

# **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

## **MANAGEMENT REVIEW REPORT**

### **New Jersey Department of Community Affairs**



**Community Development Block Grant  
2013 Supplemental Disaster Recovery Funds**

**State of New Jersey**

**Grant Number**

**B-13-DS-34-0001**

## **INTRODUCTION**

HUD conducts management reviews, in conjunction with monitoring visits, to ensure that programs are executed efficiently, effectively, and in compliance with applicable laws, regulations, and established policy. Just as importantly, these reviews are intended to assist grantees in improving their performance, developing or increasing capacity, and augmenting their management and technical skills. A management review is not limited to a one-time evaluation but is part of an ongoing process that assesses the quality of a grantee's performance over a period and requires effective communication and cooperation between Federal, state, and local partners.

From February 18-21, 2014, HUD staff conducted an on-site review of the State of New Jersey's management of its Community Development Block Grants disaster recovery (CDBG-DR) funds. The final exit conference was held on March 7, 2014. The Department appreciates the cooperation of the New Jersey Department of Community Affairs (DCA) in making this effort a success. DCA is the lead agency for administering the \$1.83 billion disaster recovery grant (B-13-DS-34-0001) authorized under Public Law (P.L.) 113-2, enacted January 29, 2013. This report presents the results of this monitoring review and notes regarding technical assistance HUD provided while on-site.

This monitoring visit is in addition to the regularly scheduled HUD management reviews scheduled twice a year. The Department added this targeted review to collect additional information regarding the State's management and program-related civil rights compliance, primarily in the RREM program.

## **SCOPE OF REVIEW**

The following areas of grant management under the CDBG regulations applicable to supplemental funding for the disaster recovery programs were reviewed:

- Overall management
- Internal audit, integrity monitoring, and CDBG compliance functions
- Program policies and procedures – RREM focused
- Application intake process
- Individual application files for the following:
  - Approved and declined applications
  - Appeal process
- Demographic data analysis (by county, race/ethnicity, approved/denied)
- Outreach efforts to all populations, including minorities
- Program related civil rights requirements

The HUD monitoring team, led by the Office of Community Planning and Development (CPD), included staff from the Office of Policy Development and Research (PD&R), and the Office of Fair Housing and Equal Opportunity (FHEO):

Jessie Handforth Kome, Deputy Director, Office of Block Grant Assistance, CPD;  
 Steve Higginbotham, Senior Community Planning and Development Specialist, CPD;  
 James Hoemann, Community Planning and Development Specialist, CPD;  
 Adam Norlander, Program Analyst, CPD  
 Ben Winter, Analyst, PD&R  
 Kimberly Danna, Program Manager, Illinois State Office, CPD  
 Amy Apple, Equal Opportunity Specialist, NY Regional Field Office, FHEO; and  
 Brenda Salas, Equal Opportunity Specialist, New Jersey State Office, FHEO.

### **SUMMARY OF RESULTS AND CONCLUSIONS**

Monitoring reviews may result in the identification of findings, concerns, or exemplary practices. A finding is a deficiency in program performance based on a statutory, regulatory, or program requirement for which sanctions or other corrective actions are authorized. A concern is a deficiency in program performance not based on statutory, regulatory, or other program requirements. HUD issues a concern about program design or operations when in HUD's judgment the practice could, if not corrected, result in noncompliance with a statutory, regulatory, or program requirement.

This review resulted in three concerns.

**Concern #1:** Approximately a quarter of the 83 reviewed RREM files had one or more missing or misfiled source documents.

**Concern #2:** A review of the RREM applicant data did not reveal significant disparities among protected classes in the application pool. However, HUD identified a concern that the observed disparities in application rates in the most impacted counties between white non-Hispanic households and minority households could lead to violation of program requirements in certain circumstances as the State continues implementation.

**Concern #3:** HUD is concerned that the unmet needs of households, particularly low- and moderate-income households, that suffered damage but did not apply for RREM will not be otherwise addressed under the State's current action plan and addressing the needs of LMI households will help the State meet the overall grant requirement that at least 50 percent of the funds must meet the LMI national objective.

HUD staff is available to discuss the results of this review or to provide technical assistance, if requested. Please address any outstanding issues in writing to Ms. Tennille Parker, Acting Director, Disaster Recovery and Special Issues Division, within 30 days of the date of this report. Correspondence should be sent to the U.S. Department of Housing and Urban Development, 451 7th Street SW, Room 7272, Washington, DC 20410. Electronic submissions should be sent to the mailbox at Disaster\_Recovery@hud.gov.

## **AREAS REVIEWED**

### **OVERALL MANAGEMENT**

The State of New Jersey has made significant progress since the May 13, 2013, signing of the grant agreement providing \$1.006 billion of the \$1.83 billion received from the Hurricane Sandy appropriation (P.L. 113-2). In the 4<sup>th</sup> quarter of 2013, the State spent \$123.9 million of its funds, with the largest amount of expenditures (\$58.8 million) going toward the Housing Resettlement Program.

The overall management review focused on the State's required integrity monitoring, internal audit, and compliance oversight. HUD reviewers interviewed Robert Bartolone, Director of the Office of Auditing, staff of the integrity monitor contractor Cohn/Reznick, and the acting CDBG compliance manager. Documents reviewed included:

- The State's Comprehensive Compliance, Monitoring, and Fraud Prevention (CCMFP) Plan,
- Program Risk Assessments dated September 20, 2013, and January 31, 2014,
- The NJ DCA Integrity Monitoring Resolution and Closure Report dated February 12, 2014, and;
- 18 of 20 draft Integrity Oversight Monitor Reports issued by the integrity monitor to DCA management for comment in accordance with the protocols in the CCMFP Plan.

The *Federal Register* Notice governing the initial allocation of CDBG-DR funding provided to CDBG-DR grantees in response to Hurricane Sandy (78 FR 12349, published March 5, 2013) requires each grantee to: 1) implement an internal audit function for its program; 2) have in place procedures to prevent and detect fraud, waste, and mismanagement; and 3) monitor its activities for compliance with CDBG program requirements. Under New Jersey's State law, the Integrity Oversight Monitor Act (P.L. 2103, c.37) authorizes oversight monitors for recovery contracts in excess of \$5 million. DCA selected Cohn-Reznick to serve as the Integrity Oversight Monitor reporting to DCA's Accountability Officer. Internal audit, integrity monitoring, internal compliance reviews, subrecipient monitoring, and quality assurance/quality control (QA/QC) reviews are methods grantees can use to ensure compliant use of grant funds and effective recovery programs. Key elements of successful internal review efforts include clear plans and protocols, periodic risk assessments that form the basis for a monitoring strategy, appropriately trained staff, timely implementation, management openness to a process of audit and improvement, and reviewer independence.

Draft reports from the integrity monitor were issued to DCA management for comment prior to final issuance. According to the protocol, management comments do not change the report's observations, but reflect management actions, comments on recommended corrective actions, and status. HUD staff raised the issue of the apparent backlog of 18-20 draft reports during staff interviews because HUD requires that internal audit functions be independent enough that audit reports and recommendations cannot be suppressed by program managers. The Accountability Officer and an integrity monitor told HUD reviewers during interviews that all final integrity oversight reports (including both observations and management comments) would be provided not

only to the DCA Commissioner, but also to the State Comptroller, and that the State Comptroller would publish the report titles quarterly.

The Accountability Officer and the integrity monitor stated that the backlog of draft reports was due to an initial lack of a resolution protocol and the crush of program launch, not management inaction or deliberate suppression. They also affirmed that DCA has been acting on recommendations “in real time,” in some cases even before reports were issued, especially if the integrity monitors issued performance alerts. To support this conclusion, the integrity monitors supplied the State’s tracking form showing 165 total observations issued as of January 31, 2014, in all, 80 recommendations were shown as completely implemented and 50 partially implemented. The only unaddressed recommendations (20 in all) were added during the January reporting period. HUD reviewers noted that the draft reports covered programs and topics directly related to the Program Risk Assessments and covered not only legal requirements but also management actions and processes that, when implemented, will make program management more effective. The Accountability Officer stated that observations are tracked until all issues are resolved.

The State indicated that the integrity monitoring effort was launched alongside the Resettlement and RREM programs, with the integrity monitoring contractor receiving notice to proceed from the State on June 24, 2013. Soon after, the integrity monitors began issuing reports rapidly, at the same time beginning to work with State managers to develop protocols for management response to reports, observation resolution, and report issuance. During interviews, audit staff stated that those protocols, including timeframes for draft report issuance, management comments, final report issuance, and resolution tracking, are now in place. The Accountability Officer stated that all of the observed pending reports were intended to be issued in final within 30 days of the HUD review and made available consistent with the State’s Integrity Oversight Monitor Act. HUD requested copies of all final reports.

Based on the review, the State has active and robust integrity monitoring in place, including all expected elements, and DCA management is accepting and implementing recommendations from the integrity monitors in a timely manner. HUD will follow up on status of integrity monitoring reports during future reviews. The Notice setting forth requirements for the state’s grant does not require the state to publish the integrity monitor’s reports in full. HUD does prefer that the state make final integrity monitor reports available to the public on the state’s Sandy Recovery website. While HUD recognizes that some information in the reports may qualify for exceptions to state requirements for release of records, HUD believes that proactive transparency and openness regarding the state’s ongoing process of seeking out and correcting program management issues will be beneficial.

