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# AUDIT REPORT



Hudson County Division of Community Development  
Community Planning and Development Programs  
Jersey City, New Jersey

2002-NY-1002

April 15, 2002

OFFICE OF AUDIT  
New York/New Jersey District

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Issue Date April 15, 2002
Audit Case Number 2002-NY-1002

TO: Kathleen Naymola, Director, Community Planning and Development Division, 2FD

*Alexander C. Malloy*

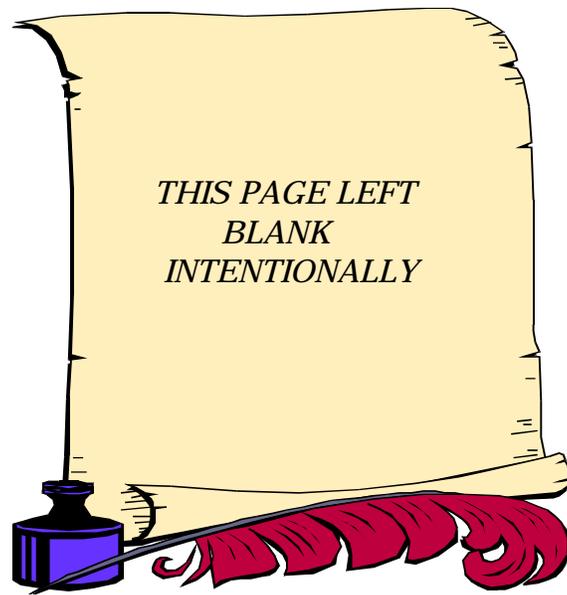
FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Hudson County Division of Community Development  
Community Planning and Development Programs  
Jersey City, New Jersey

We examined the operations of the Hudson County Division of Community Development (hereafter referred to as the Grantee) pertaining to its Community Planning and Development Programs. Specifically, we reviewed its Community Development Block Grant (CDBG), Emergency Shelter Grant (ESG), and HOME Investment Partnership (HOME) Programs. This audit report contains six findings with recommendations for corrective action.

Within 60 days please provide us, for each recommendation in this report, a status report on: (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Also, please furnish us copies of any issued correspondence or directives related to this audit.

Should you or you staff have any questions, please contact Edgar Moore, Assistant District Inspector General for Audit, at (212) 264-8000, extension 3976.



# Executive Summary

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We have completed an examination of the operations of Hudson County Division of Community Development (Grantee) pertaining to its administration of its Community Planning and Development Programs. Specifically, we reviewed its Community Development Block Grant (CDBG), Emergency Shelter Grant (ESG), and HOME Investment Partnership (HOME) Programs. The primary objectives were to determine whether the Grantee: (1) carried out its activities in an economical, efficient, and effective manner; (2) complied with applicable CDBG, ESG, and HOME Program requirements, laws and regulations; and (3) had adequate controls to ensure compliance with HUD requirements and Federal regulations. In this regard, our review disclosed that the Grantee did not always comply with program requirements, laws and regulations; nor did it have adequate controls to ensure that all activities were carried out in an economical, efficient, and effective manner. Instances of noncompliance and the incurrence of uneconomical costs are discussed in the findings and are summarized below.

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## Questionable land transaction

Contrary to HUD regulations, the Grantee provided \$1 Million in CDBG funds for the purchase of land, which was made by a sub-recipient without obtaining the required approval from HUD for the release of funds, and without obtaining the applicable environmental clearance from the New Jersey Department of Environmental Protection (NJDEP). In addition, the Grantee did not execute a loan agreement for a \$300,000 loan that was included in the above amount, and did not record the loan on its books. We attribute this to the Grantee's unfamiliarity with HUD regulations, and to inadequate accounting procedures for recording loans. As a result, \$1 million in program cost may be ineligible because the land transaction was not approved by HUD, and may not be economically viable since the land may be contaminated. Consequently, the purchase of the land and its associated costs are considered questionable since the Grantee did not obtain the required HUD approval for the release of funds.

## CDBG costs of \$63,825 are being questioned

Furthermore, we noted that weaknesses in the Grantee's controls over disbursements caused questionable costs of \$63,825, to be charged to the CDBG Program. This is attributable to the Grantee's failure to properly follow: (a) its procedures for making disbursements and reimbursements to sub-recipients; and (b) Federal regulations, which stipulate that only allowable expenditures can be charged to federally financed programs.

**\$126,173 in Emergency Shelter Grant funds were not expended timely**

In addition, the Grantee did not ensure that its sub-recipients expended available Emergency Shelter Grant (ESG) funds timely. As a result, ESG funds, totaling \$126,173, may not have been used for its intended purposes or effectively reprogrammed to meet other ESG Program needs. As such, the Grantee was not able to provide adequate assurance that sub-recipients have provided all the services to the homeless for which funds were provided. This can be attributed to the Grantee's lack of monitoring to ensure that sub-recipients have expended their funds or submitted bills for timely reimbursement of ESG expenses.

**Excessive salary costs were charged to the ESG Program**

Our review also disclosed that the Grantee inappropriately allowed sub-recipients to charge excessive salary costs to the Emergency Shelter Grant (ESG) Program. As a result, \$17,280 in ESG funds were not used for its intended purpose and/or for other eligible operating expenses. We attribute this to the Grantee's failure to establish controls to ensure that only allowable salary amounts were charged to the ESG Program.

**Noncompliance with Federal labor standards/Davis Bacon Act**

Furthermore, the Grantee neither adequately documented its compliance with Federal Labor standards; nor ensured that contractors complied with the provisions of the Davis Bacon Act. As a result, there is inadequate assurance that contractors and subcontractors were eligible to perform work on jobs financed with Federal funds, and that employees of contractors were paid prevailing wages. We attribute this to a lack of training of the Grantee's staff on Federal Labor standards, especially those pertaining to the Davis Bacon Act.

**The required HOME inspections were not performed**

Lastly, the Grantee did not perform inspections on completed HOME-assisted rental projects. As a result, the Grantee does not have adequate assurance that assisted projects are meeting HUD's housing quality standards. This is due to the Grantee's lack of controls to: a) identify the properties that need inspections, b) provide dates when inspections are required, and c) assign staff to perform the inspections.

**Recommendations**

As a result of the above, we recommended that the HUD NJSO determine whether the Grantee should seek post approval of the request for release of funds for the land transaction. If not, inform the Grantee that the cost of the

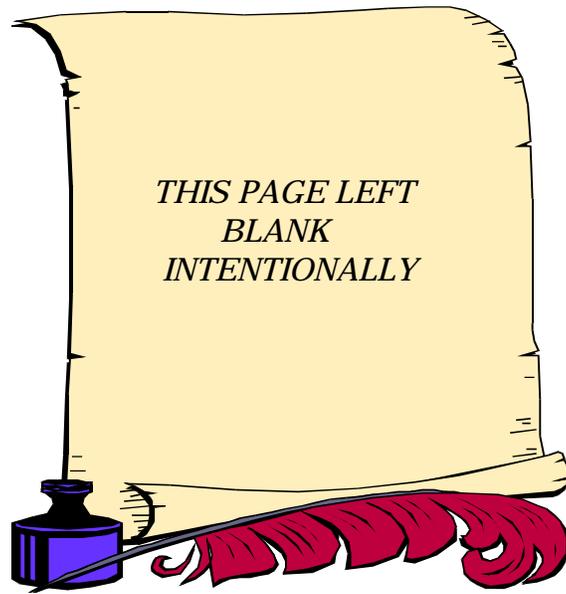
land, \$1 million, is ineligible and should be reimbursed to the CDBG Program from non-federal funds.

We also recommended that HUD: a) determine the eligibility of the additional questioned costs of \$63,625, b) recognize a cost savings by recapturing \$126,173 in unused ESG funds, and c) instruct the Grantee to reimburse the amount of ineligible costs, totaling \$17,480, from non-Federal funds (See Appendix A).

