



# City of Jersey City, NJ

## Community Development Block Grant Program



**To:** Annemarie Uebbing  
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//SIGNED//

**From:** Kimberly Greene  
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**Subject:** The City of Jersey City, NJ's Community Development Block Grant Program  
Had Administrative and Financial Control Weaknesses

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Jersey City, NJ's Community Development Block Grant.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.



Audit Report Number: 2016-NY-1007

Date: March 30, 2016

The City of Jersey City, NJ's Community Development Block Grant Program Had Administrative and Financial Control Weaknesses

## Highlights

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### What We Audited and Why

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We audited the City of Jersey City, NJ's Community Development Block Grant (CDBG) program in response to a hotline complaint. The objectives of the audit were to determine whether allegations included in the complaint had merit and whether City officials had established and implemented adequate controls to ensure that the City's CDBG program was administered in compliance with CDBG program requirements.

### What We Found

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Some complaint allegations had merit, and others could not be substantiated. The City's CDBG program was not always administered in compliance with program requirements. Specifically, (1) program income was not always collected, recorded, or supported; (2) funds were used for unsupported costs; (3) CDBG activities and the City's home-ownership program were not administered in compliance with program requirements; (4) unnecessary drawdowns were made; and (5) the City's Integrated Disbursement and Information System (IDIS<sup>1</sup>) information was not accurate or traceable to that in its accounting records. As a result, more than \$12.6 million<sup>2</sup> was not made available for eligible activities; more than \$1.6 million and \$9,813 were used for unsupported and ineligible costs, respectively; more than \$1.9 million was spent on properties without recorded mortgages to ensure compliance with program requirements; \$148,000 was unsupported program income; \$605,672 was misclassified in IDIS; and there was no assurance that more than \$1.1 million in future Section 108 income would be recorded in IDIS.

### What We Recommend

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We recommend that HUD instruct City officials to (1) reimburse more than \$11.5 million in program income to the City's CDBG bank account, (2) record Section 108 income of \$930,241 and program income of \$51,860 in IDIS, (3) provide support for more than \$1.8 million in unsupported program income and costs, (4) record mortgages so that HUD's interest of more than \$1.9 million is protected, (5) reimburse \$110,795 to the CDBG line of credit for ineligible and unreasonable costs, (6) reclassify \$605,962 in IDIS, and (7) strengthen controls to ensure that more than \$1.1 million in future Section 108 income will be recorded in IDIS.

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<sup>1</sup> IDIS is the drawdown and reporting system for HUD's Office of Community Planning and Development formula grant programs.

<sup>2</sup> This amount consists of amounts included in recommendations 1A, 1B, 1C, and 2B.

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# Background and Objectives

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The Community Development Block Grant (CDBG) program was authorized by Title 1 of the Housing and Community Development Act of 1974 (Public Law 93-383) to provide communities with resources to address a wide range of unique community development needs. The annual CDBG appropriation is allocated between States and local jurisdictions based on a formula composed of several measures of community needs, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relationship to other metropolitan areas.

The CDBG program works to ensure decent, affordable housing, provide services to the most vulnerable in our communities, and create jobs through the expansion and retention of businesses. The CDBG program is an important tool for helping local governments tackle serious challenges facing their communities. Each CDBG activity must meet one of the following national objectives for the program: benefit low- and moderate-income persons, prevent or eliminate slums or blight, or address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.

The U.S. Department of Housing and Urban Development (HUD) awarded the City of Jersey City more than \$5.2 and \$5.8 million in CDBG funds in program years 2014 and 2015, respectively. The City's CDBG program is administered by its Community Development Division, which is located at 30 Montgomery Street, Jersey City, NJ.

On December 8, 2014, HUD's Office of Inspector General (OIG) received a hotline complaint alleging misappropriation of CDBG funds. Appendix C contains a summary of the results of our evaluation of these allegations.

The objectives of the audit were to determine whether allegations included in the complaint had merit and whether City officials had established and implemented adequate controls to ensure that the City's CDBG program was administered in compliance with CDBG program requirements.

# Results of Audit

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## **Finding 1: Weaknesses in Program Administration Controls Did Not Ensure Compliance With Program Requirements**

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City officials did not always ensure that the City's CDBG activities and Homeowner Rehabilitation Program (HORP) were administered in compliance with CDBG program requirements. Specifically our review of 15 CDBG Integrated Disbursement and Information System (IDIS) activities revealed that (1) program income was not always collected, recorded, or supported; (2) CDBG funds were used for unsupported costs; and (3) CDBG activities were not always administered in compliance with program requirements. Further, our review of 10 homeowners assisted by HORP revealed that HORP was not always administered in compliance with program requirements. We attributed these deficiencies to City officials' unfamiliarity with program requirements due to a lack of training and weaknesses in the City's administrative controls over monitoring its subgrantees due to inadequate policy and inadequate monitoring of subgrantees. As a result, more than \$12.6 million was not made available for eligible activities, \$1.8 million in costs and program income was unsupported and \$9,813 in costs was ineligible, more than \$1.9 million was spent on six real properties and a homeowner unit that did not have recorded mortgages or liens to ensure compliance with CDBG program requirements, and there was no assurance that more than \$1.1 million in future Section 108 program income would be recorded in IDIS and used for eligible activities.

### **Uncollected, Unreported, and Unsupported Program Income**

City officials did not always ensure that program income was collected, reported, and supported in compliance with program requirements. Specifically,

- CDBG program income of more than \$11.5 million generated from the disposition of a real property, previously assisted with CDBG funds, was neither collected nor reported in IDIS. Regulations at 24 CFR (Code of Federal Regulations) 570.505(b) provide that a CDBG-funded recipient must reimburse its program for the fair market value of an assisted property, less any portion for expenditures of non-CDBG funds for acquisition or rehabilitation, if the new use of the assisted property does not meet a CDBG national objective.
- Accumulated Section 108 income of \$930,241 generated during 2012 through 2015 from the refinancing of a guaranteed Section 108 loan was not reported in IDIS or deposited in a custodial account to guarantee the repayment of the loan as required by the loan contract. Further, Section 108 income of more than \$1.1 million<sup>3</sup> is expected to be generated from 2016 through 2020 from the refinancing of the same loan. Regulations at

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<sup>3</sup> This amount was calculated by multiplying the average annual program income from 2012 through 2015 by the number of years until loan maturity [(\$930,241/4) X 5].