The State’s CCMFP Plan also covers fraud monitoring and CDBG Compliance Monitoring. As part of this review, HUD staff also interviewed DCA staff involved in the CDBG Compliance Monitoring, because a permanent manager had not yet been hired. The CDBG compliance unit has an Acting Director and a mix of DCA and contract staff. The primary focus of the HUD review in this area was the status of the State’s actions regarding data clean-up of the RREM supporting documentation as the State takes over management of the program from the former contractor. The Accountability Officer and the Acting Director of CDBG Compliance stated that on February 18 the State kicked off a data clean-up effort to review the RREM database and source documentation to

ensure every record is complete, supported, and accurate in the database.

Based on the review, the State has identified issues with RREM supporting documentation and is taking appropriate action to correct these issues. If supporting documentation is not complete in accordance with CDBG requirements, HUD will make a finding of noncompliance. Since DCA's Accountability Officer identified the problem and the agency has already begun taking action, HUD is issuing a concern (see the next section) and will continue to follow up on RREM data clean-up in future monitoring visits.

### **RECORD-KEEPING AND FILE REVIEW**

HUD reviewers completed a review of 83 RREM applicant records using the e-Grants system originally established and managed by the Superstorm Sandy Housing Intake Program (SSHIP) contractor and now managed by DCA.

**Concern #1:** Approximately a quarter of the 83 reviewed RREM files had one or more missing or misfiled source documents.

**Condition:** Two primary conditions hinder the effective use and management of RREM Program records:

1. E-grants Application data fields track a limited amount of data for assessing performance of the program. The following information was not available in data fields that could be used easily to assess overall progress of the RREM program or to review progress of an individual applicant's project:
  - Date funded applicant was referred to a Housing Advisor.
  - Date Housing Advisor verified records supporting the application.
  - Date of Grant Agreement and award calculation attachment, obligating funds to an applicant's project.
  - Date construction initiated.
  - Demographic information on disability, familial status, and the LEP status of the Applicant.
  - Applicant income following verification of household size and income records.
  
2. Data inconsistencies and incomplete data prevent a full assessment of funding decisions made in the original application phase. See the attached list of incomplete or missing data. HUD noted the following conditions in 83 records sampled:
  - Some applicant records determined to be eligible did not have complete documentation supporting funding eligibility.
    - Applicant self-reported less than \$8,000 in damage.
    - Applicant did not have a FEMA substantial damage determination letter.
  - Applicant record identified applicant as funded, but eligibility determination letter identified applicant as ineligible; no subsequent eligibility determination is recorded.
  - Applicant records identified applicant as funded, but eligibility determination letter

is not included.

- Missing documentation in applicant files where a successful appeal was made.
  - Appeal from applicant not recorded.
  - Documentation supporting approval following appeal not recorded.
- Missing documentation in applicant files where an appeal was denied
  - Letter documenting ineligibility.
  - Documentation of appeal – i.e. a letter or other communication from applicant.
  - Documentation of final eligibility determination.

Other general conditions also affect the management usefulness of the RREM database, including:

1. Slow update of data: data in the system is inconsistently maintained or slow to be updated.
  - Documentation of actions taken in July was updated in December.
  - Documentation of actions taken in August through October was updated in December and January, or is not yet present.
  - Missing documents in multiple files (See Chart of Conditions in Appendix 1).
  - Missing or incomplete data on race/ethnicity, age, and disability status.
2. Many residents chose not to self-report their race, ethnicity, or other demographic information, such as disability status.

**Cause:** Based upon HUD’s review of applicant files and staff interviews on the RREM program, the following issues may contribute to the noted conditions.

1. E-grants applicant records do not identify the dates of actions taken on a funded application as it progresses from funding eligibility determination through initiation of construction.

Some records were uploaded in the document attachment section, but were not tracked by a simple indicator on the application form. The State provided a data dictionary that included data fields, which could address some of the issues identified in the applicant files. However, it was unclear how the data dictionary fields translate into applicant record data-fields. Other issues may also exist with the data-fields that were not identified in the initial review.

In the applicants documentation verification step, E-grants may contain information demonstrating that an applicant has scheduled an appointment to meet with a housing advisor, or has completed a meeting with the housing advisor, but there is no field in the application section of the system to reflect the date the meeting is scheduled or completed.

Grant agreements were uploaded into the E-grants system but the date of the grant agreement, signifying obligation of funds to the applicant’s project, is not a field in the applicant record. Also, the only indicator that an applicant’s project has advanced to

construction is the presence of uploaded documents concerning the project, such as contractor records. There is not a field in the applicant record indicating the date of construction initiation or a date that a notice to proceed was reflected.

2. Quality control reviews of the E-grants system were not evident in the Standard Operating Procedures (SOPs) for the program.

There is no procedure identifying the staff or contractors responsible for verifying the accuracy of funding eligibility determinations, timely entry of supporting documentation or completion of all available fields in the application.

**Effect:** HUD regulations at 24 CFR 570.490 define the recordkeeping requirements for State CDBG programs. Section 570.490(a)(1) states that records should be established and maintained in a manner that “facilitates review and audit by HUD of the state’s administration of CDBG funds under 570.493.” Such records must form a reasonable basis for making a RREM award. Since it is not possible to review progress of the RREM program solely via the database using dates of actions taken at key points from application to initiation of construction, it is difficult to identify challenges within the process that may result in delayed delivery of services.

With regard to quality of data in the E-grants system, the incomplete or inaccurately recorded application data could potentially lead to ineligible applicants being assisted. In addition, a claim of unfair selections could not be contested by the State using the incomplete records in E-grants. The State would have to resort to original source documents to support its case.

### **Recommended Actions:**

1. Quality control data reviews: The State’s CDBG Compliance office should quickly complete its effort to review the RREM database, check source documentation, and perform necessary data clean-up.
2. Aggregation of data: The State should review available supporting documentation and revise E-Grants or otherwise create a tracking system for the progress of assisted activities under the RREM program, from applicant funding eligibility determinations through the completion of assisted activities, at key progress assessment points within the process.
3. Revisions of demographic data: To the extent that the state can acquire information from applicants, HUD recommends that incomplete data-fields on race, ethnicity, and elderly/non-elderly status be completed. Information on household type, LEP status, and disability status of funded applicant’s should be acquired and documented. With this data in hand, the State will be better able to focus outreach on targeted populations, as well as defend itself against charges of unequal treatment. While program requirements do not include recordkeeping requirements for all protected classes, it would be impossible to assess the need for outreach/affirmative marketing, or the effectiveness of outreach/affirmative marketing activities if this data is not collected.



## **REVIEW OF POLICIES AND PROCEDURES**

**Summary.** The State's outreach effort for the RREM and Resettlement programs was outsourced during the initial phase to a contractor that may not have performed to the State's expectations. HUD's review indicates there was a significant outreach effort using various modes of communication to reach a large audience in the most affected counties (such as Ocean and Monmouth) but not in the less impacted counties. The efforts appear to have been successful in reaching LMI households in the counties it targeted, but may have also led to oversubscription compared to other areas. The review indicates that there may have been insufficient outreach to LMI households in the remaining most affected counties. This conclusion correlates with the application disparity discussed on pages 17-24 in the data analysis section. Moreover, DCA initially did not carefully manage the contractor's outreach efforts, apparently resulting in gaps in its outreach to households least likely to apply for these programs, particularly LMI households.

Furthermore, the review indicates that the SOP for the RREM program lacks sufficient detail on the prioritization of funding, and should include a description of the method of geographic balancing that the State used and intends to use in future funding decisions.

During this review, HUD observed no evidence of prohibited discriminatory practices in application processing.

**Review of Cross-Cutting Federal Policies.** As part of the review, HUD looked at the State's Citizen Participation Plan (CPP) (Effective March 12, 2013/Revised February 1, 2014), Fair Housing and Equal Opportunity policy (No. 2.10.18/Effective June 2013); Language Access Plan (No. 2.10.32/Revised September 12, 2013); Section 3 Policies (No. 2.10.22/Effective June 2013); and Appeals Policy (No. 2.10.7/ revised June 2013, October 2013). The CPP includes a description of the DCA Appeals process, which is a process that is also repeated in different terms in other documentation in regards to the RREM and Resettlement policies, as well as the general Appeals Policy. To ensure consistency and to update the SOP and policies to recognize actions taken to re-open the appeals process, DCA should consolidate this into a uniform updated policy.

HUD notes that the FHEO plan, LAP, and Section 3 plans included requirements for entities receiving CDBG-DR from the State to take actions and maintain records. It was not clear, however, what actions the DCA itself is committed to perform as it takes over greater administration of the disaster recovery programs subsequent to the release of prior contractors.

**Review of Outreach Efforts.** HUD reviewed DCA records demonstrating that the State had undertaken outreach efforts in the nine counties affected by Sandy throughout the open application period. HUD reviewers also interviewed DCA's Director of Strategic Communications and the Communications Deputy Director.

In the March 5, 2013, Notice, HUD required that "[d]espite the expedited process, grantees are still responsible for ensuring that all citizens have equal access to information about the programs, including persons with disabilities and Limited English Proficiency (LEP)."