In addition, we provided recommendations that upon implementation would improve the Grantee's disbursement and monitoring controls for ensuring that only eligible costs, supported by adequate documentation, are charged to the CDBG and ESG Programs. Furthermore, the implemented recommendations would ensure that ESG funds are expended timely, that the Grantee complies with Federal labor standards, and that inspections of HOME assisted properties are performed timely.

#### Exit conference

The results of our audit were discussed with Grantee officials during the audit and at an exit conference held on February 05, 2002, at the Grantee's office. On February 13, 2002, we received the Grantee's written responses to the findings, which are included in its entirety as Appendix B to this report. Also, we provided a summary and an evaluation of the Grantee's responses at the end of each finding.



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## Abbreviations

CCS	Catholic Community Services
CDBG	Community Development Block Grant
ESG	Emergency Shelter Grant
HOME	HOME Investment Partnership Program
HUD	U.S. Department of Housing and Urban Development
NJDEP	New Jersey Department of Environmental Protection
NJSO	New Jersey State Office
OIG	Office of the Inspector General
PERC	Palisades Emergency Residence Corp.
RROF	Request for release of funds

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# Introduction

Title I of the Housing and Community Development Act of 1974 as amended, established the Community Development Block Grant (CDBG) Program, which provides grants to States and units of local governments to aid in development of viable urban communities. Projects or activities under the CDBG Program must meet one of the program's three national objectives, which are to: (1) benefit low and moderate-income persons; (2) aid in the prevention of slums and blight; or (3) address an urgent need (an existing condition that poses a serious or immediate threat to the health or welfare of the community).

The Emergency Shelter Grant (ESG) Program is designed to help improve the quality of existing emergency shelters for the homeless, make available additional emergency shelters, and meet the costs of operating emergency shelters. The program helps to provide essential social services to homeless individuals so that these persons have access not only to safe and sanitary shelters for the homeless, but also to the supportive services and other kinds of assistance they need to improve their situations. The program is also intended to restrict the increase of homelessness through the funding of preventive programs and activities (24 CFR section 576.1).

Title II of the Cranston-Gonzales National Affordable Housing Act of 1990, created the HOME Investment Partnerships (HOME) Program. HOME funds are made available to certain participating jurisdictions on a formula basis. HOME was designed to strengthen public-private partnerships to expand the supply of decent, safe, sanitary and affordable housing to low and very low-income families.

Hudson County's CDBG Program includes the New Jersey municipalities of East Newark, Guttenberg, Harrison, Hoboken, Kearny, Secaucus, Weehawken, and West New York. Hudson County's Emergency Shelter Grant Program includes all municipalities with regard to homeless programs under the Jersey City-Hudson County Continuum of Care Strategy. The Hudson County Consortium for the HOME Program includes eight communities in the Urban County and the Entitlement Cities of Bayonne, Union City and the Township of North Bergen. Hudson County is the HOME Participating Jurisdiction.

A nine member Board of Chosen Freeholders governs Hudson County. The Hudson County Division of Community Development (the Grantee) administers Hudson County's CDBG, ESG and HOME Programs. The Grantee is located in the Brennan Court House, Jersey City, New Jersey. Ms. Susan Mearns is the Acting Housing and Community Development Division Chief. The books and records are located at the Grantee's Office.

Total disbursements for the year ended December 31, 2000, for each of the above programs was as follows:

Community Development Block Grant Program	\$7,232,227
HOME Investment Partnerships Program	\$6,558,424
Emergency Shelter Grant Program	\$ 213,985

**Audit Objectives**

The objectives for this audit were to determine whether the Grantee: (1) carried out its activities in an economical, efficient, and effective manner; (2) complied with the CDBG, ESG and HOME Program requirements, laws and regulations; and (3) has adequate controls to ensure compliance with HUD regulations.

**Audit Scope and Methodology**

The audit covered the period from January 1, 2000, through December 31, 2000. However, we reviewed activities prior and subsequent to the audit period as necessary. The audit site work was performed between February 28, 2001, and February 5, 2002.

In order to accomplish the audit objectives we performed the following audit procedures:

- Examined records and files of the Grantee and interviewed staff.
- Reviewed records and files of sub-recipients and interviewed staff.
- Reviewed the Grantee's policies and procedures for managing its operations, and
- Tested selected transactions.

This audit was conducted in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Grantee.

## **The Grantee Provided \$1 Million In CDBG Funds For A Land Transaction That Is Questionable**

Contrary to HUD regulations, the Grantee provided \$1 Million in CDBG funds for the purchase of land, which was made by a sub-recipient without obtaining the required approval from HUD for the release of funds, and without obtaining the applicable environmental clearance from the New Jersey Department of Environmental Protection (NJDEP). In addition, the Grantee did not execute a loan agreement for a \$300,000 loan that was included in the above amount, and did not record the loan on its books. We attribute this to the Grantee's unfamiliarity with HUD requirements and Federal regulations, and to its inadequate accounting procedures for recording loans. As a result, \$1 million in program cost may be ineligible because the land transaction was not approved by HUD, and may not be economically viable since the land may be contaminated. Furthermore, a \$300,000 loan receivable was not reflected on the Grantee's books. Consequently, the purchase of the land and its associated cost, \$1 million, are considered questionable since the Grantee did not obtain the required HUD approval for the release of funds. Therefore, we recommend that the HUD NJSO evaluate the validity of the transaction and determine the eligibility of the associated cost of \$1 million.

**The Grantee provided \$1 million in CDBG funds without HUD's approval of the RROF**

Our review disclosed that a transaction for the purchase of land was initiated on December 23, 2000, and finalized with payments from the Grantee to the Harrison Redevelopment Agency in the amount of \$250,000 on December 28, 2000, and another \$750,000 on May 2, 2001. However, the required Request for Release of Funds (RROF) was not submitted and approved by HUD, as per 24 CFR Section 58.22. Consequently, we consider the purchase of the land and its associated cost of \$1 million questionable since the Grantee did not obtain the required HUD approval.

24 CFR Section 58.22 entitled "Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities" provides that: "a recipient may not commit HUD assistance funds...on an activity or project until HUD or the State has approved the recipient's Request for Release of Funds (RROF) and the related certification of the responsible entity. In addition, until the RROF and related certification has been approved, the recipient may not commit non-HUD funds on an activity or project... if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives."

The certification of the responsible entity refers to the entity’s certification of compliance with related Federal Laws and authorities (24 CFR Section 58.5).

Without obtaining the above HUD approval, we found that in January 2001, the Harrison Redevelopment Agency entered into a Subgrantee Agreement with the Grantee to purchase vacant land owned by the Town of Harrison (another sub-recipient) for one million dollars without proper approval. The Subgrantee Agreement indicates that the Harrison Redevelopment Agency shall develop the land for economic development activities and shall include in any agreements with developers that 51% of the new jobs created shall be made available to low and moderate-income persons.

**The Grantee reallocates CDBG funds to cover the cost of the purchase**

The Subgrantee Agreement also indicates that the Grantee was going to provide the Harrison Redevelopment Agency funding by reallocating CDBG funds as follows.

\$250,000	Town of Harrison’s CDBG funds
\$250,000	Advance of Town of Harrison’s future CDBG funds
\$300,000	Loan of CDBG funds to be repaid to the Grantee within one year of the transfer of funds
\$200,000	Additional CDBG grant to the Town of Harrison
\$1,000,000	Total

Based on the above schedule, it appears that the Grantee reallocated funds originally ear marked for the Town of Harrison so that another sub-recipient, the Harrison Redevelopment Agency, could purchase land already owned by the Town of Harrison. Since the Harrison Redevelopment Agency is a municipal agency within the Town of Harrison, we believe that the land transaction is questionable. There is a question as to whether it was necessary to use CDBG funds of a municipal agency within the Town of Harrison (the Harrison Redevelopment Agency) to acquire land that was already owned by the Town.