24 CFR 570.504(a) provide that receipt and expenditure of program income must be recorded as part of the financial transaction of the grant program and the City's guaranteed Section 108 loan contract provides that Section 108 income shall be deposited in a separate identifiable custodial account (Loan Repayment Account) and that the income shall be used only to pay interest and principle due on the loan, or other obligation under the contract.

- CDBG program income of \$2,025 and \$49,835 generated from the repayment of CDBG relocation assistance and HORP loans, respectively, was not recorded in IDIS. Regulations at 24 CFR 570.504(a) provide that the receipt and expenditure of program income must be recorded as part of the financial transaction of the grant program.
- Documentation was not maintained to support whether CDBG program income of \$148,000 was generated from the disposition of real properties acquired with CDBG funds. Regulations at 24 CFR 85.20(b)(2) require that grantees maintain adequate records to identify the source and application of funds provided for financially assisted activities.

We attributed these deficiencies to the City staff's unfamiliarity with CDBG program requirements and weaknesses in the City's administrative controls over reporting program income in IDIS. As a result, more than \$12.5 million in program income was not made available for eligible CDBG activities, \$148,000 in program income was unsupported, and there was no assurance that more than \$1.1 million in future Section 108 income would be recorded in IDIS and used for eligible activities.

### **Unsupported CDBG Costs**

City officials disbursed more than \$1.6 million in CDBG funds to develop 22 affordable townhouses but did not maintain documentation to support the classification and eligibility of the costs. Regulations at 24 CFR 570.207(b)(3) provide that CDBG funds cannot be used for construction of new permanent residential structures except to support housing activities, such as acquisition and clearance of sites and public improvement on publicly owned properties. Regulations at 24 CFR 85.20(b)(2) provide that a grantee must maintain records to adequately identify the source and application of funds provided for assisted activities. We attributed this deficiency to the City staff's unfamiliarity with program requirements. As a result, there was no assurance that the \$1.6 million was spent on eligible CDBG costs.

### **CDBG Activities Not Always Administered in Compliance With Program Requirements**

City officials did not always administer CDBG activities in compliance with program requirements although regulations at 24 CFR 570.501(b) provide that the recipient is responsible for ensuring that CDBG funds are used in compliance with all program requirements.

- A registered mortgage was not imposed on a rental property that received \$426,296 in CDBG funds for rehabilitation costs. The City subgrantee agreement required that properties have recorded mortgages and executed mortgage notes if they received more than \$50,000 in CDBG funds for construction or rehabilitation.

- Liens or deed restrictions were not imposed on five properties that received more than \$1.4 million in CDBG funds for acquisition and demolition costs. Regulations at 24 CFR 84.37 provide that HUD may require recipients to record liens or other appropriate notices of record on properties that are acquired or improved with Federal funds. As a result of the materiality of the uncollected and unreported program income cited in finding 1, liens or other appropriate notices need to be imposed on the five properties to protect the City's and HUD's interest.
- City subgrantees awarded five contracts without maintaining documentation, such as bids received, bid analysis reports, cost estimates, contracts, and other applicable documentation, to support compliance with procurement requirements at 24 CFR 84.44-48. Regulations at 24 CFR 84.46 provide that procurement records and files for purchases exceeding the small purchase threshold must include at least the following: the basis for contractor selection, justification for lack of competition when bids or offers are not obtained, and the basis for award cost or price.
- A City subgrantee awarded three contracts funded from a single CDBG activity to three single bidders without documentation to justify these awards. Regulations at 24 CFR 84.43 provide that all procurement transactions must be conducted in a manner that provides, to the maximum extent practical, open and free competition.
- The eligibility of 6<sup>4</sup> of 10 tenants occupying housing units at a residential property assisted with CDBG funds was questionable since 3 of the 6 were not low- to moderate-income households and the remaining 3 tenants' income eligibility was unsupported. The subgrantee agreement between the City and its subgrantee provided that 40 of the 43 units available at the property were low- to moderate-income housing units.
- Four contractors funded from a single CDBG activity paid their laborers lower wage rates than those required by the Davis-Bacon Act. Regulations in appendix A to 24 CFR Part 84 provide that a contractor must be required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination that is made by the Secretary of Labor.

We attributed these deficiencies to the City staff's unfamiliarity with program requirements and City officials' inadequate monitoring of subgrantees. As a result, there was no assurance that the 6 properties would remain in compliance with program requirements, the 8 contracts were procured in compliance with procurement requirements, and the 40 housing units were all rented to low- and moderate-income households as required. Further, laborers were not paid prescribed wages according to the Davis-Bacon Act.

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<sup>4</sup> The six tenants were certified by the City's subgrantee to be low- to moderate-income households.

## **HORP Not Administered in Compliance With Program Requirements**

City officials did not always administer HORP in compliance with program requirements. Specifically,

- Bank statements for a homeowner were not maintained as required by sections 2.2, entitled income eligibility, and 3.2, entitled required documentation, of the City's homeowner rebate program policy and procedures manual (HORP policy) to support the homeowner's income eligibility to receive \$30,600 in CDBG funds.
- A registered mortgage was not imposed as required by section 3.10, entitled mortgage placement, of the City's HORP policy on a homeowner property assisted with \$21,195 in CDBG funds.
- A homeowner of a single-unit home received \$9,730 above the CDBG assistance limit of \$24,900 imposed by section 3.8, entitled loan amount, of the City's HORP policy.
- CDBG assistance was disbursed for two homeowner rehabilitation contracts in amounts exceeding cost estimates by 10 percent, or an additional \$83, although the City's HORP policy provided that homeowners were responsible for those excess costs.
- A homeowner rehabilitation contract was awarded to a bidder that was allowed to submit two bids with two different prices for a single contract without justification. Specifically, the first bid was higher than the second bid, and the second bid was submitted after a lower bid from another source was received. Regulations at 24 CFR 84.43 provide that all procurement transactions must be conducted in a manner to provide, to the maximum extent practical, open and free competition.
- Procurement documentation, such as New Jersey State business registration, liability insurance, references, licenses, and other documents, was not maintained as required by section 7.2 of the City's HORP policy to support the eligibility of three contractors awarded HORP contracts in program years 2012 and 2013.