(March 5, 2013, 78 FR 14329), Each grantee is further required to certify that actions will be taken in accordance with its Action Plan; New Jersey's stated that: "The State's outreach efforts will continue throughout the duration of the program planning and recovery process, in accordance with the established CDBG-DR Citizen Participation Plan." As part of DCA's policies and procedures for the RREM program, DCA stated that "to further fair housing goals and ensure that all potentially eligible applicants are aware of the opportunity to participate in the RREM program, DCA and the SSHIP program manager will engage in an aggressive outreach program. The multi-media outreach program includes special outreach to LMI households, minority households, and others identified as 'least likely to apply' for assistance." (RREM Policies and Procedures Manual).

The RREM and Resettlement programs had two concurrent application periods—the first running May 24, 2013-June 30, 2013, and the second running from July 1, 2013-August 1, 2013. Based on interviews with staff, DCA lacked an adequate outreach capacity in-house going into the first open application period. At that time, only the Director of Strategic Communications for DCA was working with the SSHIP contractor on outreach. The SSHIP contractor—who has since been released by DCA—started work approximately 7-10 days before the State opened the first application window. In its Request for Qualifications (RFQ) for outreach, DCA charged the contractor with developing an outreach plan "for approval by the State on how outreach activities including public service announcements on television, billboards, radio, and the internet shall be addressed" as well as developing "strategies for mobile outreach as well as outreach to out-of-state homeowners as necessary."

The State's RFQ did not mention targeting LMI households or other groups least likely to apply. In its proposal, the contractor included an "Outreach plan" that emphasized the importance of outreach, noted the qualifications of its specialists in terms of language and cultural abilities and work with stakeholders in Monmouth and Ocean Counties. The Outreach Plan had a stated objective of driving 37,500 residents to apply for the RREM and Resettlement housing programs in 132 days—apparently based on assumption of a longer application timeframe than the actual 70-day application window. The Outreach Plan did not specify how it would target low- and moderate-income applicants, or otherwise how it would reach out to those persons least likely to apply.

According to information gathered during HUD interviews with DCA staff, there was no other plan received from the contractor. Furthermore, the interviewed DCA staff were unaware whether or not any deliverables were turned in that would demonstrate exactly what the contractor or its subcontractors did for outreach, nor did they know if there were any records of the outreach meetings that were held. (Note that invoices might reveal additional details; however, HUD did not interview financial analysts or examine invoices during this visit). The Outreach plan states that it would emphasize and "primarily" target the three most impacted counties (Atlantic, Monmouth and Ocean), aimed at driving 80 percent of total applications to come from those counties. The focus on Ocean and Monmouth County was clearly apparent from the list of events provided by the DCA—e.g., of 25 mobile outreach events, 13 were in Ocean County and seven were in Monmouth. The actual outcome of both total RREM applicants and approved RREM applicants was that 89 percent of applicants came from these three most impacted counties.

The Communications Deputy Director joined DCA on June 16, 2013, and stated that towards the ending of the outreach efforts for the first round he saw the need to shift the focus of the outreach based on oversubscription by non-LMI households. He assisted in directing increased efforts towards reaching LMI households. HUD reviewers requested any additional documentation DCA might have regarding the outreach strategy beyond the listing of outreach events and the plan outlined in the contractor's proposal. DCA did not have any other documentation available to demonstrate how it conducted special outreach to LMI and minority households or others least likely to apply. In interviews, DCA did stress that reaching these populations was an emphasis and that there were regular discussions about how to reach underrepresented groups as part of daily outreach strategy meetings. DCA staff did produce a presentation from one of these meetings. DCA also stressed that it had worked closely with local ARCs, the Department of Human Services, senior centers, and other groups to reach out to potential applicants with disabilities. DCA indicated that it relied on the contractor and sub-contractors to implement outreach efforts to those least likely to apply. DCA did not explain who was determined to be "least likely to apply," or how the determination would be made, and outreach staff did not seem familiar with the term. DCA Counsel indicated that the elderly and the poor was identified as the least-likely to apply, although there was no formal process identifying those groups. She indicated that there had been discussions with advocacy groups and that outreach through senior centers, libraries, supermarkets, free newspapers, Spanish publications, door-to-door, word of mouth via applicants, the Salvation Army, Legal Services, and other advocacy groups was targeted towards these population groups.

DCA staff further described how, beyond offering vital documents and support in Spanish, it also provided access to a language line for all staff and supported individuals who needed support in languages other than English and Spanish. Beyond this, no documents were provided in languages other than English and Spanish and targeted outreach was only conducted to English and Spanish individuals in-line with the State's CDBG-DR Language Assistance Plan. According to the Communications Deputy Director, up until June 29, 2013, (i.e., throughout the initial application period), DCA had entrusted the contractor with carrying out the outreach duties. He stressed the strength of the resumes in the bid proposal as providing a basis for this trust. After July 1, 2013, DCA brought on additional internal staff to assist with the outreach effort. At that time, DCA staff noted problems with the contractor's performance, including problems with outreach to local elected officials, flyers that did not provide adequate information, reliance on college students working on a volunteer basis to perform outreach, failure to bring on sufficient staff resources, and other reasons.

DCA described outreach provided from July 1, 2013-August 1, 2013 that used multiple vehicles for spreading information about the programs, including specific outreach geared towards LMI populations, the disabled, and Spanish-speakers. As described, this phase of outreach had the support infrastructure in place to work with applicants who had difficulties applying due to either disability or language barriers. In fact, the data examined during the review (see the data analysis section of this report for details) appears to bear out the proposition of where the outreach was focused, LMI persons did indeed apply in proportionally greater numbers. However, where outreach was less-focused geographically, programs appear somewhat undersubscribed. It appears that DCA and its contractor made significant efforts toward

outreach, but without a specific strategy may have left some areas out of the targeting -- possibly resulting in the observed under-subscription.

**Review of Funding Selection Process.** The Standard Operating Procedures (SOP) for the RREM Program describe the randomization and funding determination process; however, the description is unclear in terms of the exact priorities and order the State will follow. The SOP also reflects a decision by DCA to geographically-balance the proportion of funded applicants by county after the SSHIP contractor provided an initial list for review. The funding order otherwise is based on the program's funding priorities, which is determined by the application date, the applicant's income group, and whether the applicant's home was substantially damaged.

As described in the SOP for the RREM application procedures, Group 1 was randomly considered by providing "[e]very non-LMI applicant... a random number," and "[e]very LMI applicant was given both an LMI random number and a non-LMI random number to be used in case the applicant changed from LMI to non-LMI." Next, the selection criteria of "substantial damage" were applied to the eligible applicants, prioritizing them according to this status. This initial step demonstrates that the applicants were divided into two categories: first based on LMI status, then prioritized according to whether they had received "substantial damage." The priorities and geographic-balance that is described in the SOP is written in past tense, because it had been performed at the time the SOP was written, so HUD interviewed DCA staff to determine how actual implementation occurred. The SOP states that:

All LMI applicants that were substantially damaged were put on the funded list. Based on the number of non-LMI DCA chose to fund, the random number are used to select the non-LMI eligible applicants that were substantially damaged. After DCA saw the distribution of LMI applicants by county, DCA changed the number of funded applicants by county. This caused some applicants to come off the funded list in the over-subscribed counties and some to go on the list in the counties that were under subscribed.

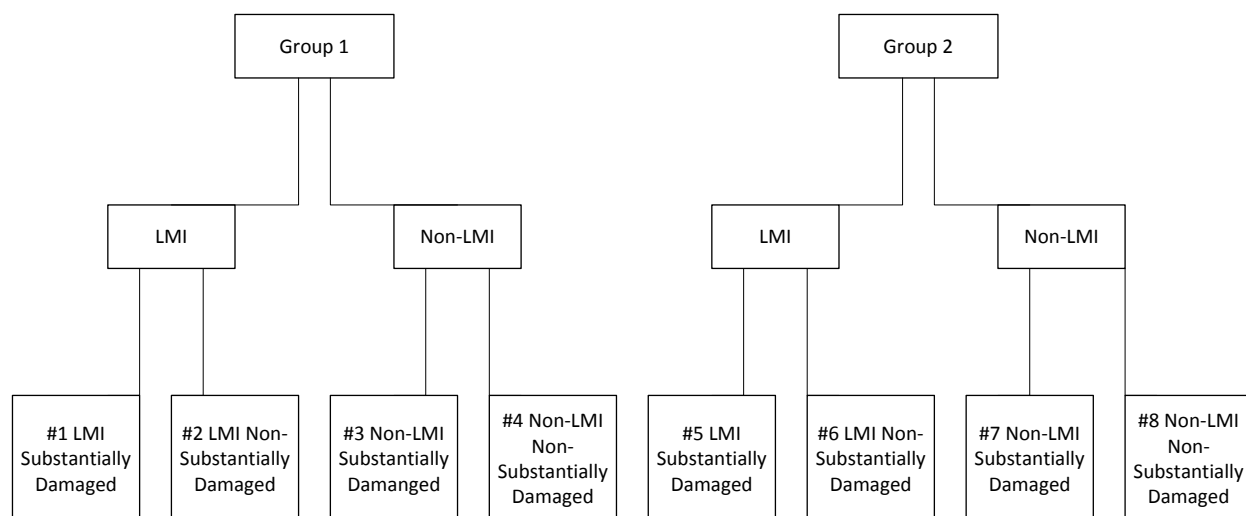
The SOP then continues to describe how randomization and prioritization was applied to applicants of Group 2:

For Group 2 applicants, funding was based on a 'first-come, first served' basis. Therefore, each applicant in Group 2 received a number based on the date/time the application were submitted. Funding for Group 2 was determined based on LMI status. Per DCA's request, all Group 2 LMI applicants were moved from the waitlist to the funded-list at the same time.