**The necessity and reasonableness of the purchase is questioned**

**Town purchased land for \$246,843**

In 1977 the Town of Harrison purchased the land for a total of \$246,843. The Town owned the land for 23 years, and in 1999, the land was appraised at \$1,920,000, almost twice

the price of what the Harrison Redevelopment Agency paid the Town of Harrison for it. We believe that the Town of Harrison could have easily donated this land to the Harrison Redevelopment Agency and/or sold the land in the open market for the appraised value without the use of CDBG funds.

**The land is located on a Brownfield site**

In addition to the above, we learned that the vacant land, which is in Harrison, New Jersey, is listed as being located on a Brownfield site. The United States Environmental Protection Agency defines Brownfields as abandoned, idled, or under-used industrial and commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination. Accordingly, we believe that if the land is environmentally contaminated it may hamper any attempts for development.

On September 26, 2000, the Harrison Redevelopment Agency obtained an environmental assessment or site investigation report on the land. The report, which was prepared by the an environmental/engineering consultant indicates that the results of testing of the soil identified areas of contamination in excess of the most stringent NJDEP soil clean up criteria, including excessive concentrations of PCBs and metals. The recommendations contained in the site investigation report include the installation of three monitoring wells and subsequent monitoring of ground water. This report also recommended a remedial investigation because the soil contamination exceeded the clean up criteria. A remedial investigation report was issued August 1, 2001, which provided specific recommendations for addressing the soil contamination that was present through out the site. However, although the NJDEP approved the site investigation work plan on June 13, 2000, and has reviewed the site investigation report, it has not confirmed that all environmental issues have been adequately addressed.

**The environmental clearance was not obtained**

Since neither the Grantee nor the Harrison Redevelopment Agency obtained HUD's approval to use CDBG funds to purchase the land, and did not obtain the required environmental clearance from the NJDEP, or submit a certification of compliance with Federal regulations, this transaction is not in compliance with CDBG regulations. Furthermore, if the land is environmentally contaminated,

the land transaction may not be economically viable. If the land has to be cleared of all environmental contaminants, prior to development, this could result in thousands of dollars of additional funds being disbursed. Consequently, we believe that this land transaction should be evaluated by the HUD NJSO as to its validity and the eligibility of the associated costs of \$1 million.

Discussions with officials of the HUD NJSO revealed that they were concerned that the Grantee did not request HUD's approval. Accordingly, they believe that the cost associated with the transaction should be disallowed, and the funds should be repaid to the CDBG Program. In this regard, we recommended that a final decision regarding a post approval of the land transaction be made by the HUD NJSO, and that the decision be provided to the Grantee subsequent to the issuance of this report.

**The \$300,000 loan was not properly documented**

Regarding the loan, the Grantee informed us that \$300,000 of the \$1 million that was provided to the Harrison Redevelopment Agency is a loan, which was to be repaid within one year of the transfer of the funds by the Grantee. However, the terms and conditions of the loan were not adequately documented.

24 CFR Section 85.20(2) provides that Grantees and sub-recipients must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income.

24 CFR Section 85.20(3) provides that effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets.

Accordingly, we believe that the Grantee should have drafted an enforceable loan agreement that states the terms and conditions of the loan, the parties bound, and the collateral involved, along with proper signatures of the parties involved.

The Chairman of the Redevelopment Agency told us that the \$300,000 loan between the Grantee and the Redevelopment

Agency would be repaid as soon as the property is sold to a developer. The Chairman also told us that the loan is documented in correspondence between his office and the Grantee; however, our review of the correspondence between the Redevelopment Agency and the Grantee did not reveal the existence of a legally enforceable loan agreement. As a result, we believe that to properly preserve the rights of the Grantee in the \$300,000 provided to the sub-recipient, a loan agreement should be executed. Moreover, we believe that this loan should be recorded as a loan receivable on the books of the Grantee.

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**Auditee comments**

The Grantee's comments provide that actions have been taken to address the environmental clearance of the site in question. The land is located on a "Brownfields" site, (former industrial sites that contain contaminants), that is part of the Hudson County Brownfields Assessment Demonstration Pilot Program (the "Program"), an initiative financed by the U.S. Environmental Protection Agency. The intent of the Program is to provide the resources necessary to identify, assess and redevelop fallow properties throughout the County. The Program is administered by the Hudson County Economic Development Corporation (HCEDC). The HCEDC has provided the professional services to identify the surface contaminants and develop a plan of action for remediation of the site. During a period of approximately eighteen months, various reports including the Remedial Action Work Plan on the land were prepared and submitted to the New Jersey Department of Environmental Protection (NJDEP), who has provided verbal approval. As a result, upon receipt of written confirmation of the NJDEP's approval, the Grantee will provide documents to HUD formally requesting a release of funds and submit a certification of compliance with Federal laws for HUD approval.

The Grantee has also provided the sub-recipient with a Mortgage and Mortgage Note that has been executed and is in the process of being recorded.

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**OIG evaluation of  
Auditee comments**

This finding and the recommendations have been modified from its draft to include the results of conversations with Community Planning and Development officials of the

HUD NJSO. Accordingly, although the Grantee's comments indicate that they are attempting to obtain the environmental clearances from the NJDEP and plan to formally request approval of the release of funds, as well as submit a certification of compliance with Federal regulations. As mentioned above, we learned that officials of the HUD NJSO believe that the cost associated with the land transaction should be disallowed because the Grantee did not obtain the required approval of the release of funds from HUD. Accordingly, OIG reiterates that the HUD NJSO will make the final decision to either consider granting a post approval of a RROF for the land transaction or declaring the cost of the land disallowed.

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## **Recommendations**

We recommend that the HUD NJSO:

- 1A. Determine whether, based on the information provided in this finding, the Grantee should seek post approval for a RROF for the land transaction. If not, inform the Grantee that the cost of the land, \$1 million, is ineligible and should be repaid to the CDBG Program from non-Federal funds.
- 1B. Require the Grantee, if post approval is considered, to submit all documentation required to evaluate the validity of the land transaction. In addition, if the transaction is subsequently approved, the Grantee should be required to execute an enforceable loan agreement with the sub-recipient for the \$300,000 loan that was made, and record the amount of the loan on its books as a loan receivable.
- 1C. Instruct the Grantee to develop procedures to ensure that, for future transactions, the required request for release of funds and certification of compliance with Federal regulations are submitted to and approved by HUD prior to releasing any CDBG funds to sub-recipients.
- 1D. Instruct the Grantee to develop procedures to ensure that future loans to sub-recipients are adequately documented and that the documentation is maintained. In addition, all loans should be properly recorded on the Grantee's books.

## Questioned Costs Of \$63,825 Were Charged To The CDBG Program

Weaknesses in the Grantee's controls over disbursements have caused questionable costs of \$63,825, to be charged to the CDBG Program. We attribute this to the Grantee's failure to properly follow: (a) its procedures for making disbursements and reimbursing sub-recipients, and (b) Federal regulations that require only allowable expenditures to be charged to Federal programs. Consequently, the Grantee's program costs contained certain questionable costs, which we identified and recommended that HUD make an eligibility determination on those costs. We also recommended that HUD instruct the Grantee to develop procedures that will ensure that its controls over disbursements are properly followed. If any of the questioned costs is determined to be ineligible by HUD, the Grantee will be instructed to reimburse that amount to the CDBG Program from Non-Federal funds.

### Criteria

OMB Circular A-87, Cost Principles for State and Local Governments provides the guidelines as to the allowability of costs. It provides that to be allowable cost must be: necessary and reasonable for the proper and efficient performance and administration of Federal awards; adequately documented; and accorded consistent treatment through the application of generally accepted accounting principles.