We attributed these deficiencies to weaknesses in the City's administrative controls over monitoring City staff administering HORP. Therefore, there was no assurance that the \$30,600 was awarded to an eligible homeowner, the \$21,195 would be reimbursed to the City's CDBG line of credit if the assisted property was sold before the end of the affordability period, the contract awarded to the bidder with two different submitted bids was awarded in compliance with procurement requirements, and the three contractors awarded HORP contracts in program years 2012 and 2013 were qualified to participate in HORP. Further, \$9,813 in CDBG funds was spent on rehabilitation costs exceeding the CDBG subsidy limit and 10 percent of the cost estimate.

## **Conclusion**

City officials did not always ensure that the City's CDBG activities and HORP were administered in compliance with CDBG program requirements. Specifically, program income was not always collected, recorded, or supported; Section 108 income was not deposited in a custodial account to guarantee the repayment of the City's Section 108 loan; CDBG funds were

used for unsupported costs; and CDBG activities and HORP were not administered in compliance with program requirements. We attributed these deficiencies to City officials' unfamiliarity with program requirements and weaknesses in the City's administrative controls over monitoring its subgrantees and supervising its staff. As a result, CDBG funds that were available for eligible CDBG activities were instead spent on unsupported and ineligible costs. Further, there was no assurance that future Section 108 income would be recorded in IDIS and used for eligible CDBG activities and CDBG-assisted properties would remain in compliance with program requirements.

### **Recommendations**

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to

- 1A. Reimburse the City's CDBG local bank account for the \$11,532,769 in uncollected program income generated from the disposition of real property previously assisted with CDBG funds, thus ensuring that these funds can be used for eligible activities.
- 1B. Record \$930,241 in Section 108 income generated from the refinancing of the Section 108 loan in IDIS, thus ensuring that \$930,241 in Section 108 income is properly accounted for and put to better use.
- 1C. Strengthen administrative controls to ensure that future Section 108 income of \$1,162,801 will be recorded in IDIS, thus ensuring that these funds can be used for eligible activities.
- 1D. Record \$51,860 in program income generated from the relocation activity and repayment of HORP loans in IDIS, thus ensuring that \$51,860 in program income is properly accounted for and put to better use.
- 1E. Provide documentation to support whether \$148,000 in CDBG program income was generated from the disposition of real properties acquired with CDBG funds so that HUD can determine eligibility. Any recognized program income should be reimbursed to the City's local bank account and recorded in IDIS, thus ensuring that these funds can be put to better use.
- 1F. Provide documentation to support the \$1,652,223 in CDBG funds used for developing the 22 affordable townhouses. Any amount determined to be ineligible should be reimbursed to the City's CDBG program line of credit from non-Federal funds.
- 1G. Strengthen administrative controls over record keeping to ensure that documentation is maintained to support the eligibility of costs paid with CDBG funds.
- 1H. Record the mortgage on the CDBG-assisted rental property that was rehabilitated or reimburse the \$426,296 from non-Federal funds to the City's CDBG program line of credit, thus ensuring that the funds are put to their intended use.

- 1I. Record the mortgages on the five CDBG-assisted properties that were demolished and acquired with CDBG assistance of \$1,475,674, thus ensuring that these properties are administered in compliance with program requirements.
- 1J. Provide documentation, such as proof of advertising, bids received, bid analysis reports, cost estimates, contracts, and other applicable records, to support compliance with Federal procurement regulations in the awarding of the five contracts.
- 1K. Provide documentation to support compliance with Federal procurement regulations when contracts were awarded to the three single bidders.
- 1L. Provide documentation to support the eligibility of the three tenants occupying low- to moderate-income housing units at a residential property assisted with CDBG funds.
- 1M. Provide documentation to support the review of the remaining 30 tenants' eligibility to occupy low- and moderate-income housing units.
- 1N. Provide documentation to support that those laborers employed by the four contractors are compensated in accordance with Davis-Bacon wage rates. If documentation cannot be provided, the City's line of credit should be reimbursed from non-Federal funds for disbursements made to the four contractors.
- 1O. Strengthen administrative controls over the City's CDBG program to ensure compliance with program income and procurement requirements.
- 1P. Provide documentation to support the income eligibility of the homeowner who received \$30,600 in CDBG funds related to the rebate program. If documentation cannot be provided, the City's CDBG program line of credit should be reimbursed \$30,600 from non-Federal funds.
- 1Q. Provide a registered mortgage for the homeowner property assisted with \$21,195 in CDBG funds. If a registered mortgage cannot be provided, the City's CDBG program line of credit should be reimbursed \$21,195 from non-Federal funds.
- 1R. Reimburse \$9,730 from non-Federal funds to the City's CDBG program line of credit for the ineligible homeowner rehabilitation assistance provided that exceeded the subsidy limit.
- 1S. Reimburse \$83 from non-Federal funds to the City's CDBG program line of credit for disbursements made for the two contracts exceeding 10 percent of the cost estimate.
- 1T. Provide documentation to support compliance with Federal procurement regulations when a winning bidder was allowed to submit two bids with different prices for a single contract. If documentation cannot be provided, the City's line

of credit should be reimbursed from non-Federal funds for disbursements made to the contractor.

- 1U. Provide documentation, such as a New Jersey State business registration, liability insurance, licenses, and other documentation, to support the eligibility of the three contractors awarded HORP contracts in program years 2012 and 2013.
- 1V. Strengthen administrative controls over HORP to ensure compliance with program requirements.
- 1W. Provide training to City staff responsible for administering the City's CDBG program to strengthen the staff's awareness of CDBG program requirements.

## **Finding 2: Weaknesses in Program Financial Controls Did Not Ensure Compliance With Program Requirements**

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City officials did not always maintain a financial management system in compliance with Federal regulations. Specifically, Line of Credit Control System (LOCCS)<sup>5</sup> drawdowns were made without documented needs, and the City's IDIS information was not always accurate or traceable to its accounting records. We attributed these deficiencies to weaknesses in the City's implementation of financial controls over approving LOCCS drawdowns and the City staff's unfamiliarity with program requirements due to a lack of training. As a result, \$100,982 was not available for eligible CDBG activities, the City's book balance of available CDBG funds was overstated by \$397,031, and neither the City's financial reports nor its IDIS reports accurately and completely disclosed the financial results of the City's CDBG program.