Reviewing the methodology as described in the SOP, HUD understands that the funding of applicants was implemented in the following manner. The State divided applicants into two groups based on LMI status and assigned random numbers for order of service delivery, then prioritized by who had received "substantial damage." According to the SOP, all of the LMI applicants from Group 1 and Group 2 were to be funded. It is unclear in the documentation, however, how applicants were funded based on damage status and how the geographic balancing

was implemented. Furthermore, DCA clarified in interviews that not all Group 2 LMI applicants were funded, but that all substantially damaged LMI applicants have been funded. There is not enough detail in the documents provided to determine whether or not this process was fair in its effect on the applicant pool, regardless of LMI and damage statuses.

During an interview with the Assistant Commissioner of DCA, DCA clearly explained its prioritization and the process of geographic balancing (although how this balancing was implemented must be clearly documented). The following application-funding matrix was drawn to help the reviewers understand the process.



This chart reflects the division of applicants into two separate groups based on the two distinct application periods, then based on LMI status, and then further subdivided in order to prioritize for damage status. The funding goal that DCA set was that 70% of the funds allocated for this program would go to LMI applicants, with 30% going towards non-LMI applicants. Referring back to the SOP, all of the LMI applicants from Group 1 and Group 2 should have been funded. DCA clarified, however, that all LMI applicants with substantial damage have been funded and the State expects to reach all LMI applicants in Group 1 and 2, regardless of damage level, with additional CDBG-DR funding from HUD.

Based on the discussion in the interview, those already funded were selected according to the following priority: all LMI applicants who were substantially damaged (Subsets 1 and 5) and as many of the Non-LMI substantially damaged applicants in Group 1, subset 3, that could be funded to fill the 70%/30% goal. The waitlist then comprises all of the applicants that had not initially received funding. The priority order represented to express how the funding of waitlist works is as follows: Subset 2, Subset 3, Subset 6, Subset 4, Subset 7, then Subset 8.

Regarding the geographic balance, DCA did not provide written documentation on how the balancing was implemented. Based on the interviews, after the initial distribution of funded applicants was examined, DCA decided to balance the funding across the counties. Examining the number of applicants funded and the amount of LMI and substantially damaged units per

county, DCA determined how they would balance based on target goals for each county. The chart below was drawn by DCA for the reviewers to demonstrate how this was done.

**\*Theoretical Example\***

| County Name | % of Desired Target | % of Desired Target – Actually Funded | +/- Applicants to Equalize in Order to Reach Desired Funding Targets |
|-------------|---------------------|---------------------------------------|--|
| County X    | 1.2%                | 0.9%                                  | 5  |

Using this formula, DCA decided how many applicants needed to be added or subtracted from the actual funded applicants (N) to get as close to the desired target percentage of those actually funded. DCA noted that in some cases they did not receive enough applicants in a county to reach the desired target.

Since all LMI applicants from Group 1 and Group 2 with substantial damage was funded, the assumption can be made that those who were added and subtracted from the funded list and placed on the waitlist were from Group 1, subset 3, the Non-LMI substantially damaged. The decision to fund all LMI applicants that were substantially damaged in Group1 and Group 2 was made because DCA felt it would be difficult to meet the programmatic LMI overall benefit requirement as it continued to roll out its other CDBG-DR programs. The formulas that was provided to the reviewers as to how the funding is determined did not reflect the actual distribution, as both LMI and Non-LMI applicants receive funding simultaneously because of the separate funding pools of 70% to LMI and 30% to Non-LMI applicants.

The table below demonstrates HUD reviewers' understanding of the status of the funded and waitlist priority applicants as of the time of the review as described in the interview, subject to the geographic balancing process. Note that while DCA was giving a stated priority to LMI, it was also funding applicants from the non-LMI pool based on the 70:30 ratio.

| <b>Funding Status and Priority (as Described to HUD)</b>   |                        |                |                               |
|--|------------------------|----------------|-------------------------------|
| As funding becomes available, 70% will go to LMI prioritized based on substantial damage and the applicants' groups: |                        |                |                               |
| LMI Applicant Pool   | Damage Level           | Current Status | Priority for Funding Waitlist |
| GROUP 1 (Applied May 24- June 30, 2013)<br><br>Randomized order.   | Substantial Damage     | FUNDED         |                               |
|  | Non-substantial Damage | WAITLIST       | 1                             |
| GROUP 2 (Applied July 1- August 1, 2013)<br><br>First come, first served.  | Substantial Damage     | FUNDED         |                               |
|  | Non-substantial Damage | WAITLIST       | 2                             |

As funding becomes available, 30% will go to non-LMI prioritized based on substantial damage and the applicants' groups:

| Non LMI Applicant Pool  | Damage Level           | Current Status   | Priority for Funding Waitlist (subject to 70:30 LMI/non-LMI split) |
|---|------------------------|------------------|--|
| GROUP 1 (Applied May 24-June 30, 2013)<br><br>Randomized order.       | Substantial Damage     | PARTIALLY FUNDED | 1  |
|   | Non-substantial Damage | WAITLIST         | 3  |
| GROUP 2 (Applied July 1- August 1, 2013)<br>First come, first served. | Substantial Damage     | WAITLIST         | 2  |
|   | Non-substantial Damage | WAITLIST         | 4  |

Once this process has been done to determine the applicants, the DCA has looked at the geographic representation of persons to be funded and adjusted funded applicants to even the distribution of funds geographically.

**Review of Appeals Process.** HUD reviewed the Appeals process for individuals who were initially found to be ineligible under the RREM and Resettlement programs. The State's process is outlined in DCA Appeals Process (No. 2.10.7) effective October, 2013. According to the described process, applicants found to be ineligible by the SSHIP contractor were to be notified of their right to appeal the decision within 30 days of notification. Depending on the nature of the appeal, decisions would be reviewed by an SSHIP Appeals Case Manager or an RREM Program Manager for initial review, who then submit the decision along with a statement and documentation to DCA. Decisions are reviewed by a three-person team who makes a recommendation to the DCA Sandy Recovery Division Director, who renders a decision for each case. In a non-contested decision, the Commissioner issues a Final Agency Decision. In cases in which ineligibility has been determined, the Director's decision would be communicated to the applicant and the applicant would have the right to appeal to the Office of Administrative Law (OAL) within 30 days of service of the Director's decision.

The OAL offers an administrative hearing before an Administrative Law Judge (ALJ). The ALJ will then submit a recommendation to the Commissioner independent of the Director's Decision and the Commissioner will make a Final Agency Decision based on the record before him. Final Agency Decisions are appealable to an appellate court in New Jersey.

|  |
|--|
| <p><b>Status of Cases in Appeals Unit (Memo February 19, 2014, from Appeals Officer to Assistant Director (Acting)).</b></p> |
|--|

|  |
|--|
| <p>Total number of appeals: 124<br/> Total number transferred to OAL: 97<br/> Total number awaiting to be transferred: 24<br/> Total not being transferred: 8<br/> Total Hearings decided by the ALJ: 8<br/> Total Hearings decided by the Commissioner: 1<br/> Total matters decided by the Commissioner: 9<br/> Number of Settled cases: 12<br/> Number of settled cases sent to the Commissioner: 7<br/> Number of Settlements approved by Commissioner: 2<br/> Number of settlements awaiting Commissioners Approval: 3<br/> Number of Withdrawals: 8<br/> Number of Withdrawals approved by the Commissioner: 6</p> |
|--|

There were 1,516 RREM appeals, nearly 77 % of which were found to be eligible upon appeal. For the Resettlement program, there were a total of 2,199 appeals, 71.66% of which were overturned upon review. Based on this high-rate of apparent error in the initial review process, DCA decided to allow applicants denied upon initial review an additional opportunity to have that decision reviewed and residents were notified via letter and press release. All RREM and Resettlement applicants deemed ineligible had until March 14, 2014, to appeal.

## **DEMOGRAPHIC DATA ANALYSIS**

### **Summary of Results**

This section summarizes HUD's analysis of DCA's entire RREM administrative database to help determine if the program's policies and procedures are (or are likely to) disproportionately serve white, non-Hispanic homeowners.

Since the RREM program is early in its implementation, this data review does not fully analyze whether or not the program is disproportionately serving white, non-Hispanic homeowners.<sup>1</sup> HUD's Office of Policy Development and Research (PD&R) will continue to analyze existing RREM data to make this determination. However, we do find evidence that white, non-Hispanic households may have been more likely to apply to the RREM program than minority households, especially in the lower-volume, most impacted counties. In these counties, we also find that homeowners with major and severe damage, regardless of race, were significantly less likely to apply to the RREM program. This indication creates sufficient concern for HUD to reinforce its plan to continue monitoring the RREM program as a greater share of applicants move through the approval process.

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<sup>1</sup> As compared to what the Department would expect based on FEMA Individual Assistance registrants with major and severe damage.