24 CFR Part 85.20, the Standards for Financial Management Systems, provide that Accounting records must be supported by source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc.

### Improvements needed in the Grantee's controls

During our review we tested three months of CDBG disbursements made by the Grantee to its sub-recipients. We noted that while controls over disbursements were generally adequate, we believe that improvements are needed. We learned that the Grantee did not always require sub-recipients to submit vendor invoices and/or payroll records with requests for reimbursement. Some sub-recipients obtained reimbursement with vouchers that were certified by the sub-recipient, but were not supported with attached invoices. We believe that weaknesses in the Grantee's controls have caused sub-recipients to be reimbursed for items that were not adequately supported.

In connection with the above, we performed site visits and/or requested additional documentation from four sub-recipients to ensure that amounts reimbursed to them were adequately supported. The four sub-recipients chosen were the Town of West New York, The Town of Kearny, The Town of Harrison, and The Hudson County Economic Development Corporation. Our review of documents from the Town of West New York revealed that all items tested were supported with appropriate source documents and canceled checks. However, our test results at the other sub-recipients disclosed deficiencies, which are discussed in the following paragraphs.

**The Town of Kearny was reimbursed \$53,625 for unsupported costs**

During our visit to the Town of Kearny, we found that this sub-recipient was reimbursed \$53,625, for costs that were not adequately supported. This amount relates to six invoices for expenses pertaining to a Senior Citizen Health Program, legal services, title fees, engineering cost and the purchase of asphalt. As support for these items, the sub-recipient submitted a voucher requesting payment and reports/memo's explaining what was done instead of vendor invoices. We attribute this to the Grantee's failure to adequately review sub-recipient vouchers for supporting documentation. As a result, we consider costs, totaling \$53,625, associated with these items as unsupported and questioned.

**Sub-recipient's financial management system is not in accordance with Federal regulations**

Additionally, we found that the Town of Kearny did not maintain its financial management system in accordance with the requirements of 24 CFR 85.20. Its accounting records were not maintained in a manner that would adequately identify the source and application of funds. Also, the Town did not properly maintain and obtain source documents such as paid bills and contracts to support all disbursements. We believe that this led to the Town of Kearny being reimbursed twice for various invoices amounting to \$62,073.48. In this case, the sub-recipient had failed to mark its invoices as paid when submitting vouchers to the Grantee for reimbursement. Although this amount was repaid during our review, we believe that proper Grantee monitoring would have prevented it from occurring and detected that the sub-recipient's financial system was not being maintained properly. Therefore, we recommend that the Grantee monitor and assist this sub-recipient in ensuring that its accounting system and records

**Improvement needed in Grantee monitoring**

are maintained in accordance with Federal regulations (24 CFR 85.20).

**Town of Harrison reimbursed \$10,000 for costs that is unsupported.**

Our review at the Town of Harrison revealed that the Grantee reimbursed \$10,000 to this sub-recipient for salary costs paid to the Senior Citizens' Health Educator, which were not adequately supported. Officials of the Township claimed that Town vouchers supported these expenses. Officials of the Town provided a workload report and statistical information, which indicated that the services stipulated in the scope of services section of an agreement executed with the Grantee were being provided. However, we were not provided with the contract/agreement, payroll records, or vendor invoices, which would support the voucher. We attribute this to the Grantee's failure to review the sub-recipient's reimbursement vouchers for adequate supporting documents. Thus, we believe that the reimbursement is unsupported and as such is being questioned. Accordingly, we recommend that the HUD NJSO determine the eligibility of the costs associated with the \$10,000 reimbursement. If any costs are ineligible, the Grantee should be instructed to reimburse the CDBG Program the amount of the ineligible costs from non-Federal funds.

**Hudson County Economic Development Corporation was reimbursed \$200 for ineligible costs**

Our review of the Hudson County Economic Development Corporation (HCEDC) revealed that the Grantee reimbursed this sub-recipient \$200 for expenses associated with entertainment and charitable activities, which are ineligible. Specifically, we noted that the Grantee reimbursed the HCEDC \$100 for the cost of a Chamber of Commerce Christmas Party, and \$100 for a Taste of Hudson benefit, for the Hudson Cradle Charity. However, costs associated with entertainment and charitable donations are generally not allowable expenses under OMB Circular A-87. As a result, we have questioned the \$200 since we believe that the amount is ineligible and should be reimbursed to the CDBG Program from non-Federal funds.

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## **Auditee comments**

The Grantee will request instructions from HUD for the treatment of furniture purchases, and for the proper accounting treatment under the CDBG Program. The Grantee contends that a refund from the Town of Kearny in the amount of \$62,116.20 has been received. The sub-recipient, the Town of Harrison, has provided the Grantee

with the Professional Services Contract of the Senior Citizen's Health Educator and quarterly reports for the periods that these services were paid. The Grantee has also met with officials of the Town of Kearny and has offered technical assistance in establishing files for new activities that will be undertaken. In addition, the Town of Kearny has commissioned an independent audit and terminated its Chief Financial Officer. Furthermore, the Grantee has met with and instructed its sub-recipients as to the forms and appropriate documentation required to request funds. The Grantee has instituted an internal multi-level review process where sub-recipient's requests for reimbursement and supporting documentation is reviewed for compliance and accuracy prior to making payment. Sub-recipients must now track all contract amounts and reconcile all voucher requests.

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**OIG evaluation of  
Auditee comments**

Based on discussions with officials of the HUD NJSO, we learned that the \$12,520.60 of furniture purchased by the Grantee for program administration is an eligible CDBG costs; therefore, we eliminated the issue from the finding. The \$62,116.20 reimbursed by the Town of Kearny was not questioned because it was repaid during our audit. However, HUD has to make an eligibility determination on the question costs discussed in this finding. If any costs are determined to be ineligible, the amount of those costs should be reimbursed to the CDBG Program from non-Federal funds. Lastly, we believe that the Grantee's actions regarding assisting the Town of Kearny to maintain its records in accordance with Federal regulations and establishing procedures for the review of vouchers prior to payment is responsive to our recommendations.

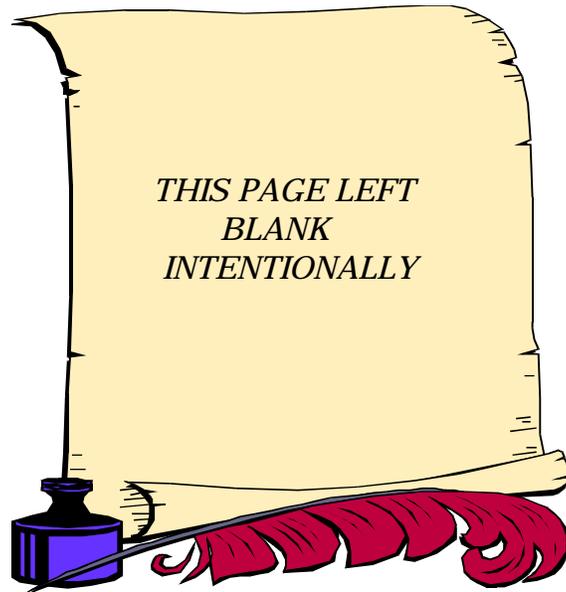
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**Recommendations:**

We recommend that the HUD NJSO:

- 2A. Determine the eligibility of all questioned costs, totaling \$63,825, discussed in this finding, and instruct the Grantee to reimburse the CDBG Program the amount of any ineligible costs from non-Federal funds.

- 2B. Monitor and assist the Grantee in ensuring that the Town of Kearny maintains its financial records in accordance with Federal regulations (24 CFR 85.20).
  
- 2C. Instruct the Grantee to develop procedures to ensure that all vouchers submitted for reimbursement by sub-recipients are adequately reviewed for proper supporting documentation prior to payment.