### **LOCCS Drawdowns Made Without Need**

City officials did not always draw down CDBG funds from LOCCS in compliance with program requirements. Specifically,

- On January 13, 2011, City officials drew down \$387,600 in CDBG funds from LOCCS to acquire three properties for the creation of affordable housing, although the three properties were acquired between October 2011 and February 2015. Regulations at 24 CFR 85.20(b)(7) require a recipient's financial management system to follow procedures to minimize the time between the transfer of funds from the U.S. Treasury and disbursements made by grantees and subgrantees.
- City officials drew down \$100,982 in CDBG entitlement funds to pay costs that had been paid with CDBG program income. Regulations at 2 CFR Part 225, appendix (A)(C)(1), provide that allowable costs must be necessary and reasonable for proper administration of Federal awards.

We attributed these deficiencies to weaknesses in the City's financial controls over approving LOCCS drawdown requests. As a result, the City's CDBG funds were not used in a timely manner as required, and the \$100,982 was not available for eligible CDBG activities.

### **IDIS Information Not Always Accurate or Traceable to Accounting Records**

City officials did not ensure that information recorded in IDIS was accurate and traceable to that in the City's accounting records. Specifically,

- City officials did not record the receipt or use of a LOCCS drawdown of \$397,031 in the City's accounting records or properly classify the drawdown to an IDIS activity for repayment of a Section 108 loan.

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<sup>5</sup> LOCCS is the system HUD uses to disburse and track the payment of grant funds to grant recipients.

- City officials drew down \$81,475 from the City’s CDBG program line of credit for a CDBG activity to acquire properties related to the creation of affordable housing. However, the officials mistakenly recorded the drawdown in IDIS for another activity related to creating economic opportunities.
- City officials mistakenly classified the use of \$127,166 for code enforcement and tenant assistance activities in IDIS as CDBG planning and administrative activities.

Regulations at 24 CFR 85.20(b) provide that a subgrantee’s financial reporting system must produce an accurate, current, and complete disclosure of financially assisted activities in accordance with financial reporting requirements of the grant. We attributed these deficiencies to the City staff’s unfamiliarity with program requirements due to a lack of training and weaknesses in the City’s implementation of financial controls over reconciling information reported in IDIS to that recorded in the City’s accounting records. As a result, the available balance of CDBG funds recorded in the City’s accounting records was overstated by \$397,031, \$81,475 was not traceable to the correct IDIS activity, and the misclassification of \$127,166 for code enforcement and tenant assistance activities created the appearance that the City’s use of CDBG funds for planning and administrative costs exceeded the 20 percent threshold limit imposed by Federal regulations.

### **Conclusion**

City officials did not always maintain a financial management system that complied with Federal regulations. Specifically, unnecessary LOCCS drawdowns were made, and the City’s financial information reported in IDIS was not accurate or reconcilable to information reported in the City’s accounting records. We attributed these deficiencies to weaknesses in the City’s financial controls over approving LOCCS drawdowns and the City staff’s unfamiliarity with program requirements. As a result, CDBG funds were not always available for eligible CDBG activities, and the City’s CDBG financial and IDIS reports did not accurately and completely disclose the financial results of the City’s CDBG program.

### **Recommendations**

We recommend that the Director of HUD’s Newark, NJ, Office of Community Planning and Development instruct City officials to

- 2A. Strengthen financial controls over cash flow to ensure that the time between making and spending LOCCS drawdowns is minimized.
- 2B. Reimburse the City’s CDBG program line of credit for \$100,982, which was used to pay costs that had been paid with CDBG program income, thus ensuring that these funds can be used for eligible activities.
- 2C. Record the receipt and expense of \$397,031 in the City’s accounting records and correctly classify the amount in IDIS to show the use of the City’s CDBG funds for repayment of a guaranteed Section 108 loan, thus ensuring that the funds were put to their intended use.

- 2D. Reclassify \$81,475 used for the creation of affordable housing in IDIS to the correct activity, thus ensuring that these funds were put to their intended use.
- 2E. Change the IDIS matrix code for the use of \$127,166 for code enforcement and tenant assistance activities to show that the City did not use more than 20 percent of its CDBG funds for planning and administrative costs, thus ensuring that these funds were put to their intended use.
- 2F. Provide training to City staff responsible for reporting in IDIS and making drawdowns from LOCCS, thus ensuring compliance with CDBG program requirements.
- 2G. Strengthen financial controls to ensure that LOCCS drawdowns are charged to the correct IDIS activities and traceable to the City's accounting records.

# Scope and Methodology

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The audit focused on whether the complaint allegations had merit and whether City officials had established and implemented adequate controls over the City's CDBG program to ensure that the program was administered in compliance with CDBG program requirements. We performed our audit fieldwork from May through October 2015 at the City's Division of Community Development located at 30 Montgomery Street, Room 404, Jersey City, NJ. Our audit generally covered the period April 1, 2012, through March 31, 2014, and was extended as needed to meet our audit objectives.

To accomplish our objectives, we

- Reviewed relevant CDBG program requirements and applicable Federal regulations to gain an understanding of the CDBG administration requirements.
- Interviewed officials from the HUD Newark, NJ, Office of Community Planning and Development, the City, and a City subgrantee.
- Obtained an understanding of the City's management controls and procedures through analysis of the City's responses to management control questionnaire.
- Reviewed the City's consolidated annual performance and evaluation reports and action plan for CDBG program years 2012 and 2013 to gather data on the City's expenditures and planned activities.
- Reviewed reports from IDIS to obtain CDBG disbursement and program income data for the audit period and reports from LexisNexis<sup>6</sup> to obtain information related to real properties assisted with CDBG funds and contractors awarded HORP rehabilitation contracts. Our assessment of the reliability of IDIS and LexisNexis data was limited to the data sampled, and the data were reconciled with data in the City's accounting records. Therefore, we did not assess the reliability of these systems.
- Reviewed the City's organizational chart for its CDBG program and its CDBG policies, including its policies and procedures, grant administration procedures, and homeowner rebate program policy and procedures manual.
- Reviewed the most recent audited financial statements for the years ending December 31, 2013 and 2012, the latest HUD monitoring report for the City's CDBG and HOME Investment Partnerships Program, and city council resolutions for program years 2012 and 2013.
- Selected and reviewed a nonstatistical sample of more than \$2.4 million, or 16 percent, of the City's total CDBG funds drawn down in program years 2012 and 2013 and more than \$3.3 million from the City's drawdowns made before or after 2012 and 2013. The

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<sup>6</sup> LexisNexis Research Solutions offers the most authoritative and comprehensive collection of news, business, and legal sources.

sample was selected based on one of the following risk factors: projects were progressing slowly, a lien was not imposed on the assisted property, significant program income appeared to be generated from the disposition of real property previously assisted with CDBG funds but immaterial program income was reported in IDIS, and a project was reported canceled in IDIS after CDBG funds were drawn down for the project.