HUD's review of the State's outreach strategies indicates that the rapid deployment of its early implementation process may have played a role in these different application rates by county, but evidence reviewed is not conclusive as to all causal factors.

Finally, this analysis focused on the RREM program, which is one part of the overall strategy for housing recovery. HUD plans to conduct a larger review of all of the State's CDBG-DR housing programs to ensure that all housing needs (rental and homeowner) are suitably met proportional to need.

HUD is planning to perform similar analyses for other major Sandy CDBG-DR grantees in conjunction with CPD's planned monitoring visits.

### **Summary of analysis for NJ's RREM program**

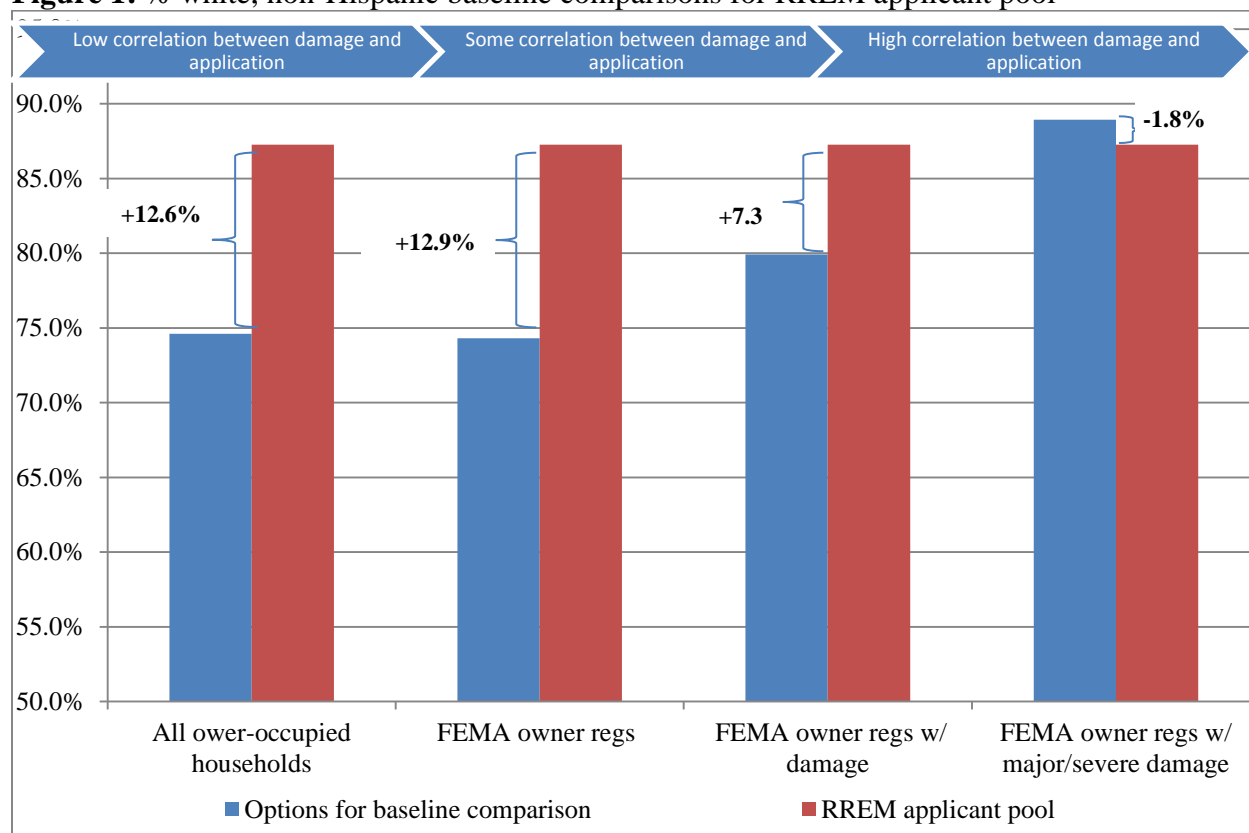
There are about 15,000 households that have applied for the RREM program during the application window of March 24, 2013 to August 1, 2013. As of the date of this analysis, about a third of applicants have been determined eligible for the program while a little less than half are waitlisted. Since the State has not yet determined eligibility and award amounts for such a large portion of RREM applicants, this analysis focuses on the initial application phase.

#### **1. Overall racial differences of the RREM applicant pool**

Determining whether the RREM applicant pool is disproportionately white, non-Hispanic is challenging because of the range of differences between the observed racial composition of the RREM applicant pool and the different options for determining a suitable baseline comparison. In other words, it is difficult to determine what an impartial analyst would expect the RREM applicant pool to look like given actual damage measured by FEMA's Individual Assistance (IA) program.

**Figure 1** shows four options for comparing the racial makeup of the RREM applicant pool to affected homeowners. An analyst selecting this option should expect the race/ethnic composition of RREM applicants to mirror that of a broad range of homeowners affected by Hurricane Sandy by assuming there is no risk for homeowners with light or no damage to apply to the RREM program. Under this assumption, the only disincentive for applying is the time it takes for the initial application. Applying this argument, the figure below suggests that applicants who applied for RREM are somewhere between seven and 13 percentage points more white, non-Hispanic than the universe of total homeowners in NJ that applied for FEMA assistance.

However, an analyst could also argue that a more appropriate baseline should be homeowners with at least \$8,000 in FEMA verified loss and/or at least one foot of water damage, otherwise known as having "major to severe" damage to correspond with the basic eligibility criteria that the State implemented. The argument for this baseline comparison is that minority households with less severe damage simply chose not to apply to the RREM program because of these minimum damage requirements. Using this baseline in the last pair of columns in **Figure 1**, the analysis does not depict a significant difference between the RREM applicant pool and the universe of affected households.

**Figure 1: % white, non-Hispanic baseline comparisons for RREM applicant pool**

## 2. Application rates by race/ethnicity and county

While Figure 1 suggests that the overall racial composition of the RREM program is more white, non-Hispanic than the universe of Sandy impacted households, there are many confounding factors at play, such as differences in application rates by county and by intensity of damage.

**Figure 2** below shows the application rates of FEMA registered homeowners by county to determine if white, non-Hispanic homeowners were more likely to apply to the RREM program than minority households. This table shows that overall, 34% of major/severely damaged white, non-Hispanic homeowners registered with the State's RREM program while about 27% of Hispanic homeowners registered—seven percentage points less. The table also shows that 33% of major/severely damaged other, non-Hispanic homeowners registered with RREM—not very different from white homeowners. In the three most impacted counties of Ocean, Monmouth, and Atlantic, these application rates were much higher, especially for minorities. However, in the other six counties, application rates were much lower for all races and even lower for minority homeowners.

**Figure 2:** Race/ethnicity of major/severely damaged RREM applicants and application rates of FEMA registered homeowners by race/ethnicity

| County       | Share of all Major/Severe RREM Regs that are within Race/Ethnicity Category |       |          |       | Share of all Major/Severe FEMA Regs that Registered w/ RREM by Race/Ethnicity |       |          |       | Share of all FEMA Regs that Registered w/ RREM by Damage Category by Race/Ethnicity |       |       |
|--------------|---|-------|----------|-------|---|-------|----------|-------|---|-------|-------|
|              | All HHs   | White | Hispanic | Other | All HHs   | White | Hispanic | Other | Cat 3   | Cat 4 | Cat 5 |
| ALL Counties | 11,539<br>(w/ race)   | 90%   | 4%       | 7%    | 34%   | 34%   | 27%      | 33%   | 21%   | 43%   | 52%   |
| OCEAN        | 6,305   | 96%   | 2%       | 2%    | 37%   | 37%   | 49%      | 63%   | 23%   | 45%   | 53%   |
| MONMOUTH     | 2,803   | 92%   | 4%       | 4%    | 40%   | 40%   | 36%      | 41%   | 23%   | 49%   | 55%   |
| ATLANTIC     | 1,426   | 68%   | 4%       | 28%   | 31%   | 30%   | 22%      | 37%   | 26%   | 45%   | 54%   |
| CAPE MAY     | 275   | 92%   | 1%       | 8%    | 17%   | 16%   | 13%      | 47%   | 13%   | 33%   | 30%   |
| BERGEN       | 317   | 78%   | 13%      | 9%    | 22%   | 23%   | 16%      | 18%   | 19%   | 25%   | 25%   |
| HUDSON       | 134   | 62%   | 12%      | 26%   | 10%   | 10%   | 10%      | 12%   | 11%   | 7%    | 23%   |
| MIDDLESEX    | 234   | 80%   | 8%       | 12%   | 25%   | 28%   | 18%      | 19%   | 16%   | 31%   | 36%   |
| UNION        | 35  | 29%   | 19%      | 52%   | 15%   | 12%   | 12%      | 21%   | 6%  | 29%   | 42%   |
| ESSEX        | 10  | 60%   | 40%      | 0%    | 9%  | 10%   | 15%      | 0%    | 6%  | 18%   | 11%   |

To examine racial differences within different degrees of damage, **Figure 3** breaks down the major/severe application rates by three damage categories—Category 3 is major-low damage, Category 4 is major-high, and Category 5 is severe damage. To better understand differences between the two groupings of counties highlighted in Figure 2, Figure 3 also aggregates the analysis by the three counties in which the State focused its outreach, Ocean, Monmouth and Atlantic, and the other six most impacted counties.