## Emergency Shelter Grant Funds Were Not Timely Expended

Contrary to Federal regulations, the Grantee did not ensure that sub-recipients expended available Emergency Shelter Grant (ESG) funds timely. As a result, \$126,173 in ESG funds may not have been used for their intended purpose, or effectively reprogrammed to meet other ESG Program needs. In addition, the Grantee was unable to provide us with adequate assurance that sub-recipients have provided all funded services to the homeless in a timely manner. We attribute this to the Grantee's lack of monitoring to ensure that sub-recipients expend the amount of ESG funds allocated to them timely, and submitted bills for timely reimbursement. Accordingly, we recommend that the Grantee be instructed by HUD to determine whether sub-recipients spent or reprogrammed the amount of ESG funds allocated to them. If not, HUD should recapture those funds and recognize a cost savings.

### Criteria

24 CFR 576.35 (b), provides that each formula city, county, territory, and Indian tribe must spend all of the grant amounts it was allocated or awarded under §576.5 or §576.31 within 24 months of the date of the grant award by HUD.

**\$126,173 in ESG funds were not utilized within 24 months**

We reviewed the amount of Emergency Shelter Grant (ESG) funds that the Grantee disbursed to four shelters. The review disclosed that for each activity allocated ESG funds, from 1995 through 1998, there was some funding that were not utilized within 24 months of the grant award, as required. In 1995 the ESG budget allocation for the Hudson County Housing Resource Center was \$45,000, however, none of the funds have been used. The Palisades Emergency Residence Corp. (PERC) has not drawn down \$51,759 of ESG funds awarded for the years 1996 through 1998. The Hoboken Clergy Coalition's shelter has not used funds totaling \$28,765 from its 1998 grant. Additionally, although Catholic Community Services (CCS) had its 1995 ESG funds that were allotted to the St Lucy's and the Anthony House shelter reprogrammed to other activities; the CCS left a balance of \$549 and \$100, respectively in the accounts of these two shelters. As a result, \$126,173 in the Grantee's ESG funds were not utilized or reprogrammed in a timely manner.

We attribute the above to a lack of adequate monitoring by the Grantee to ensure that sub-recipients spent the allotted funds within 24 months of the grant award. We believe that adequate Grantee monitoring would have ensured that all

sub-recipients had the capacity to provide the services and spend the funds in a timely manner. Accordingly, the Grantee did not have adequate assurance that sub-recipients have provided all funded emergency shelter services to the homeless.

A Grantee official, the former Housing and Community Development Division Chief, explained that he was not aware that Hudson County Housing Resource Center was allocated \$45,000 in 1995, that has not been utilized. He agreed that the books show an outstanding balance for the 1995 grants; however, he stated that since HUD's Line of Credit Control System (LOCCS), takes out the funding in a first in, first out manner, all of the 1995 grant funds are considered expended; therefore, this finding does not apply.

Contrary to the above, we believe that this finding is valid; in fact, discussions with HUD New Jersey State Office (NJSO) officials revealed that the regulations of the ESG Program require the Grantee to disburse grant monies timely and in accordance with the Consolidated Plan and/or activities for which the grant was allotted. Therefore, if disbursed funds were not timely spent on the activities for which they were allotted, and if HUD has not approved a reallocation of the funds, then the ESG Program should be reimbursed the amount of these funds. Furthermore, if the funds have not been used, then HUD should recapture them and recognize a cost savings.

**ESG funds should be repaid or recaptured**

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### **Auditee comments**

The Grantee's comments indicate that its Housing and Community Development Deputy Chief has been directed to oversee all ESG Projects. The expenditure of funds within 24 months as established by the regulations has been identified as a high priority. The Grantee has met with sub-recipients and identified eligible expenses for drawing down prior years funds. They will continue to assist the sub-recipients in identifying a schedule of drawdowns based on the budget for activities. Furthermore, the Grantee has developed an in-depth monitoring system to monitor its ESG Program. Sub-recipients are required to submit detailed budgets, including sources and expenses, quarterly and annual reports, adhering to the information requested by HUD. In addition, other required information such as job descriptions for the staff

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funded by the ESG Program must be submitted. The Grantee's comments indicate that it is committed to maintaining an increased monitoring effort of its ESG sub-recipients to ensure that funds are spent in a timely manner and that reporting documents and other information is submitted as required.

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**OIG evaluation of  
Auditee comments**

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The Grantee generally concurs with this finding, as its comments are responsive to our recommendations.

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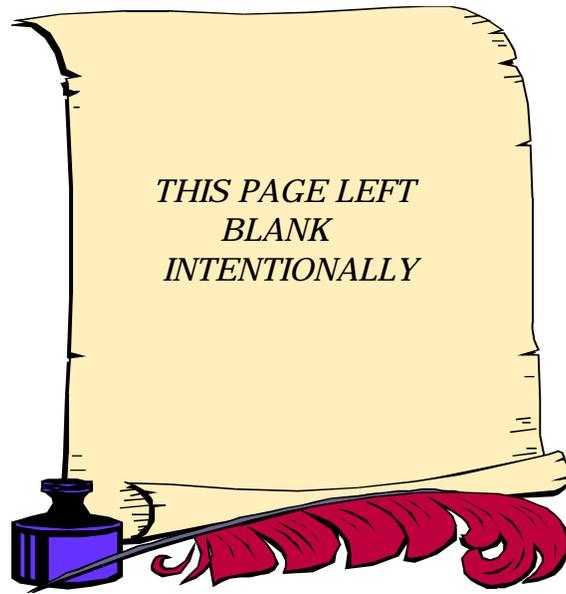
**Recommendations**

We recommend that the HUD NJSO:

3A. Instruct the Grantee to determine whether its sub-recipients spent or reprogrammed the amount of ESG funds discussed in the finding, which totaled \$126,173 for the years 1995 to 1998. If not, HUD should recapture any amounts not expended within the 24 months after the date of the grant award.

If it is determined that funds were expended on ineligible activities, the ESG Program should be reimbursed the amount of the ineligible activities from non-Federal funds.

3B. Instruct the Grantee to develop procedures that will ensure that sub-recipients spend Emergency Shelter Grant funds, within 24 months of the grant award, as required. Procedures should also allow excess funds to be recaptured by HUD.



## Excessive Salary Costs Were Charged To The Emergency Shelter Grant Program

Contrary to Federal regulations, the Grantee allowed sub-recipients to charge excessive salary costs to the Emergency Shelter Grant (ESG) Program. As a result, \$17,280 in ESG funds was not used for its intended purpose or for eligible operating expenses. We attribute this to the Grantee's lack of controls to ensure that only allowable salary amounts were charged to the ESG Program. Consequently, we recommend that the Grantee reimburse the ESG Program the amount of these funds from non-Federal funds and seek reimbursement from its sub-recipients.

### Criteria

Title 24 of the CFR, part 576.21(a)(3) indicates that Emergency Shelter Grants can be expended for shelter maintenance, operation, rent, repairs, insurance, security, fuel, equipment, utilities, food, and furnishings. However, not more than 10 percent of the grant amount may be used for costs of staff.

We reviewed the Grantee's reimbursements of Emergency Shelter Grant (ESG) funds to its sub-recipients. Specifically, we reviewed all payment vouchers for the period between January 1, 2000 and April 30, 2001, which documented the personnel costs reimbursed to three ESG sub-recipients: the Hoboken Clergy, the Palisades Emergency Rescue Corporation (PERC), and the Catholic Community Services. Our review revealed that the Grantee reimbursed these sub-recipients over \$17,280 in unsupported salary costs as follows:

	<b>Grant Year</b>	<b>Total Grant</b>	<b>Salary Charged</b>	<b>10% Allowed</b>	<b>Excess Salary</b>
Hoboken Clergy Coalition	98	\$38,000	\$10,967.33	\$3,800	\$7,167.33
“	00	38,000	7,880.53	\$3,800	4,080.53
Palisades Emergency Rescue Corp.	00	50,000	5,192.58	5,000	192.58
Catholic Community Services–St Lucy	99	60,000	11,840.00	6,000	5,840.00
				<b>Total</b>	<b>\$17,280.44</b>

**Excess salary charges should be reimbursed**

We attribute the reimbursements of excess payroll cost to the sub-recipients to the Grantee's lack of adequate controls to ensure that sub-recipients are not exceeding the ten percent limit on salary costs. As a result, three sub-recipients improperly allocated excessive salary costs to the program, and improperly received ESG funds. Thus, we recommend that the Grantee be instructed to reimburse the ESG Program the amount of the excess salary charges, totaling \$17,280, from non-Federal funds, and seek reimbursement from the sub-recipients.