- Reviewed documentation, including subgrantee agreements, environmental reviews, appraisal reports, procurement documents, monitoring reports, invoices, and contractor requests for payment, to support the eligibility of 15 IDIS CDBG activities included in our sample and costs associated with these 15 IDIS CDBG activities.
- Reviewed bank statements associated with the City's CDBG program and traced deposits to IDIS reports. Our assessment of the reliability of data included in bank statements and IDIS reports was limited to the data sampled, which were reconciled among different sources. Therefore, we did not assess systems generating the data.
- Selected and reviewed a nonstatistical sample of 10 of 27 case files of homeowner rehabilitation funded under HARP in 2012 and 2013, April 1, 2012, through March 31, 2014. The result of the sample testing was limited to the case files reviewed and cannot be projected to the universe. The 10 case files were selected based on one of the following risk factors: materiality of assistance provided to each property, lack of an imposed lien on an assisted property, and assistance provided in excess of the maximum assistance limit.
- Reviewed the eligibility of tenants of units at a rental property rehabilitated with assistance from the City's CDBG program.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Compliance with laws and regulations-Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources-Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data-Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- City officials did not always establish or implement adequate internal controls to ensure that resources were used in compliance with laws and regulations because (1) program income was not always collected, recorded in IDIS, and supported as required; (2) CDBG funds were disbursed without supporting documentation; (3) a recorded mortgage was not imposed on a real property rehabilitated with assistance from the City's CDBG program; (4) CDBG funds were awarded and disbursed to contractors without documentation to support compliance

with procurement requirements; (5) tenants who were not income eligible or whose income eligibility was unsupported were allowed to occupy low- and moderate-income housing units; (6) contractors that were awarded CDBG rehabilitation contracts paid their laborers lower than the Davis-Bacon wage rates; and (7) bank statements were not maintained to support the income eligibility of a homeowner who received homeowner rehabilitation assistance from HARP (finding 1).

- City officials did not always establish or implement adequate controls to ensure that resources were safeguarded against waste, loss, and misuse as CDBG funds were used for ineligible, unsupported, and unreasonable costs and program income was not collected and deposited into the City's CDBG local bank account (findings 1 and 2).
- City officials did not always establish or implement adequate controls to ensure the validity and reliability of data because information in the City's accounting records was not always complete and reconciled with that in IDIS, information listed in IDIS was not always accurate, and the receipt of program income was not always reported IDIS (findings 1 and 2).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>	<b>Unreasonable or unnecessary 3/</b>	<b>Funds to be put to better use 4/</b>
1A				\$11,532,769
1B				930,241
1C				1,162,801
1D				51,860
1E		\$148,000		
1F		1,652,223		
1H				426,296
1I				1,475,674
1P		30,600		
1Q				21,195
1R	\$9,730			
1S	83			
2B			\$100,982	
2C				397,031
2D				81,475
2E				127,166
<b>Totals</b>	<b>\$9,813</b>	<b>\$1,830,823</b>	<b>\$100,982</b>	<b>\$16,206,508</b>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.
- 4/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD directs City officials to implement our recommendations to
- Ensure that program income is collected and reported in IDIS, more than \$11.5 million in CDBG program income will be available for eligible CDBG activities.
  - Ensure that program income is reported in IDIS, \$930,241 in Section 108 income will be available to guarantee timely repayment of a Section 108 loan, and \$51,860 in CDBG program income will be available for eligible CDBG activities.
  - Strengthen the City's administrative controls over reporting program income in IDIS, more than \$1.1 million in future Section 108 income will be available to guarantee the timely repayment of Section 108 loans.
  - Require that a mortgage be recorded for the six real properties rehabilitated, acquired, or demolished with CDBG assistance, HUD's and the City's interest of more than \$1.5 million in CDBG funds will be protected, and program requirements will be enforced.
  - Require that a mortgage be recorded for a homeowner property assisted with CDBG funds, HUD's and the City's interest of \$21,195 in CDBG funds will be protected, and program requirements will be enforced.
  - Record the receipt and expense of a CDBG drawdown that was used to repay a Section 108 loan, \$397,031 will be properly recorded and disclosed in the annual financial results of the City's CDBG program.
  - Reclassify the CDBG drawdown in IDIS, HUD can be assured that \$81,475 has been properly recorded in IDIS.
  - Change the IDIS matrix code for IDIS activities, HUD can be assured that \$127,166 has been properly classified in IDIS.

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments



**CITY OF JERSEY CITY**  
DEPARTMENT OF LAW  
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STEVEN M. FULOP  
MAYOR OF JERSEY CITY

JEREMY FARRELL  
CORPORATE COUNSEL

March 10, 2016

**VIA ELECTRONIC AND REGULAR MAIL**  
Kimberly Greene  
Regional Inspector General for Audit, 2AGA  
Office of Audit, Region 2  
26 Federal Plaza, Room 3430  
New York, NY 10278

**Re: City of Jersey City Response to OIG Draft Audit Memorandum  
re: Community Development Block Grant Program Administrative and  
Financial Control Weaknesses**

Dear Ms. Greene:

Please accept this correspondence in furtherance of the above matter and as the City's formal response to the audit findings. Please be advised that upon initial notification of the audits and throughout the pendency of same the City has diligently engaged in the process of documenting these files, creating systems and procedures to move forward and learn more about the grants program requirements.