Finally, Figure 3 provides predicted application rates of blocks that have FEMA registrants that are 100% above damage category 3 and 100% within each racial/ethnic category.<sup>2</sup> These results act as a check on the statistical significance of the actual application rates observed in the full universe. For more details on the results of the regression model and interpretations of coefficients for every damage category by race/ethnicity, see the tables in Appendix 2.

Figure 3 shows that the major difference of application rates for Hispanic households is largely driven by the difference exhibited in the Damage 4 category where Hispanics are 11 percentage points less likely to register for RREM. While the figure shows that other non-Hispanic races are only one percentage point less likely to apply than white households, the regression model suggests this difference is significant. The significance is likely driven by the lower application rates for the most severely damaged other, non-Hispanic homeowners as predicted in the regression results in Appendix 2.

In the larger three counties, Figure 3 confirms that minorities are more likely to apply for RREM than white households in the aggregate. However, the regression model predicts that severely

<sup>2</sup> These interpretations are from unweighted versions of the models shown in Appendix 2.

damaged homeowners that are other, non-Hispanic are significantly less likely to apply than their white counterparts are.

In the other six most impacted counties, Figure 3 confirms that application rates for all homeowners, regardless of race and ethnicity are significantly less likely to apply for RREM. This is especially true for Hispanic homeowners in the most severe damage categories.

**Figure 4** shows that if the other six counties had the same damage and race/ethnicity application rates as the larger three counties, the RREM program would have about 840 additional applicants. Some 34% of those additional applicants would be minority homeowners. Note that the current RREM applicant pool is only about 13% minority.

**Figure 3:** Application rates of FEMA registered homeowners by damage category and race/ethnicity; interpretation of block-level regression coefficients (see Appendix 2 for full results).

| ALL COUNTIES                           |            |            |            |                       |              |  |
|--|------------|------------|------------|-----------------------|--------------|--|
|  | White      | Hispanic   | Other      | Difference from White |              |  |
|  |            |            |            | to Hispanic           | to Other     |  |
| Damage 3                               | 21%        | 19%        | 27%        | -2%                   | 6%           |  |
| Damage 4                               | 44%        | 33%        | 46%        | -11%                  | 1%           |  |
| Damage 5                               | 52%        | 54%        | 51%        | 1%                    | -1%          |  |
| <b>TOTAL</b>                           | <b>34%</b> | <b>27%</b> | <b>33%</b> | <b>-7%</b>            | <b>-1%</b>   |  |
| <i>Block regression for damage 3-5</i> | <b>33%</b> | <b>25%</b> | <b>29%</b> | <b>-9%*</b>           | <b>-5%*</b>  |  |
| BIG THREE COUNTIES                     |            |            |            |                       |              |  |
|  | White      | Hispanic   | Other      | Difference from White |              |  |
|  |            |            |            | to Hispanic           | to Other     |  |
| Damage 3                               | 23%        | 24%        | 34%        | 1%                    | 11%          |  |
| Damage 4                               | 46%        | 43%        | 56%        | -4%                   | 10%          |  |
| Damage 5                               | 54%        | 69%        | 61%        | 15%                   | 8%           |  |
| <b>TOTAL</b>                           | <b>37%</b> | <b>36%</b> | <b>41%</b> | <b>-1%</b>            | <b>4%</b>    |  |
| <i>Block regression for damage 3-5</i> | <b>37%</b> | <b>45%</b> | <b>35%</b> | <b>7%*</b>            | <b>-2%*</b>  |  |
| OTHER SIX COUNTIES                     |            |            |            |                       |              |  |
|  | White      | Hispanic   | Other      | Difference from White |              |  |
|  |            |            |            | to Hispanic           | to Other     |  |
| Damage 3                               | 14%        | 13%        | 13%        | -1%                   | -1%          |  |
| Damage 4                               | 26%        | 17%        | 25%        | -10%                  | -1%          |  |
| Damage 5                               | 31%        | 22%        | 33%        | -9%                   | 2%           |  |
| <b>TOTAL</b>                           | <b>18%</b> | <b>15%</b> | <b>17%</b> | <b>-4%</b>            | <b>-1%</b>   |  |
| <i>Block regression for damage 3-5</i> | <b>18%</b> | <b>16%</b> | <b>7%</b>  | <b>-2%</b>            | <b>-10%*</b> |  |

\*Significant with least 95% confidence

**Figure 4:** Additional RREM registrants if other six counties had the same damage and race/ethnicity application rates as the big three counties

| SAME APPLICATION RATES AS OUTREACH COUNTRIES |            |            |            |            |
|--|------------|------------|------------|------------|
|  | White      | Hispanic   | Other      | TOTAL      |
| Damage 3                                     | 258        | 46         | 106        | <b>410</b> |
| Damage 4                                     | 210        | 41         | 55         | <b>307</b> |
| Damage 5                                     | 76         | 27         | 19         | <b>122</b> |
| <b>TOTAL</b>                                 | <b>544</b> | <b>114</b> | <b>180</b> | <b>838</b> |

These analysis provides some support to HUD’s concern, stated elsewhere in this review, that the State’s initial outreach was implemented initially without a concerted effort to target hard to reach populations, especially in counties other than the three most affected. This could have led to inconsistently disseminated information about eligibility criteria and application time limits and eventually to the observed difference in the overall applicant pool.

### 3. Racial differences of approved applicants with projection in the future

In the section above, the analysis compared the overall RREM applicant pool to the universe of affected homeowners in New Jersey to see if the pool is disproportionately white, non-Hispanic. That analysis suggests that the RREM applicant pool is, to a slight degree, disproportionately white, non-Hispanic, especially for minority homeowners in the least damaged counties. However, because the State has nuanced funding priorities, that conclusion does not necessarily mean that the RREM program will end up serving more white, non-Hispanics at greater rates than those that were affected.

Since the State is still actively processing RREM applications, this analysis does not fully determine whether funded applicants are disproportionately white, non-Hispanic after controlling for level of damage. However, preliminary analysis depicted in **Figure 5** shows that as of February 2014, approved applicants to that point had a lower share of white, non-Hispanic homeowners than all FEMA owner registrants with major to severe damage (85% white, non-Hispanic compared to 89% white in FEMA data).

**Figure 5:** Composition of RREM applicant pool and funded RREM applicants

|                       | Total RREM Applicants |            | Total Funded RREM Applicants |             |
|-----------------------|-----------------------|------------|------------------------------|-------------|
|                       | % White, non-Hispanic | % of total | % White, non-Hispanic        | % of total  |
| LMI Applicants        | 83%                   | 42%        | 84%                          | 72%         |
| Non-LMI Applicants    | 90%                   | 58%        | 91%                          | 28%         |
| <i>Difference</i>     | <b>8%</b>             |            | <b>7%</b>                    |             |
| <b>ALL APPLICANTS</b> | <b>87%</b>            |            | <b>86%</b>                   | <b>100%</b> |

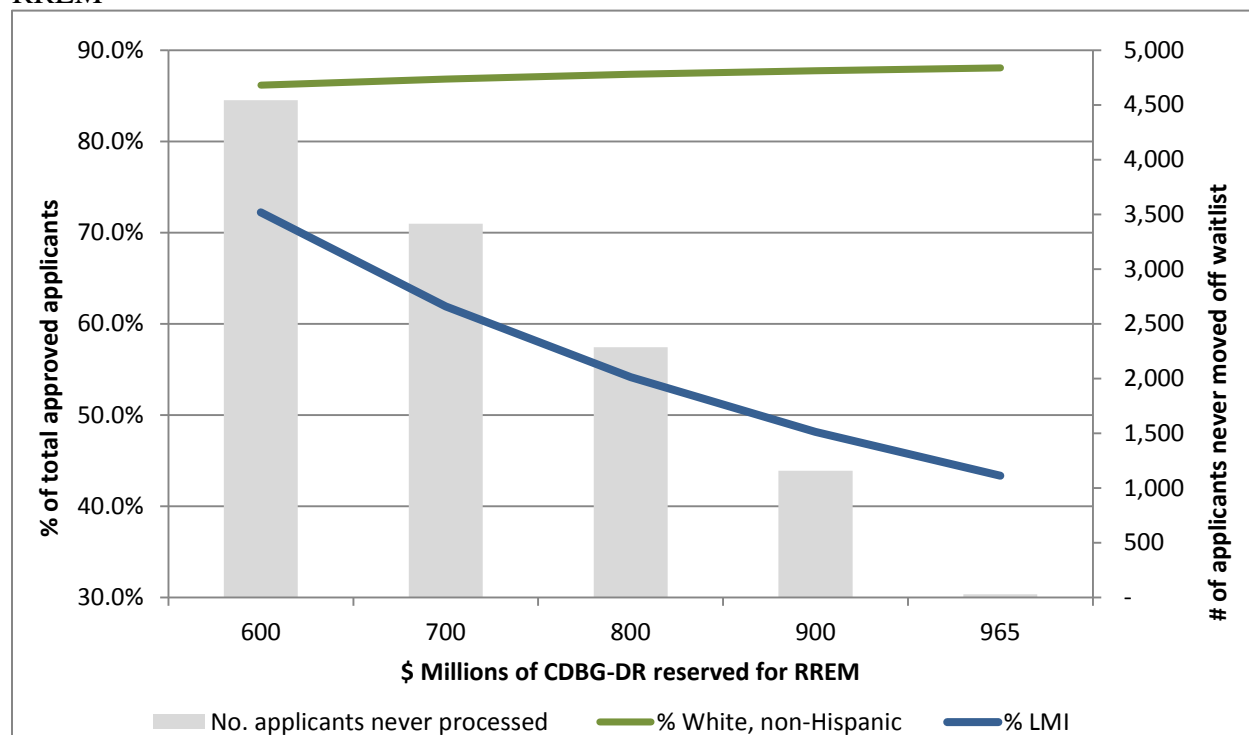
Because of the State’s LMI prioritization, **Figure 5** shows that the majority of households approved thus far have been LMI. Since the LMI RREM applicant pool has a larger share of minority households than the non-LMI pool, **Figure 6** projects the LMI and race/ethnicity composition of funded applicants in the future after the State has served all LMI applicants in the existing pool. While this analysis does not conclusively show whether or not the observed distortion of the RREM applicant pool will end up distorting the final racial composition of funded applicants in the future, it provides useful information on the likely LMI composition of the funded pool if the State chooses not to expand the RREM applicant pool.