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**Auditee comments**

The Grantee's comments indicate that their former Housing and Community Development Division Chief required the sub-recipients to voucher ESG funds using a percentage calculation for each line item, (salary, supplies, professional contracts, etc.), based upon the dollar amount of various funding sources. As a result of this method of accounting, capped line items were not accounted for properly. The Grantee has advised its sub-recipients that salaries will not be reimbursed to avoid this situation in the future.

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**OIG evaluation of Auditee comments**

The Grantee generally agrees with this finding, as their actions are responsive to the recommendations. However, since salary costs are an allowable program expense, we believe that the establishment of adequate accounting and budgetary controls could ensure that the 10 percent ceiling is not exceeded.

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**Recommendations**

We recommend that the HUD NJSO:

- 4A. Instruct the Grantee to reimburse the \$17,280 in excess salary cost to the ESG Program from non-Federal funds, and seek reimbursement from the sub-recipients.
- 4B. Instruct the Grantee to inform its sub-recipients of the ten percent limitation for salary costs and establish procedures to ensure that salary costs in excess of ten percent of the total grant amount are not reimbursed from ESG Funds.

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## **The Grantee Needs To Improve Compliance With Federal Labor Standards And Ensure That Contractors Comply With Provisions Of The Davis-Bacon Act**

The Grantee neither adequately documented its compliance with Federal Labor Standards, nor ensured that contractors complied with the provisions of the Davis Bacon Act that pertain to the payment of prevailing wages. As a result, there is inadequate assurance that contractors/subcontractors were eligible to perform work on jobs paid for with Federal funds, and that employees of contractors were paid prevailing wages. According to a Grantee official, the deficiencies occurred because certain staff members need training on Federal Labor standards. In this regard, we recommend that the HUD NJSO assist the Grantee in obtaining training and provide technical assistance to them on the requirements of Federal Labor Standards, especially those pertaining to the Davis Bacon Act.

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### **Criteria**

HUD Handbook 1344.1, paragraph 1-3 provides that the Davis Bacon Act requires that Federal construction contracts in excess of \$2,000 contain provisions for the payment of prevailing wages and have a monitoring mechanism to ensure compliance with its requirements.

In addition, HUD Handbook 1344.1 Paragraph 1-6 provides that Community Development Agencies are responsible to HUD for ensuring compliance with Federal labor standards; some of those requirements are as follows:

- Ensuring that all bid documents, contracts, and subcontracts contain Federal labor standards provisions and the applicable Department of Labor wage determinations. Also, Agencies are to ensure that contractors are eligible for Federally assisted work.
- Conducting on-site project inspections, which include employee interviews and checking for posting of Federal wage determinations, as well as, the review of weekly payrolls of contractors.
- Correcting all violations of labor standards promptly.
- Maintaining full documentation attesting to all administrative and enforcement activities with

respect to Federal labor standard requirements; such documentation to be made freely available for HUD review. Such documentation shall include all weekly payrolls, copies of wage determinations and any applicable changes or modifications, notices of start of construction, on-site inspection reports and employee interviews, and any other records utilized in enforcement administration – including records of wage restitution made, and pre-construction conference minutes.

**Noncompliance  
with Davis Bacon  
reported in prior  
IPA report**

Our review of the Grantee's FY1999 Independent Public Accountant's (IPA) Report, revealed indications that the Grantee may not be complying with provisions of the Davis Bacon Act pertaining to prevailing wages; we noted that this was a prior year 1998 finding, which was not corrected. The IPA report also reported that the Grantee's construction contracts omitted required documents including Davis Bacon payroll certifications. As a result, we selected three of the Grantee's six largest construction projects that had disbursements in our audit period for Program Years 1999 and 2000, and performed detailed file reviews to evaluate the Grantee's compliance with Federal labor standards and/or the Davis Bacon Act. The three projects reviewed are:

The St. Joseph School for the Blind - a contract for building alterations. The contract amount was \$117,900. The CDBG funding for this project was \$105,000.

The Boys and Girls Club - a contract for building rehabilitation. The contract amount and CDBG funding was \$250,000.

The Meadowview Handicap Project – a contract for handicap access ramps. The contract amount was \$1,075,001. The CDBG funding for this project was \$300,000.

**Inadequate monitoring  
still present**

The Grantee's files on the above projects did not contain documentation showing that the Grantee adequately monitored the contractors' payrolls to ensure that prevailing wages were paid, as required by the Davis Bacon Act. The files were not properly maintained and did not always include executed contracts and wage rate determinations. Also, there was a lack of documentation showing that the

Grantee performed on-site job interviews with workers, and reviewed contractors' payrolls.

The specifics regarding each project is as follows:

#### **St. Joseph School for the Blind**

A review of the contract file for the St. Joseph School for the Blind project revealed that the contract did not contain the applicable wage rate determinations even though the project manual, which is incorporated into the contract, states that the bidder agrees to comply with The Prevailing Wage Act [Davis Bacon]. Although the contract files contained payrolls certified by the contractor, they did not contain documentation of on-site employee interviews by the Grantee verifying the amount of wages paid and job classifications. Also, the contract files did not contain documentation showing that the Grantee verified that contractors were eligible to participate in HUD's programs.

#### **Boys and Girls Club**

A review of the contract file for the Boys and Girls Club contract file revealed that weekly Payrolls on a U.S. Department of Labor Form WH347, were on file for the weeks ended March 29, 2000 through April 25, 2001. However, the President of another Construction Company certified them. There was no explanation in the files on why one contractor certified the payroll of another contractor. However, we learned that the person that made the certification was the President of both companies. The payrolls of the construction companies for the weeks ended August 23, 2000 through September 27, 2000 were available, but were not certified. Furthermore, there were no payrolls on file for subcontractors.

Initially, the Grantee's Community Development Division did not have a copy of the contract. However, the Director was able to obtain an unexecuted copy of the contract from the Boys and Girls Club, which did mention that contractors must comply with the provisions of the Davis Bacon Act; but it did not contain wage rate determinations.

Furthermore, the file contained minutes of a pre-construction meeting held with the general contractor, architects, and representatives of the Hoboken Boys & Girls Club, but there was no evidence that a representative of the Grantee attended the pre-construction meeting. Also, there was no documentation showing that the Grantee verified that

contractors were eligible to participate in HUD's programs (that the contractor was not on the Federal Debarred List).

**County Meadowview**

A review of the contract files for the County Meadowview Handicap Access ramp project revealed that the contract had a provision for the payment of prevailing wage rates as promulgated by the New Jersey State Department of Labor. However, our review of the State of New Jersey's Department of Labor website revealed that New Jersey prevailing wages are not necessarily the same as Davis Bacon prevailing wages, and that if both were applicable to a project, the more stringent requirements and higher wages would apply.

The Affirmative Action Compliance Officer for the Grantee's Office of Engineers, who is in charge of monitoring the Meadowview project, stated that he compared the certified payrolls with New Jersey prevailing wage rates to ensure compliance. However, the Compliance Officer stated that he did not perform on-site employee interviews or examine pay stubs. He stated that he was not aware that he was required to examine payroll records and perform on-site employee interviews. The Compliance Officer stated that the former Community Development Division Chief never told him that the CDBG Program was also funding the project. He said had he known that CDBG funds were involved; he would have ensured full compliance with Federal regulations, regarding Davis-Bacon wages. He stated that he verified that the contractor chosen for the ramp project was not on the State of New Jersey Debarred Contractors List; however, he did not check the Federal Debarred Contractors List because he was not aware that it was required.

