster Relief Appropriations Act, 2013 (Hurricane Sandy Supplemental), for the quarter ending June 30, 2014. 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 (OMB), 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 (Recovery Act) 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.



April - June 2014 Board and OIG Activities

As of June 30, 2014, the Hurricane Sandy Program Management Office (PMO)¹ reported that \$16.2 billion of the \$47.9 billion (post-sequester) Hurricane Sandy Supplemental funds have been awarded, with \$9.8 billion of these funds paid out. Approximately \$1.8 billion of the total was paid out over the last quarter. The Board and OIGs are actively partnering to prevent and detect fraud, waste, and abuse in involving such funds by examining relevant contracts, grants, and loans, and conducting analysis in support of Hurricane Sandy-related audits and investigations. The Hurricane Sandy section of Recovery.gov now includes a new Accountability page that houses pertinent OIG reports.

To date, the Board has conducted research on more than 1,300 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, which represent \$110.8 million in awards.

Board Quarter 3 Activities

Over the last quarter, the Board continued its Hurricane Sandy analytical work in support of the OIGs, to include:

- Conducting analyses for the Office of Emergency Management Oversight (EMO) within the Department of Homeland Security (DHS) OIG. These analyses included:
 - Supporting EMO audit efforts to identify and address possible internal control deficiencies and significant weaknesses in Federal Emergency Management Agency (FEMA) programs, substantiating that there were questionable sub-contracting award practices within some FEMA disaster relief programs;
 - Identifying indicators of a potential improper relationship between a municipality and a contractor during the execution of a FEMA funded project;
 - Conducting risk analyses for EMO on over 750 claims made pursuant to the FEMA Transitional Sheltering Assistance Program (The program reimbursing disaster-related survivors for the costs of temporary shelter); and
 - Conducting an analysis for EMO to identify evidence of potential fraud related to a vendor suspected of overcharging FEMA.
- Initiating analyses of more than 100 DHS OIG cases related to FEMA Disaster Assistance beneficiaries who potentially sought and received duplicate payments from private insurance. Together with the Board's Law Enforcement Office, ROC analysts coordinated with OIGs at the Department of Housing and Urban Development (HUD) and Small Business Administration (SBA) to determine if any of the suspected offenders also received benefits from HUD and SBA.

¹ Shortly after the passage of the Hurricane Sandy Supplemental, the Hurricane Sandy Task Force (Task Force) created the PMO within the Department of Housing and Urban Development (HUD), to provide support to the Task Force. When the Task Force sunset, the PMO took over the role of overseeing the implementation of the Task Force's recommendations.



Board and OIG Activities

- Supporting ongoing HUD OIG Hurricane Sandy audits of key states' administration of Community Development Block Grant-Disaster Recovery (CDBG-DR) funds.

OIG Quarter 3 Activities

Over the last quarter, the OIGs continued their Hurricane Sandy oversight efforts. These include:

- The Department of Commerce (DOC) OIG released a public investigative report on May 19, 2014 on Hurricane Sandy Relief Funding for the National Estuarine Research Reserve System (NERRS), in which the OIG found that the National Oceanic and Atmospheric Administration (NOAA) expanded the plain language of the Disaster Relief Act to provide appropriated funds for equipment that was not actually damaged by Hurricane Sandy. Nine NERRS research facilities applied for and together received approximately \$1 million in Hurricane Sandy relief funds from NOAA. The investigation found that NOAA expanded the Act to include assets that they could argue were “compromised” by Hurricane Sandy. The review concluded that NOAA’s actions resulted in questioned costs of approximately \$550,200 – over half of the \$1 million dollars in funds disbursed – for items that should not have been eligible for funding based on the plain language of the disaster relief law. DOC OIG made several recommendations, including that NOAA conduct an improper payments analysis and seek the recovery of any disaster relief funds improperly paid out.
- HUD OIG held a strategic meeting in New York City (NYC). Representatives from HUD OIG and OMB’s Housing Branch collaborated regarding on-site Hurricane Sandy activities, audit priorities moving forward, issues with grantee execution (especially issues in New Jersey and NYC), and recommendations for corrective actions based on ongoing audits addressing that grantees are not:
 - Procuring services and products in full compliance with federal procurement and cost principle requirements;
 - Maintaining documentation to fully demonstrate that CDBG-DR funds were used for programs to assist eligible homeowners in accordance with applicable HUD and federal requirements; and
 - Functioning at capacity to administer their disaster recovery programs.
- The Department of the Interior (DOI) OIG performed 31 Hurricane Sandy-specific Fraud Awareness Briefings (FABs) this fiscal year, reaching over 350 department and bureau personnel, contract and grant recipients, and state entities. Many of these FABs were coupled with site visits to Hurricane Sandy-funded project locations. Site visits were performed at Fish and Wildlife Service, National Park Service, United States Geological Survey, and Bureau of Safety Environmental Enforcement project locations. Site visits entailed meeting with onsite project and contracting staff to determine if, and ensure that, projects were progressing in a timely manner without issue, and educating staff on ways to report potential wrong doing to the OIG. These site visits continued in the third quarter to determine progress of Hurricane Sandy funded projects.