**Figure 6** shows that at funding levels of \$600 million, the final pool of approved RREM applicants would be about 70% LMI and slightly less white, non-Hispanic than the overall share of FEMA registrants with major/severe damage. However, the State has already made one substantial amendment to its Action Plan to increase the RREM budget to \$710 million (reducing projected LMI to about 62%) and another increase was out for public comment during this review. As the state puts more funding into the RREM program and serves more non-LMI households, the percent of approved applicants that are LMI rapidly declines and the percent of approved applicants that are white, non-Hispanic slightly increases over time.

It is possible that if the application window remains closed, over time the racial composition of funded applicants will begin to be more white, non-Hispanic than one would expect. There are many factors in this analysis, however, and this projected difference is quite small and probably insignificant. HUD is issuing a concern in this report because of remaining uncertainty on how the difference will play out as the State moves forward.

Furthermore, based on the analysis, the State should consider options for reopening the application window to target more LMI homeowners if DCA wishes to maintain the planned 70/30 percent LMI/non-LMI split in RREM funding, particularly if the State increases total funding for RREM under subsequent Action Plan amendments. Reopening the application window (or, alternatively, creating a new, targeted program) would give the State an opportunity to affirmatively target hard-to-reach minority households, especially in the six lesser affected, most impacted counties.

**Figure 6:** Projection of LMI and white, non-Hispanic composition for applicants served in RREM



**Concern # 2:** Observed differences in application rates in the most impacted counties between white non-Hispanic households and minority households could lead to violation of program requirements in certain circumstances as the state continues implementation.

**Condition:** A review of the RREM applicant data available during the review did not reveal significant differences among protected classes under civil rights requirements. However, the review shows a possibility that the observed differences in application rates in the most impacted counties between white non-Hispanic households and minority households could lead to violation of program requirements in certain circumstances as the State continues implementation. To its credit, the State had undertaken, and presented to HUD during the entrance conference, analysis of the same data, looking for differences and possible trends. The State had access to data at the zip code or census tract level. HUD's analyst was able to use census block data and employ different, more nuanced statistical analyses, with a tighter focus on the most impacted neighborhoods.

**Cause:** HUD has not determined with certainty the cause of the observed differences but notes that the differences correlate positively with some of the expected effects of the outreach activities. Under-subscribed populations might have applied given more intense or targeted outreach to them. Other factors at work might include complexities of the program design and required documentation, the fit of the program design to the nature of the damage and needs of those who did not apply, noise or errors in the State's applicant data, or other unknown factors.

**Effect:** As the State continues awarding funds to the current pool of applicants under the current priorities, the racial characteristics of the awarded pool may move farther from the characteristics expected based on the total potential applicant pool. HUD does not currently project that the difference between expectation and actual will be sufficiently large to trigger a finding of noncompliance with civil-rights related program requirements.

**Recommended Actions:** At the State's request, HUD has already met with the State to present and discuss this analysis. HUD recommends that the State review this report and the RREM data. In administering the RREM program going forward, the State needs to consider the possibility of award disparities arising and adjust its policies to limit disparities as much as possible.

**Concern #3:** Need for continued focus on possible effects of RREM on overall benefit.

**Condition:** Because the applicant pool is about 60% non-LMI, HUD is concerned that the State will have difficulty meeting the overall grant requirement that at least 50 percent of the funds must assist activities that meet the LMI national objective.

**Cause:** HUD is concerned that the current RREM applicant pool will not yield a 70/30 LMI/non-LMI split for funded applicants, which is necessary according to the grantee's Action Plan to reach the 50 percent overall benefit requirement. As noted above, the under-subscription correlates with the expected effects of the issues with the outreach process. At the time of the review, the State did not plan to re-open the application window for RREM, so a number of LMI households with projected unmet recovery needs may not be served by RREM.

**Effect:** Public Law 113-2 requires that every grantee use at least 50 percent of its CDBG-DR funds to assist activities that meet the LMI national objective. The analysis undertaken in this review focuses on households, not funding, so it is not a perfect predictor of award amounts once damage, cost to rebuild or rehabilitate, and duplication of benefits is considered. However, because of the nature of the damage and the design of the State's programs so far, HUD currently predicts that RREM program will not achieve its projected LMI goal once all eligible current applicants are funded. Given the high percentage of the state's CDBG-DR funds allocated to the RREM program, there is a risk the state may not meet the statutory 50 percent LMI goal if RREM falls short of targets. The State must take special care to design and implement programs with a focus on meeting the 50 percent overall benefit requirement as HUD is limited by law to provide a waiver of this requirement only after making a finding of compelling need to reduce the amount of funding designated for LMI assistance.

**Recommended Actions:** HUD recommends focused attention to meeting the unmet recovery needs of affected LMI residents to ensure the State has the best chance of meeting the unmet recovery needs of LMI persons and the CDBG-DR overall benefit requirement. The State should consider how best to identify and meet the unmet recovery needs of the households that were expected to and did not apply for RREM and their communities. The State may consider re-opening the RREM application process, with targeted outreach to the under-subscribed areas and populations. Alternatively, the State may also decide to design a different recovery program tailored to the specific unmet recovery needs identified.



## **CONCLUSION**

This review focused on internal audit, analysis of RREM applicant data relative to expected applicants, and RREM policies and procedures. In summary, HUD does not have findings of noncompliance related to the RREM or Resettlement programs at this time. HUD does have concerns and will continue to monitor these areas, both in New Jersey and in other Sandy grantees.

HUD did observe a robust internal audit function covering all CDBG-DR funded activities and timely management implementation of recommended actions. HUD will continue to monitor this function, with particular attention to ensuring the integrity monitor's observations continue to be addressed and the reports are completed and issued in accordance with the State's protocol.

HUD notes that, subsequent to HUD's monitoring visit, the state submitted a substantial amendment to its disaster recovery action plan that includes a housing rehabilitation program targeted to low- and moderate-income households that appears to address the concerns raised in this report. That substantial amendment was still under review at the time this report was issued.

In this review, HUD did not look into the State's compliance with requirements specifically related to LEP participants and applicants during the RREM outreach and application period.

The Department appreciates the assistance of Commissioner Richard E. Constable, DCA staff, and the integrity monitors during this monitoring visit, and looks forward to continuing work with the State of New Jersey to assist its citizens in recovering from the effects of Hurricane Sandy.

## APPENDIX 1

| <b>Summary Chart of Conditions from Universe of Files Reviewed</b>           |   |   |   |
|--|---|---|---|
| <b>Record Type</b>   | <b>Condition</b>  | <b>Total Number of Records Reviewed</b> | <b>Total Number of Records Presenting Condition</b> |
| FUNDED (whether found initially eligible or found eligible following appeal) | Record does not support funding eligibility- failed to report more than 50% damage.   | 38                                      | 4   |
| FUNDED (whether found initially eligible or found eligible following appeal) | Record does not support funding eligibility - failed to report receipt of FEMA substantial damage determination letter                                    | 38                                      | 7   |
| FUNDED (whether found initially eligible or found eligible following appeal) | Record identifies applicant as funded but eligibility determination letter identifies applicant as ineligible and no subsequent eligibility determination | 38                                      | 1   |
| FUNDED (whether found initially eligible or found eligible following appeal) | Record identifies applicant as funded but eligibility determination letter not documented in the record   | 38                                      | 1   |
| FUNDED (whether found initially eligible or found eligible following appeal) | Approved applicants for funding do not have record of advancing to obligation 6 months after notification   | 38                                      | 28  |
| FUNDED (whether found initially eligible or found eligible following appeal) | Record of approved applicants with funding obligations reflects a span of 5-7 months between funding notification and obligation by grant agreement.      | 10                                      | 7   |
| WAITLISTED   | Record does not support funding eligibility- failed to report more than 50% damage.   | 29                                      | 21  |
| WAITLISTED   | Record does not support funding eligibility - failed to report receipt of FEMA substantial damage determination letter                                    | 29                                      | 20  |
| WAITLISTED   | Record does not support funding eligibility - reported more than \$250,000 income   | 29                                      |   |
| APPEAL: FUNDED WITH APPROVED APPEAL  | Missing documentation of appeal from applicant  | 4                                       | 3   |
| APPEAL: FUNDED WITH APPROVED APPEAL  | Inconsistent upload of documentation to support decision to approve following appeal  | 4                                       | 2   |

|                                      |  |    |     |
|--------------------------------------|--|----|-----|
| APPEAL: NOT FUNDED/<br>APPEAL DENIED | Record missing initial letter documenting that applicant was notified of ineligibility         | 5  | 2   |
| APPEAL: NOT FUNDED/<br>APPEAL DENIED | Record does not document reason for ineligibility determination                                | 5  | 2   |
| APPEAL: NOT FUNDED/<br>APPEAL DENIED | Record contains no documentation of appeal – ie a letter or other communication from applicant | 5  | 3   |
| APPEAL: NOT FUNDED/<br>APPEAL DENIED | Record contains no documentation of final eligibility determination                            | 5  | 3   |
| ALL RECORDS                          | Inconsistent availability of data on race/ethnicity and elderly status. No data on race        | 83 | 12  |
| ALL RECORDS                          | Inconsistent availability of data on race/ethnicity and elderly status. No data on ethnicity   | 83 | 16  |
| ALL RECORDS                          | Inconsistent availability of data on race/ethnicity and elderly status. No data on elderly     | 83 | 43  |
| ALL RECORDS                          | No data on disability status   | 83 | All |