Also, we noted that the contract files contained certified payrolls from each of the subcontractors that worked on the construction job. However, the files did not contain documentation showing that the onsite employee interviews were conducted. These interviews are performed to determine whether employees are being paid as stated in contractor's payroll records and are working as classified.

**Better documentation of monitoring is needed**

We believe that adequate Grantee monitoring would have ensured that contract files contained the proper documentation to attest to compliance with provisions of the Davis Bacon Act. By not adequately documenting wage

rate determinations, employee interviews, contractor payroll reviews, and checking the Federal Debarred List, etc., the Grantee did not have documented evidence that employees of contractors were in the proper occupational classifications, and received the mandated pay and benefits. Accordingly, we believe that this leaves the Grantee/sub-recipients exposed to potential litigation and claims from employees who may not have received the benefits they were entitled, and/or to possible penalties from the Department of Labor.

Furthermore, we believe that pre-construction conferences and wage rate determinations should be properly documented in the contract files to document the Grantee's compliance with Federal Labor Standards and that contractors and sub-contractors were informed of the various requirements for compliance with provisions of the Davis Bacon Act.

**Adequate training  
is needed**

The Grantee's Acting Chief of the Division of Community Development informed us that the monitoring for compliance with provisions of the Davis Bacon Act was not performed because the Division's staff lacked the training to do the monitoring required. The Acting Chief indicated that HUD was contacted and attempts were made to obtain training on monitoring compliance with provisions of the Davis Bacon Act.

**Auditee comments**

The Grantee's comments provide that an office staffed with trained and knowledgeable employees has been created to institute a system to ensure compliance with the provisions of the Davis Bacon Act. The Grantee has requested and received, on December 19, 2001, training by the HUD NJSO on the provisions of the Davis Bacon Act. Grantee employees as well as municipal sub-recipients attended the training. The Grantee has also developed a construction file checklist, to be used to ensure that construction files adequately document compliance with Federal Labor standards and compliance with provisions of the Davis Bacon Act, prior to advancing construction funds.

**OIG evaluation of  
Auditee comments**

The Grantee generally agreed with this finding, as its comments are responsive to the recommendations. We

confirmed that the HUD NJSO has provided training to the Grantee on monitoring compliance with provisions of the Davis Bacon Act.

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**Recommendations:**

We recommend that the HUD NJSO:

- 5A. Continue to assist the Grantee in obtaining training and technical assistance on compliance with Federal labor standards, including ensuring that contractors comply with provisions of the Davis Bacon Act.
- 5B. Instruct the Grantee to implement a monitoring system that will ensure that all Federal Labor Standards are complied with and that the files of construction projects contain adequate documentation evidencing all compliances.

## The Grantee Did Not Perform Inspections On Completed HOME-Assisted Rental Projects

Contrary to Federal regulations, the Grantee did not perform inspections on completed HOME-assisted rental projects. As a result, the Grantee does not have adequate assurance that assisted projects are meeting HUD's housing quality standards. We attribute this to the Grantee's lack of controls to: a) identify the properties that need inspections, b) provide the dates when the inspections are required, and c) assign staff to perform the inspections. Therefore, we recommended that the Grantee develop procedures that will ensure that inspections of HOME-assisted properties are timely performed and documented.

### Criteria

24 CFR Part 92.504(d) provides that for HOME assisted rental housing, during the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing), the participating jurisdiction must perform on-site inspections to determine compliance with property standards of Sec. 92.251 and verify the information submitted by the owners in accordance with the requirements of Sec. 92.252 no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. Inspections must be based on a sufficient sample of units.

Accordingly, the participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance, to determine compliance with housing quality standards.

### Grantee inspections not performed

During our review of fifteen subsidized housing projects that were rehabilitated through the HOME Program, we found that the Grantee did not perform inspections of ten completed projects. Specifically, one project should have been inspected every three years, five should have been inspected every two years, and four should have been inspected annually. Each project had from one to six inspections that had not been performed. Without these inspections, the Grantee does not obtain adequate assurance that the properties are being maintained in accordance with HUD's housing quality standards. As such, the Grantee is not assured that tenants are living in decent safe and sanitary housing.

During the course of the audit, the Grantee's HOME Program Coordinator conceded that there are no controls or monitoring systems in place to identify when HOME-assisted projects should be inspected. Also, the Grantee does not have staff assigned to perform these inspections.

**Contracted third party inspections not performed**

Grantee officials indicated that they had contracted with two Public Housing Authorities (PHA's) to perform some of the inspections. However, we noted that the contracts had not been fully executed and that the contractors have not performed any inspections. We were also informed that other parties such as the State of New Jersey might have inspected some projects; however, the HOME Program Coordinator stated that inspections performed by the other parties have not always been provided to the Grantee. We noted that, the Grantee recently hired a monitor for the HOME Program inspections. However, the HOME monitor is also responsible for lead-based paint compliance and has spent most of his time on that program; therefore, the required HOME inspections had not been scheduled and conducted at the time of our review.

**Procedures are needed to ensure that housing quality inspections are performed**

We believe that the deficiencies discussed in this Finding have diminished the Grantee's ability to administer its HOME-assisted program in an efficient and effective manner, and represent a noncompliance with program regulations. Unless controls are implemented to ensure that the required housing quality inspections are performed, the Grantee cannot be assured that HOME funds are being effectively used. Furthermore, the deficiencies cited in this finding will continue to recur, and HUD will not be assured that tenants assisted with Federal funds are living in housing that is decent safe and sanitary.

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**Auditee comments**

Grantees officials indicated that they have received approval to enter into a contract with the Housing Authorities of Secaucus and West New York to provide inspections of completed HOME Assisted rental projects.



OIG evaluation of  
Auditee comments

The Grantee generally agrees with this finding, as their actions are responsive to our recommendations.

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**Recommendations**

We recommend that the HUD NJSO require the Grantee to:

- 6A. Immediately perform the housing quality inspections on all completed HOME-assisted projects that are past due.
- 6B. Develop procedures that will ensure that all completed HOME-assisted projects are timely inspected, as required, and that all deficiencies noted are timely corrected.



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# Management Controls

In planning and performing our audit, we considered the management controls of the Hudson County Division of Community Development to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant management controls

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

- Controls over cash receipts and disbursements.
- Controls over monitoring of HUD programs.
- Controls over supporting documentation for costs.
- Controls over the timeliness of expending funds.

We assessed all the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant weaknesses

Our review found significant weaknesses in all management controls tested. The controls weaknesses are detailed in the six findings contained in this report.



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## Follow Up On Prior Audits

An Independent Public Accountant performed an audit of the County of Hudson for the year ended December 31, 1999. The report contained two findings that were applicable to the HUD programs. The first finding pertained to timely expenditure of CDBG funds, which was corrected during our audit period. The other finding required the Grantee to develop and implement procedures to ensure compliance with all fiscal and program requirements and maintain written sub-recipient agreements with all sub-recipients. We found that the Grantee has maintained written sub-recipient agreements with all sub-recipients.

The IPA audit report also indicates that a prior finding from a 1997 Compliance Review performed by HUD, remains unresolved. This finding pertains to maintaining documentation for construction contracts that show compliance with the Davis Bacon Act. We found that this issue is still occurring, as we noted that the Grantee did not adequately monitor to determine whether construction contractors complied with applicable provisions of the Davis Bacon Act (see Finding 5).