For ease of reference, the City's comments will appear under the heading of each OIG finding as it appeared in the draft report.

**1A. Repayment of Program Income for \$11.53 million**

The regulation at 24 CFR 570.505 requires the subrecipient to return the current market value of the property less any demonstrated non-CDBG investment in the acquisition and upgrades to the Grantee when the property is no longer used to meet a National Objective. At this time the OIG is citing that the City has to show \$11.5 million in program income. We must point out that the \$11.5 million dollar estimate will be further modified by additional private investment in the property. After meeting with the subrecipient and reviewing the applicable documentation, the estimate of reportable program income is closer to \$2 million dollars. This is an issue that the City will address in more detail with the Regional Office upon completion of the audit.

In this regard, it should be noted that even at the time of drafting this letter, the City is still compiling information from the subrecipient regarding the history of this transaction.

1

Comment 1

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Evaluation**

**Auditee Comments**

Comment 1

However, in the interim, the City's interpretation of the relevant law and review of the applicable documentation regarding the acquisition and sale of the property at 1 Canal Street reveals the following.

Comment 2

As indicated above, the regulations under 24 CFR 570.505 require the subrecipient to return the current market value of the property less any demonstrated non-CDBG investment in the acquisition and upgrades to the Grantee when the property is no longer used to meet a national objective. Although CDBG funds were used to improve the property over the span of years totaling approximately \$1.3 million, it is the City's position that the CDBG program should not be the beneficiary of the appreciated value of the property at the time of its disposition. The City expects that total investment in the property will be somewhat less than the \$12 million sale price to the developer due to escalating real estate values in the community. It is the City's expectation that the CDBG rules would allow the City to apportion the benefits of the enhanced market value between the parties as this only seems fair. As such, the City requests that headquarters be contacted to discuss the implications of the implementation of 570.505 as the application of this rule is an unreasonable burden on organizations such as this subrecipient.

Comment 3

Further, since the subrecipient in this case has simply moved to new and much better accommodations and continues to serve the low – mod- income community, the City requests that any sum realized from the sale of the property be converted to a lien on the new property. In this way, the City can secure the subrecipient's financial viability and at the same time both protect the CDBG investment in a community service provider and further HUD's national objective.

Comment 4

**1B. Section 108 loan funds**

The City has receipted in the Section 108 loan funds received for the MLK loan that is to be held as an asset for the life of the 108 loan. The City fully understands that these funds cannot be used for other purposes, but must remain on account as a loan reserve for the 108 loan. The amount of funds on hand, which was somewhat less than the \$930,241 that should be in the account, was receipted to IDIS. The City's Finance Department will reconcile that account and find the missing \$118,045. Funds from the Hyatt payment were used in July 2013 to make up a gap in payment on the MLK 108 loan. The LOCCS transactions have been moved to activity 2300 for MLK and the City has drawn down the \$124,020.15 to repay to the Hyatt account. (The difference, \$5,971.00, was in the 108 account from prior period and has been removed from the Hyatt account). When these funds are received, they will be receipted as SI to the Hyatt account. Separate bank accounts are being established for the Hyatt and MLK loans. Since there is only one payment left on the third loan, we will not endeavor to set up an account for that final pass-through. Further, the City has instituted a process for receipting in 108 loan payments and disbursing said SI funds in recognition of the wire transfers.

Comment 5

**1C. Section 108 Loan funds**

The City has instituted a process to ensure that bi-annually, the funds received for the Section 108 loan payments will be receipted in IDIS and then a disbursement shown in IDIS for the amount wired to HUD. This process will be overseen by the Deputy Director. The payment is

**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 5

invoiced by the Department's fiscal clerk. When it arrives to the City, the Fiscal Officer will receipt the funds to IDIS. The Deputy Director will fund the SI line item for each IDIS account with the program income receipts. Upon executing the wire transfer, the Fiscal Officer will draw down the funds. The Department Fiscal Clerk is responsible for approval of the drawdowns.

Comment 6

**ID. Receipt of program income funds for HORP and activity 2086**

The program income funds were receipted in IDIS.  
(ATTACHMENT 1 – Specific receipts have been highlighted)

Comment 7

**IE. Program Income \$148,000 from Jackson Green**

JCRA received \$407,000 from the Developer in exchange for parcels that had been partially acquired by CDBG funds. Each lot was valued at \$18,500 for the \$407,000 total. CDBG funds from IDIS activities 339 and 1574 were used to acquire these lots. CDBG funds were also used for pre-development costs (IDIS activity 2011).

Comment 8

JCRA must return the \$148,000 from the sale of the 8 lots not sold to low- or moderate-income persons or report to the City on additional non-CDBG investment in the lots that would offset this sum. The City is working with JCRA to determine if there are demonstrable costs that they might have incurred with these lots since demolition.

**IF. Eligible costs for development of townhomes at Jackson Greene**

The City is exploring the costs incurred in this project as related to eligible new construction per CPD Notice CPD-07-08. CDBG funds can be used in support of new construction for such items as: Acquisition, Clearance, Site improvements on publicly owned property, and street improvements. Although not stated in the notice, soft costs may also be eligible.

Comment 7

The City has received correspondence from the environmental engineer for the development explaining that the site was a brownfield and as part of the remediation plan, DEP allowed the hardscape of the buildings and improvements to act as a cap on the fill material that was contaminated. Each home has a DEP restrictive covenant place on it to ensure that the brownfield cap remains intact. Remediation is an eligible use of CDBG funds associated with new construction.

The City will present a revised construction cost breakdown limited to eligible costs associated with the project as soon as it is available. The OIG has provided specific guidance on the nature of the costs and documentation required.  
(ATTACHMENT 2)

**IG. Strengthen Administrative Controls over record-keeping**

The City has instituted a multi-layered policy of staff oversight and compliance. We are in the process of developing checklists for project files and required signatures for invoicing so

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**Auditee Comments**

Comment 7

that multiple people will have responsibility to ensure compliance at each step of a process before payments are made.

A policies and procedures manual will be developed for each CDBG program to ensure we have compliance in all program areas.

**IH. Record mortgage for 292 MLK**

The City Solicitor's office is in the process of preparing a mortgages for the parcel that JCRA acquired so that it will be subject to compliance with 24 CFR 570.505.