Special Update from the Department of Housing and Urban Development (HUD) Office of Inspector General

HUD OIG is continuing its oversight of the \$16 billion in Hurricane Sandy Disaster funding the agency received. HUD OIG has held strategic planning meetings, conducted training sessions, hosted monthly meetings with HUD's Disaster Recovery officials, conducted auditability surveys, and initiated audits. Based on the auditability surveys conducted in June 2013 of the three largest grantees – New York City, New York state, and New Jersey, as well as three smaller grantees – Connecticut, Rhode Island, and Maryland, HUD OIG developed an audit plan. As a result of this plan and other Congressional requests, HUD OIG currently has eight ongoing disaster audits.

HUD OIG's Philadelphia office has started three disaster audits and the New York office has started four, and both have an inventory of potential future audits. More specifically, HUD OIG is performing audits of: (i) New Jersey's Tourism Marketing program, Homeowner Resettlement program, and its Information Technology system for their disaster program; (ii) New York's health and hospital payments, Homeowner Buyout program, and Rising Housing Recovery program; and (iii) the effectiveness of Vermont's disaster program. Additionally, HUD OIG has an ongoing disaster audit of Texas' homeowner rebuilding program, which is soon to be issued in final.

First, Second, & Third Round of Allocations of Hurricane Sandy Recovery Funds

Grantee	First Sandy Allocation	Second Sandy Allocation	Third Sandy Allocation	Total
New Jersey	\$1,829,520,000	\$1,463,000,000	\$881,909,000	\$4,174,429,000
New York City	\$1,772,820,000	\$1,447,000,000	\$994,056,000	\$4,213,876,000
New York State	\$1,713,960,000	\$2,097,000,000	\$605,922,000	\$4,416,882,000
Connecticut	\$71,820,000	\$66,000,000	\$21,459,000	\$159,279,000
Maryland	\$8,640,000	\$20,000,000	\$0	\$28,640,000
Rhode Island	\$3,240,000	\$16,000,000	\$671,000	\$19,911,000
Other	\$642,512,000	\$0	\$0	\$642,512,000
TOTAL	\$5,042,512,000	\$5,109,000,000	\$2,504,017,000	\$13,655,529,000



Board and OIG Activities

- The General Services Administration (GSA) OIG confirmed that as of July 1, 2014, GSA has \$560,000 in total outlays from its \$1.09 million of obligated Hurricane Sandy funds. Eleven of 12 GSA Hurricane Sandy projects have been awarded, and 9 of those projects are substantially complete.
- To ensure GSA has been released from all claims related to contracts and modifications, GSA OIG verified the remaining balances for the task order and modifications involving contractor payments for the Thurgood Marshall U.S. Courthouse project. The contracting officer anticipates the remaining paint work will be completed in July 2014, at which time GSA will request a Release of Claims for issuance of final payment.
- GSA OIG also reviewed the Notice to Proceed for the design of a \$600,000 Hurricane Sandy funded project to replace the brick sidewalks and stairs with concrete composite pavers at the Joseph P. Addabbo Federal Building. They found that before the sidewalks and stairs can be replaced, the building must address a separate building security improvement project and additional waterproofing work, which are not Hurricane Sandy funded. As a result, GSA has delayed the completion of the Hurricane Sandy paver project from June 2014 to May 2015 (estimated completion). At this time, the project is scheduled to be completed prior to the Hurricane Sandy funding expiration, September 30, 2015.
- SBA OIG issued an internal advisory memorandum to the SBA Office of Disaster Assistance (ODA) on June 12, 2014, entitled "Increase in Maximum Allowable Fixed Debt Percentages in Disaster Loans." This memorandum informed ODA of concerns the OIG identified during the survey phase of OIG Project 14801 – Targeted Review of Hurricane Sandy Loans. The nature of the concerns stemmed from two amendments to the agency's standard operating procedure, SOP 50 30 7, Disaster Assistance that changed the maximum allowable fixed debt for loan eligibility. Due to a provision in SOP 50 30 7, allowing ODA to change policies and guidelines without advance notice, the amendments did not undergo the standard clearance process outlined in SOP 00 23 6, Directives Management Program.