## Schedule of Questioned Costs and Cost Efficiencies

<u>Finding Number</u>	<u>Type of Questioned Cost</u>		
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Cost Efficiency 3/</u>
1		\$1,000,000.00	
2	\$200.00	63,625.00	
3			\$126,173.00
4	17,280.00		
5	-	-	-
6	-	-	-
	<u>\$17,480.00</u>	<u>\$1,063,625.00</u>	<u>\$126,173.00</u>

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

2/ Unsupported costs are costs charged to a HUD-financed activity, for which the eligibility could not be determined at the time of the audit. The costs were not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future 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/ Cost efficiencies are actions by management to prevent or avoid an improper or unnecessary obligation or expenditure. In this case, HUD would realize a cost savings if the Grantee/sub-recipient's unused Emergency Shelter Grant funds are recaptured.



# Auditee Comments



COUNTY OF HUDSON  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
DIVISION OF HOUSING AND COMMUNITY DEVELOPMENT  
583 NEWARK AVENUE  
JERSEY CITY, NEW JERSEY 07306

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SUSAN MEARNES  
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February 13, 2002

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Alexander C. Malloy  
District Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
26 Federal Plaza, Room 3430  
New York, NY 10278 0068

**RE: The County of Hudson, New Jersey, Comments to the Audit Report**

Dear Mr. Malloy:

The Hudson County Division of Housing and Community Development (the "Division") is in receipt of the tentative audit findings that were developed during your office's review of the Community Development Block Grant, Emergency Shelter Grant and HOME Investment Partnerships Programs administered by the Division. Based upon review of same, the Division would like to take the opportunity to offer the following comments.

**FINDING 1 - The Grantee advanced \$1 million in CDBG Funds for a questionable land purchase.**

The following is a brief history of the actions that have been taken to address the environmental clearance of the site in question. The site, located on Passaic Avenue in Harrison, NJ, is a "Brownfields" site, (former industrial sites that contain contaminants), that is part of the Hudson County Brownfields Assessment Demonstration Pilot Program (the "Program"), an initiative financed by the U.S. Environmental Protection Agency. The intent of the Program is to provide the resources necessary to identify, assess and redevelop fallow properties throughout the County. The Program is administered by the Hudson County Economic Development Corporation (HCEDC). The HCEDC has provided the professional services to identify the surface contaminants and develop a plan of action for remediation of the site. During a period of approximately eighteen months, the following reports have been prepared by the PMK Group and submitted to the New Jersey Department of Environmental Protection (NJDEP); Preliminary Assessment, Site Assessment, Remedial Investigation, Remedial Action Workplan. The HCEDC has advised the Division that the site has received verbal approval from the NJDEP.

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**Alexander C. Malloy**  
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Upon receipt of written confirmation that the Remedial Action Workplan has been approved, the Division will provide documents to the U.S. Department of Housing and Urban Development (HUD) and formally request a release of funds and the related certification of compliance with Federal laws to HUD for approval.

The Division has provided the subrecipient with a Mortgage and Mortgage Note that has been executed and is in the process of being recorded.

**FINDING 2 - Questioned costs totaling \$76,345.98 was charged to the CDBG Program.**

The County requested and received a refund from the Town of Kearny in the amount of \$62,116.20 on October 12, 2001. Furthermore, the Town of Harrison has provided the Division with the Professional Services Contract of the Senior Citizen's Health Education and Quarterly Reports covering the periods of time that the Town of Harrison paid for these services, for a total of \$10,000. Copies of the documentation are enclosed.

The Division will request direction from HUD the treatment of furniture purchases as an allowable expense and on the proper accounting treatment for furniture purchases under the CDBG program.

The Division completed a reprogramming with the Town of Kearny and has offered technical assistance in establishing files for the new activities to be undertaken. Furthermore, the Town of Kearny has commissioned an independent audit and has terminated its Chief Financial Officer.

To insure that there is not recurrence of this nature, the Hudson County Division of Housing and Community Development has met with and instructed its subrecipients as to the form and appropriate documentation required to request funds. In addition, the Hudson County Division of Housing and Community Development has instituted an internal multi-level review of the request and supporting documentation for compliance and accuracy prior to processing for payment. All subrecipients have been advised that vouchers will be returned if the documentation is insufficient. Subrecipients must track all contracts and provide a reconciliation that is current on all voucher requests.

**FINDING 3 Emergency Shelter Grant Funds were not timely expended.**

In light of the timeliness issue regarding the expenditure of Emergency Shelter Grant (ESG) funds, the Division's Deputy Chief has been directed to oversee all ESG Projects. The expenditure of funds within the twenty four (24) month deadline, as established by the regulations, has been

**February 13, 2002**  
**Alexander C. Malloy**  
**Page 3**

identified as a high priority of the County's ESG Program. To ensure the timeliness of expenditure of funds, the Division has established on-going and frequent communications with the subrecipients regarding a schedule of drawdowns. The Division has met with the subrecipients and identified eligible expenses for the purpose of drawing down prior years of ESG funds. Based upon review of the files, it appears that the former Division Chief required the subrecipients to voucher ESG funds, using a percentage calculation for each eligible line item, (salary, supplies, professional contracts), based upon the dollar amount the various funding sources were contributing to the operation of the ESG activity. As a result, the subrecipients, while incurring costs that were clearly eligible under the Program, withheld the submission of invoices until such time that it could be demonstrated that the invoice would be fully paid.

The Division will continue to assist the subrecipients under discussion in identifying a schedule of drawdowns based upon the project budget. As of the Division's most recent drawdown, dated December, 2001, 63% of 1998 ESG funds have been expended.

Furthermore, the Division developed an in-depth monitoring system of its ESG program requiring subrecipients to submit detailed budgets including sources and expenses, quarterly and annual reports adhering to information requested by HUD, as well as other required information such as job descriptions for staff funded by the ESG Program. Lastly, the Division has met with and continues to meet with subrecipients on an as needed basis to discuss questions regarding ESG regulations such as the 10% personnel funding cap, and the 24 month expenditure deadline. The Division has instituted the quarterly reporting period as of the second quarter of 2001 and has obtained annual reports for FY2000. The Division is committed to maintaining an increased monitoring effort with its ESG subrecipients to ensure an expenditure of funds in a timely manner and submission of reporting documents and required information.

**FINDING 4 - Excessive Salary Costs were charged to the Emergency Shelter Grant Program.**

As stated above, based upon review of the files, it appears that the former Division Chief required the subrecipients to voucher ESG funds, using a percentage calculation for each eligible line item, (salary, supplies, professional contracts), based upon the dollar amount the various funding sources were contributing to the operation of the ESG activity. As a result of this method of accounting, capped line items were not accounted for properly. The Division has advised its subrecipients that salaries will not be reimbursed to avoid this situation in the future.

February 13, 2002  
Alexander C. Malloy  
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**FINDING 5 - The Grantee did not adequately monitor and document that its construction contracts were in compliance with the Davis-Bacon Act.**

The Division of Housing and Community Development has created an office within the Division, staffed by trained and knowledgeable employees, to institute a system to ensure compliance with the provisions of the Davis Bacon Act. The Division had requested that the U.S. Department of Housing and Urban Development, New Jersey State Office, provide training to the Division of Housing and Community Development's staff and its subrecipients. A training was conducted on December 19<sup>th</sup> and was attended by several staff members of the Division and municipal sub-grantees. Enclosed please find a Construction Documents Checklist that must be completed prior to advance of construction funds.

**FINDING 6 The Grantee did not perform inspections on completed HOME Assisted Rental Projects.**

The Division has received approval to enter into a contract with the Housing Authorities of Secaucus and West New York to provide inspections for the completed HOME Assisted rental projects.

The Division thanks your office for the opportunity to offer comments related to the issues mentioned above and in the event additional information is warranted, I may be contacted at (201) 795-6186.

Sincerely,



Susan Meams  
Acting Division Chief

Enclosures

xc. Wade Frazee, Deputy Director

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