## APPENDIX 2

This section summarizes a regression analysis that tests the statistical significance of the differences the Department sees in the full universe of potential RREM applicants, after controlling for the severity of damage and the State's concerted outreach efforts in the three most impacted counties.

HUD staff ran three regressions in total, in which staff regress a Census block's racial composition from the Census 2010 against the dependent variable, share of all FEMA registrants in a Census block that registered for the RREM program, weighted by the number of FEMA registrants in each block. HUD staff ran one model for all nine most impacted counties, one for the three most impacted counties in which the State focused its outreach efforts (Ocean, Monmouth, and Atlantic) and one model for the remaining six most impacted counties.

All three models include interaction effects of race by damage level to account for differences in rates by race.<sup>3</sup> Each model also omits white homeowners and the Damage Category 0, which is no FEMA inspected damage.

Figure 1 below shows the interpretations of the coefficients in Figure 2. For instance, in Model 1, Hispanic Damage Category 5 is equal to the following coefficients in Figure 1:

$$\begin{aligned}
 &45.19 \text{ (Percent of FEMA owner-occupied registrants in a block that registered with RREM)} = \\
 &\quad \{0.56932 \text{ (Intercept Coefficient)} \quad \quad \quad + \\
 &\quad -0.01061 \text{ (\% Hispanic, homeowner Coefficient)} \quad *100 + \\
 &\quad 0.61282 \text{ (\% FEMA Owners Damage 5 Coefficient)} \quad *100 + \\
 &\quad -0.00156 \text{ (\% Hispanic X \% Damage 5 Coefficient)} \quad *100*100\}
 \end{aligned}$$

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<sup>3</sup> For instance, minorities may be less likely to register for RREM in higher damage categories but more likely in lesser categories.

**Figure 1:** Interpretation of coefficients from Appendix 2, Figure 2 where a block is 100% within each damage and race/ethnic category

| Model 1: ALL COUNTIES |       |          |       |                       |             |   |
|-----------------------|-------|----------|-------|-----------------------|-------------|---|
|                       | White | Hispanic | Other | Difference from White |             |   |
|                       |       |          |       | to<br>Hispanic        | to<br>Other |   |
| Damage 3              | 21.04 | 19.93    | 30.21 | -1.11                 | 9.17        | * |
| Damage 4              | 51.99 | 36.67    | 60.54 | -15.33                | 8.55        | * |
| Damage 5              | 61.85 | 45.19    | 13.63 | -16.66                | -48.22      | * |

| Model 2: BIG THREE COUNTIES |       |          |       |                       |             |   |
|-----------------------------|-------|----------|-------|-----------------------|-------------|---|
|                             | White | Hispanic | Other | Difference from White |             |   |
|                             |       |          |       | to<br>Hispanic        | to<br>Other |   |
| Damage 3                    | 23.09 | 45.33    | 29.27 | 22.24                 | 6.18        | * |
| Damage 4                    | 52.41 | 53.06    | 79.89 | 0.64                  | 27.48       | * |
| Damage 5                    | 59.59 | 115.32   | 29.53 | 55.73                 | -30.06      | * |

| Model 3: OTHER SIX COUNTIES |       |          |       |                       |             |   |
|-----------------------------|-------|----------|-------|-----------------------|-------------|---|
|                             | White | Hispanic | Other | Difference from White |             |   |
|                             |       |          |       | to<br>Hispanic        | to<br>Other |   |
| Damage 3                    | 14.60 | 13.43    | -0.88 | -1.17                 | -15.48      | * |
| Damage 4                    | 37.27 | 28.00    | 28.88 | -9.27                 | -8.39       |   |
| Damage 5                    | 44.88 | 24.93    | 32.49 | -19.95                | -12.39      | * |

\*Significant with least 95% confidence

**Figure 2:** Coefficients of OLS regression models and their significance (*significance italicized under coefficients*)  
*Note, OLS regressions weighted by sum of FEMA owner occupant registrants for each block*

| Model   | 1                                   | 2                                  | 3                                   |
|---|-------------------------------------|------------------------------------|-------------------------------------|
| County Group  | All 9                               | Big 3                              | Other 6                             |
| Observations  | 28,869                              | 12,722                             | 16,147                              |
| Intercept   | 0.56932<br><i>0.0061</i>            | 0.48538<br><i>0.2023</i>           | 0.45375<br><i>0.0122</i>            |
| % Hispanic, homeowner                               | -0.01061<br><i>0.2679</i>           | 0.00451<br><i>0.9043</i>           | -0.00965<br><i>0.1291</i>           |
| % Other, homeowner                                  | -0.00411<br><i>0.4275</i>           | 0.00655<br><i>0.7115</i>           | -0.00012<br><i>0.9734</i>           |
| % FEMA Owners Damage 1                              | 0.01906<br><i>0.0002</i>            | 0.02438<br><i>0.0067</i>           | 0.01294<br><i>0.0039</i>            |
| % FEMA Owners Damage 2                              | 0.09801<br><i>&lt;.0001</i>         | 0.10385<br><i>&lt;.0001</i>        | 0.12948<br><i>&lt;.0001</i>         |
| % FEMA Owners Damage 3<br>( <i>"major-low"</i> )    | 0.20471<br><i>&lt;.0001</i>         | 0.22604<br><i>&lt;.0001</i>        | 0.14147<br><i>&lt;.0001</i>         |
| % FEMA Owners Damage 4<br>( <i>"major-high"</i> )   | 0.514<br><i>&lt;.0001</i>           | 0.519<br><i>&lt;.0001</i>          | 0.368<br><i>&lt;.0001</i>           |
| % FEMA Owners Damage 5<br>( <i>"major-severe"</i> ) | 0.61282<br><i>&lt;.0001</i>         | 0.59106<br><i>&lt;.0001</i>        | 0.44424<br><i>&lt;.0001</i>         |
| % Hispanic X % Damage 1                             | -0.00007<br><i>0.7444</i>           | 0.00023<br><i>0.7568</i>           | -0.00004<br><i>0.7628</i>           |
| % Hispanic X % Damage 2                             | -0.00069<br><i>0.0616</i>           | 0.00211<br><i>0.0539</i>           | -0.00109<br><i>&lt;.0001</i>        |
| <b>% Hispanic X % Damage 3</b>                      | <b>-0.00001</b><br><i>0.9872</i>    | <b>0.00218</b><br><i>0.0023</i>    | <b>-0.00002</b><br><i>0.9408</i>    |
| <b>% Hispanic X % Damage 4</b>                      | <b>-0.00143</b><br><i>0.0056</i>    | <b>0.00002</b><br><i>0.9834</i>    | <b>-0.00083</b><br><i>0.1129</i>    |
| <b>% Hispanic X % Damage 5</b>                      | <b>-0.00156</b><br><i>0.0945</i>    | <b>0.00553</b><br><i>0.0026</i>    | <b>-0.00190</b><br><i>0.0205</i>    |
| % Other X % Damage 1                                | 0.00005<br><i>0.655</i>             | 0.00030<br><i>0.4054</i>           | -0.00001<br><i>0.93</i>             |
| % Other X % Damage 2                                | -0.00021<br><i>0.3677</i>           | 0.00119<br><i>0.0219</i>           | -0.00117<br><i>&lt;.0001</i>        |
| <b>% Other X % Damage 3</b>                         | <b>0.00096</b><br><i>&lt;.0001</i>  | <b>0.00055</b><br><i>0.0578</i>    | <b>-0.00155</b><br><i>&lt;.0001</i> |
| <b>% Other X % Damage 4</b>                         | <b>0.00090</b><br><i>0.014</i>      | <b>0.00268</b><br><i>&lt;.0001</i> | <b>-0.00084</b><br><i>0.0644</i>    |
| <b>% Other X % Damage 5</b>                         | <b>-0.00478</b><br><i>&lt;.0001</i> | <b>-0.00307</b><br><i>0.0006</i>   | <b>-0.00124</b><br><i>0.1306</i>    |

*Note, regression is weighted by no. of owner-occupied FEMA registrants*