**II. Record mortgages**

The City Solicitor's office is in the process of preparing mortgages for the parcels that were acquired so that it will be subject to compliance with 24 CFR 570.505.

**IJ. Procurement**

The City is working with the non-profit to reconstruct the files from the project. However, at this time none of the City staff involved in the project, nor staff at the non-profit were involved in the activity.

**IK Single Quote – activity 1905 – Let's Celebrate**

The City is working with the non-profit to reconstruct the files from the project. However, at this time none of the City staff involved in the project, nor staff at the non-profit were involved in the activity.

**IL. NJ Certificate**

The non-profit, Roberto Clemente, did not have the 2012 certificate as required by local policy. This situation was corrected in 2013 when the non-profit received the required certificate and retroactively paid back any unpaid years so the state would return them to 'good standing'. Procedures have been put in place to ensure that grants agreements are not executed until all required documents are in the file.(ATTACHMENT 3)

Comment 9

**IM. and I N. Rental units – 240 Washington St. – St. Mary's York Street**

Monitoring of this project is underway. This 43 unit property was to be rented to low and moderate income households. Upon initial rent-up, all tenants had to be low-mod income. However, if a household's income changed after initial occupancy, renters were not required to move.

Comment 7

The City will work with the non-profit to develop written occupancy guidelines consistent with CDBG requirements and monitor each applicant for the next year to ensure that the non-profit is following the policy.

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Evaluation**

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Comment 7

**IO. Labor compliance**

The City is working with the non-profit to reconstruct the files from the project. However, at this time none of the City staff involved in the project, nor staff at the non-profit were involved in the activity.

**IP. Strengthen Administrative controls on CDBG Program to ensure compliance with program income and procurement.**

The City has instituted a multi-layered policy of staff oversight and compliance. We are in the process of developing checklists for project files and required signatures for invoicing so that multiple people will have responsibility to ensure compliance at each step of a process before payments are made.

**IQ. HARP – Income Eligibility**

The situation concerns lack of a bank statement in the client file to document that the client did not have assets in excess of program requirements. The homeowner was mailed a letter requesting the specific bank statements in question.

**IR. HARP - Mortgages to be recorded**

The Solicitor's office is exploring the option of placing a lien without the homeowner's cooperation. The property was under rehabilitation when a fire occurred. The homeowner and contractor had a falling out and the owner refused to sign the mortgage. Procedures have been changed so that mortgages will be signed at the time that the agreement with the contractor is signed – even if they have to be modified later – to avoid a repeat of this situation.

**IS. HARP – Exceeded Program Cap**

There was initial confusion on whether this was a one or two unit home which caused the amount expended to exceed the limit for one unit. Tax records show it to be a one-unit home. More care will be taken to ensure that the correct unit limits are applied to each case.

**IT. HARP - Contracts exceeding 10% of the cost estimate**

The \$83 dollars represents a rounding error – the actual amount over the cap was .03%. In one instance, the amount of the accepted bid of \$22,781.00 was 110.3% of the city's estimate of \$20,650.00. See worksheets. Efforts will be made to avoid rounding errors in the future.  
(ATTACHMENT 4)

Comment 10

Comment 11

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Evaluation**

**Auditee Comments**

Comment 12

Comment 13

Comment 7

**IU. HORP - Duplicate bids from vendor**

The initial bidding was separated into two part and rebid. There were two bids from one contractor as it related to Part B but no explanation. Under the HOPR grant guidelines a homeowner may select the contractor of their choosing which does not have to be the lowest bid.IV. HOPR – Business Registration for contractors missing

The files for each contractor were mislaid and have not as yet been located. Each contractor participating in the program must file an application and have all the required documentation, licensing, insurance, etc. before being allowed to bid. This is a clerical problem which we hope to be able to address.

**IW. Strengthen Administrative controls over the HOPR to ensure compliance**

As stated in the correspondence related to the portion of the audit addressing lead-based paint, HOPR has been redesigned, staff responsibilities have been shifted and a new organizational chart established to provide better oversight. Further, the City is updating the policies and procedures manual for the HOPR and revising checklists and forms. The use of technology for applications and processing will allow the City to better manage the program and create a system of checks and balances. (ATTACHMENT 5)

**IX. Provide Training to CDBG staff**

The City is going to RFP for technical services from a consultant that will incorporate staff training. We appreciate the offer of assistance from HUD's TA as stated in the email from Annemarie Uebbing.

**2A. Strengthen Financial Controls over cash flow to minimize time between making and spending drawdowns.**

We are in the process of hiring a fiscal specialist to work in the Department to address a number of the issues raised in this audit. We have attached the job description and duties to be assigned this position. (ATTACHMENT 6 )

**2B. Duplicate drawdown \$100,982**

The City recognizes the duplicate drawdown on activities 1888 and 1889. These funds will be used in lieu of a drawdown and the voucher (5560691) will be revised in IDIS. Our consultant will work with the fiscal officer to ensure this happens, if possible, with the next bill list.

**2C. Record receipts and expenses of \$397,031 for Section 108 loan payments**

The City has moved the voucher taken from LOCCS as reflected in Activity 2 for \$397,031 for payment of 108 loans. Activity 2300 was established for payments that the City makes from

Comment 6

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**Comment 6**

CDBG when the 108 loan recipient is unable to make the full principal payment on the loan.(ATTACHMENT 7)

**2D. Reclassify activities for affordable housing in IDIS**

The voucher for activity 2124 and 2125 were modified to correctly charge the expenses to 20124. Activity 2125 will be cancelled following the appropriate citizen participation process for the modification.

**2E. Change the IDIS matrix code**

The Matrix Code was corrected for activities 1814, 1815 and 1923. The correct matrix codes for Code Enforcement is 15 and Relocation is 08.

**2F. Provide Training to CDBG staff on IDIS and drawdowns**

The City is going to RFP for technical services from a consultant that will incorporate staff training. We appreciate the offer of assistance from HUD's TA as stated in the email from Annemarie Uebbing.

**2G. Strengthen Financial controls to ensure draws are charged to the correct activity and traceable to the City's accounts**

Project Managers will no less than Quarterly check the IDIS draws and the City records to ensure consistency. The procedure will be fully identified in the policies and procedures for the CDBG program.