While SBA OIG did not make any formal recommendations, it expressed concerns about this provision. SBA OIG believes that from an enterprise risk management perspective, the provision represents a significant internal control weakness, and that the agency should implement internal controls to ensure analyses supporting program changes are reviewed by appropriate parties and risks are identified and mitigated.

- SBA OIG issued an audit report on June 30, 2014 entitled "Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations" (Report 14-14). This report presents the results of SBA OIG's audit of SBA's disaster loan processing times. The SBA OIG found that SBA generally was unable to attain its disaster loan processing time performance goals unless it included applications that were automatically declined or quickly rejected before loss verification, which require significantly less time to process than do loan applications requiring full processing. Because of the methodology used to compute its average processing time – as published in its Congressional Budget Justification and Annual Performance Reports – SBA's reported performance did not accurately communicate to eligible applicants and oversight officials how long it was likely to take for most applicants to receive a disaster loan. The OIG also found that processing time performance standards were generally not attainable beyond certain application volume levels.



SBA OIG recommended that the agency:

- Report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing;
 - Establish disaster loan processing time goals based on actual average processing times, net of automatic declinations, and quick rejections performed prior to loss verification;
 - Consider the full processing time for all applications with withdrawals that had reacceptances in their established goals; and
 - Establish processing time standards for different application volumes based on historical performance and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report.
- SBA OIG is conducting an audit of the use of the principal’s personal income in repayment ability calculations for Hurricane Sandy business loans. The objective of this audit is to determine whether SBA’s use of the principal’s personal income results in an accurate depiction of the business’ ability to repay the loan.

Inspector General Oversight Reporting Data, Quarter 3, 2014

Investigations

	Quarter 3, 2014	Cumulative Total
Number Opened	34	133
Number Closed	11	31
Completed Criminal Actions	0	1
Arrests	4	48
Civil Actions	0	0
Suspension and Debarments	0	0
Criminal Indictments/Information	1	35
Investigative Recoveries	\$57,593	\$289,564

Audits/Inspections/Evaluations

	Quarter 3, 2014	Cumulative Total
Audits Initiated	4	58
Audit Reports Issued	2	14
Interim Reports Issued	1	1
Inspection/Evaluation Reports Issued	0	0
Recommendations for Better Use of Funds	\$0	\$15,670,851
Questioned Costs	\$470,706	\$5,051,165

Additional Activity

	Quarter 3, 2014	Cumulative Total
Congressional Testimony	0	2
Number of Hotline (and other externally received) Complaints Processed	135	2,069
Training Sessions	9	39
Outreach Sessions	9	102



Inspector General Audit and 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	83	22	2	19	0	20	9	\$15,670,851	1,987	0
DOC	1	0	0	0	0	0	0	\$0	1	0
DOD	1	0	0	0	0	0	0	\$0	0	0
DOI	4	4	0	0	0	4	1	\$0	7	53
DOJ	0	0	0	0	0	0	0	\$0	2	0
DOL	1	0	0	0	0	1	0	\$0	2	0
DOT	0	0	0	0	0	2	1	\$0	0	3
EPA	0	0	0	0	0	0	1	\$0	0	0
GSA	0	0	0	0	0	1	0	\$0	0	0
HHS	0	0	0	0	0	8	0	\$0	0	33
HUD	37	5	2	2	1	12	1	\$0	2	31
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	4	0	4	0	0	5	1	\$0	45	14
SSA	0	0	0	0	0	1	0	\$0	22	0
USDA	0	0	27*	27*	0	3	0	\$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
TOTALS	133	31	35	48	1	58	14	\$15,670,851	2,069	141

*Resulted from an on-going, previously, initiated investigation.

Board and OIG Outreach Activities

- The Board conducted a webinar on how to use data analytics to identify high-risk indicators to prevent and detect fraud in Hurricane Sandy recovery payments. The webinar participants were auditors and investigators from the Office of the State Comptroller of New York, the New Jersey Office of the State Auditor, the New Jersey Office of the State Comptroller, as well as other New York State and New York City agencies and local government.
- DOI OIG provided seven fraud awareness briefings for bureau personnel, contract and grant recipients, as well as state government organizations.

Conclusion

The Board will continue its ongoing collaborative oversight efforts with the OIG community as Hurricane Sandy awards are made and monitored. Additionally, the Board will maintain and update the Hurricane Sandy Funding section on Recovery.gov to enhance transparency of Hurricane Sandy activities. The Board appreciates the opportunity to inform Congress of its progress under the Disaster Relief Appropriations Act of 2013.

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