Thank you for your courtesies.

Very truly yours,  
JEREMY FARRELL  
CORPORATION COUNSEL

By:   
Asst. Corporation Counsel

JML/encl.

Cc: Karen A. Campbell Lawrence  
Elhalo Mostafa  
Carmen Gandulla  
Anthony Cruz  
Jeremy Farrell  
Karen A. Parish  
Joanne Monahan

## OIG Evaluation of Auditee Comments

- Comment 1 City officials asserted that the estimate of reportable program income is closer to \$2 million, not \$11.5 million. However, City officials have not provided documentation to support their assertion. Therefore, City officials need to provide such documentation to HUD during the audit resolution process or reimburse the \$11.5 million to the City's CDBG local bank account.
- Comment 2 City officials stated that the CDBG program should not be the beneficiary of the appreciated value of the property at the time of its disposition. Regulations at 24 CFR 570.505(b) provide that a CDBG-funded recipient must reimburse its program for the fair market value of an assisted property, less any portion for expenditure of non-CDBG funds for acquisition or rehabilitation, if the new use of the assisted property does not meet a CDBG national objective. Therefore, City officials need to comply with regulations at 24 CFR 570.505(b) by reimbursing \$11.5 million to the City's CDBG program local bank account.
- Comment 3 City officials requested that any sum realized from the sale of the property be converted to a lien on the new property purchased by the subgrantee. City officials need to submit a request for such to HUD during the audit resolution process.
- Comment 4 City officials stated that the City has receipted in the Section 108 loan funds of \$930,241 received for the MLK loan that is to be held as an asset for the life of the 108 loan. However, the Section 108 income cited in recommendation 1B is associated with the Section 108 funds received for the Hyatt hotel loan. Therefore, City officials need to provide HUD with documentation to support that Section 108 income of \$930,241 for the Hyatt hotel was recorded in IDIS.
- Comment 5 City officials' actions are responsive to the recommendation. However, City officials need to provide HUD with the City's policy that includes all procedures cited in the actions.
- Comment 6 City officials' action is responsive to the recommendation.
- Comment 7 City officials' planned corrective action is responsive to the recommendation. However, supporting documentation will need to be provided to HUD during the audit resolution process.
- Comment 8 City officials stated that soft costs may also be eligible. However, City officials did not obtain HUD's waiver as required to use the City's CDBG funds for certain soft costs. Therefore, City officials need to request a waiver, if applicable, from HUD.
- Comment 9 City officials provided documentation to support that the subgrantee status was reinstated by the State of New Jersey in 2013 after the subgrantee paid all prior

years' annual reporting and reinstatement fees. Therefore, this noncompliance issue along with the related recommendation was deleted from the audit report.

- Comment 10 City officials confirmed that CDBG assistance expended on the property exceeded the limit for one unit. Therefore, City officials need to reimburse \$9,730 to the City's CDBG program line of credit from non-Federal funds.
- Comment 11 City officials stated that the \$83 represents a rounding error. Therefore, City officials need to reimburse the \$83 to the City's CDBG program line of credit from non-Federal funds.
- Comment 12 City officials stated that the initial bidding was separated into two parts and rebid and confirmed that there were two bids from one contractor as it related to Part B but no explanation. Therefore, City officials need to provide documentation to support compliance with regulations at 24 CFR 84.43, or reimburse the City's CDBG program line of credit from non-Federal funds for disbursements made to the contractor.
- Comment 13 City officials stated that the HORP grant guidelines provide that homeowners may select the contractor of their choosing, which does not have to be the lowest bid. The homeowner, associated with recommendation 1U, selected a contractor whose two bids exceeded cost estimates by more than 10 percent although the HORP program policy provides that the homeowner is responsible to pay for bid costs in excess of 10 percent of the cost estimate.

## Appendix C

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### Complaint Allegations and OIG's Evaluation

#### CDBG Funds Had Been Misappropriated for at Least 2 Years

**Evaluation:** The allegation has merit. City officials spent CDBG funds on ineligible and unsupported costs. Further, City officials did not (1) collect program income or report it in IDIS, (2) record the mortgage on a property rehabilitated with assistance from the City's CDBG program to protect HUD's and the City's interest and enforce program requirements, (3) ensure the City subgrantees' compliance with procurement requirements when contracts were awarded, and (4) monitor a subgrantee to ensure the income eligibility of tenants occupying housing units rehabilitated with assistance from the City's CDBG program.

#### Two Employees Were Paid From HUD Funds but Worked Full Time for Other City Offices

**Evaluation:** The allegation has merit; however, payroll costs associated with the City's housing inspector and lead risk assessor are considered eligible CDBG delivery and code enforcement costs. In addition to the HORP-assisted homes, which were inspected by the two employees, other home inspections were assigned by the City's Code Enforcement division to the two employees. Therefore, the two employees' compensation could be considered HORP delivery costs or code enforcement costs.

#### The City Lacked a Construction Manager To Monitor American Institute of Architects Documents and Review CDBG Rehabilitation Projects and Contractor Bids

**Evaluation:** The allegation could not be substantiated. City officials (1) awarded and disbursed CDBG funds to City subgrantees for rehabilitation and demolition activities and (2) created and funded HORP to provide rehabilitation assistance to eligible homeowners. The City had a program analyst, who was responsible for monitoring American Institute of Architects documents submitted by the subgrantees as well as monitoring the subgrantees' progress in completing CDBG activities. Further, the City had a housing inspector-cost estimator and a cost estimator supervisor, who were responsible for creating, reviewing, and approving cost estimates and administering the bid process for rehabilitation contracts funded under HORP. Therefore, although the City did not have a position entitled "construction manager," there were three different positions to monitor CDBG rehabilitation projects and contractor bids.

#### HORP Contracts Are Steered to a Related Contractor

**Evaluation:** The allegation could not be substantiated because our review did not show special favoritism toward the contractor listed in the complaint. However, City officials did not always follow procurement requirements when procuring rehabilitation contracts funded by HORP.

**The City's Lead Risk Assessor Is Not Qualified and Had Not Produced Monitoring Reports for Projects Funded Under HORP**

**Evaluation:** This allegation has merit and was addressed in a separate interim memorandum (Audit Memorandum 2016-NY-1801, issued February 11, 2016).