



Issue Date	September 6, 1996
Audit Case Number	96-NY-241-1005

TO: Frank Sagarese, Director  
Community Planning and Development Division  
New Jersey State Office

FROM: A. Paul Kane, District Inspector General for Audit  
New York/New Jersey

SUBJECT: City of Camden  
Community Development Programs  
Camden, New Jersey

Henry G. Cisneros, Secretary of the U. S. Department of Housing and Urban Development (HUD), asked that we examine the operations of the City of Camden, New Jersey (Grantee) pertaining to its Community Development Block Grant (CDBG), HOME, HOPE 3, and Empowerment Zone programs. In addition we reviewed the collection of miscellaneous revenue due from completed Urban Development Action Grants (UDAG) and repayments made on a loan guaranteed under the Section 108 Loan Guarantee program. However, we did not review the Empowerment Zone program because program activities had not been initiated (See the General Comment section of this report). Also, we did not review an approved Emergency Shelter Grant (ESG) because there were no expenditures during the period reviewed. The purpose of our examination was to determine whether the Grantee carried out activities as shown in its applications in an economical, efficient, and effective manner; complied with requirements, laws and regulations of HUD; and charged costs to the programs which were eligible and reasonable. The period reviewed was from January 1, 1995 through December 31, 1995, and where appropriate, was extended to include other periods. The on-site work was performed between March 25, 1996 and May 3, 1996.

The report contains six findings that show a need to improve the Grantee's organizational structure and correct significant weaknesses in financial and administrative controls. The Grantee's financial and program records are not complete, accurate, or current. Our report identifies unallowable costs of \$801,364 and unsupported costs of \$1,381,045. We have also identified a cost efficiency of \$251,400.

Within 60 days, please furnish this office, for each recommendation cited in the 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 not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

## Management Memorandum

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Should your staff have any questions, please contact Alexander C. Malloy, Assistant District Inspector General for Audit, at 212-264-8000, Extension 3976.

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# Executive Summary

We reviewed the operations of the City of Camden (Grantee) pertaining to its CDBG, Home and HOPE 3 programs. In addition, we reviewed the collection of miscellaneous revenue from completed UDAGs and repayments made on a loan guaranteed under the Section 108 Loan Guarantee program. However, we did not review the Empowerment Zone program because program activities had not been initiated, (See the General Comment section of this report). Also, we did not review an approved ESG because there were no expenditures during the period reviewed. The purpose of our examination was to determine whether the Grantee carried out activities as shown in its applications in an economical, efficient, and effective manner; complied with requirements, laws and regulations of the U.S. Department of Housing and Urban Development (HUD); and charged costs to the program that were eligible and reasonable.

Our review showed significant weaknesses in the Grantee's organizational structure and financial management system. As a result, the Grantee's financial and program records are not complete, accurate, or current. Since the Grantee's official accounting records were not readily auditable, we had to rely on other records maintained by the Department of Development and Redevelopment, other Grantee departments and subrecipients. Under these circumstances, unrecorded or other inappropriate transactions may have occurred and remained undetected during our audit tests of the Grantee's operations.

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## Deficiencies found

The administration of HUD programs is fragmented among several City departments and subrecipients. Lines of authority and communication are muddled and the absence of accurate, complete, and timely financial records seriously affects the Grantee's ability to administer the programs.

The Grantee did not comply with program regulations prior to using \$1,835,052 in CDBG funds to make payments on a loan, which is owed the City, under the Section 108 Loan Guarantee program. More significantly, \$916,808 of the amount was not authorized to be drawn down because the funds had not been included in the CDBG budget or charged to any approved activity or program year. Additionally, we were unable to determine the propriety and reasonableness of the remaining \$918,244, charged to various economic development and public facility activities. This has jeopardized the Grantee's ability to complete its approved activities, adversely affected HUD's ability to evaluate program progress, and diminished the rights of citizens to participate in program matters.

Subrecipients have not been adequately monitored by the Grantee to assure compliance with Federal requirements. The monitoring weaknesses extend to both the administrative review of reimbursements and on-site monitoring. The finding identifies \$163,560 in expenditures that were not adequately supported.

Finally, effective administrative practices necessary to ensure that costs paid from grant funds are allowable and reasonable have not been implemented. Consequently, the program has been charged for costs that are not adequately supported, not necessary or reasonable. Accordingly, we consider payments totaling \$38,874 to be unallowable and another \$299,241 to be unsupported.

Recommendations to mitigate problems

We are recommending actions that will strengthen the Grantee's future administration of HUD programs. We are also recommending that you require the Grantee to repay the ineligible costs of \$801,364, and either repay or document the unsupported costs of \$1,381,045.

Exit conference

The results of the audit were discussed with Grantee officials during the audit and at an exit conference held on August 8, 1996, attended by:

City of Camden

Arnold W. Webster, Ph.D., Mayor  
Patrick J. Keating, Business Administrator  
Deborah Polk, Commissioner, Department of Development & Redevelopment

State of New Jersey

Robert Law, State of New Jersey, Department of Community Affairs, Division of Local Government Services, City of Camden/Fiscal Monitor

Office of Inspector General

Alexander C. Malloy, Assistant District Inspector General for Audit  
Lawrence W. Magiera, Senior Auditor

Garry D. Clugston, Senior Auditor  
John A. Cameron, III, Auditor

The Grantee's response to the draft findings, which is dated August 8, 1996, provides that Grantee officials concur with the findings and are in the process of implementing all necessary and appropriate corrective actions. Specifically, the Mayor states:

***"We have reviewed the six findings developed during the Office of Inspector General audit of our HUD programs. The findings, concerns and recommendations in the draft of the audit report will be used as a tool for the development of an overall organizational structure to effectively administer these programs. We concur with the findings and are in the process of implementing corrective actions with respect to each finding contained in your review. We look forward to working with the HUD Field Office in Newark in regard to these corrective actions."***

The Grantee's response is included in this report as Appendix B.

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## Acronyms

CBAC	Cooperative Business Assistance Corporation
CDBG	Community Development Block Grant
CEDC	Camden Economic Development Corporation
CFR	Code of Federal Regulations
CRA	Camden Redevelopment Agency
DDR	Department of Development and Redevelopment
ESG	Emergency Shelter Grant
EZ	Empowerment Zone
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
JCHD	Jersey Counselling & Housing Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
UDAG	Urban Development Action Grant



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# Introduction

Title I of the Housing and Community Development Act of 1974, established the CDBG program. The CDBG program provides grants to States and units of local governments to aid in the development of viable urban communities. The HOME program allows participating jurisdictions to use the funds for a variety of housing activities, according to local housing needs. The HOPE 3 program provides homeownership opportunities for eligible families to purchase local government-owned single family properties. The Section 108 Loan Guarantee program allows communities entitled to CDBG grants a means to finance up-front, certain large scale projects beyond the scope that can be financed by annual grants.

The above described programs are administered by the Grantee and subrecipients. The Grantee is governed by a Mayor and City Council. The Grantee's office is located at City Hall, Camden, New Jersey. The Commissioner of the Department of Development and Redevelopment is Deborah Polk and the Comptroller is Richard Cinaglia.

During the audit period, the Grantee administered the following grants:

- CDBG Entitlement Grants for Program Years 1994 and 1995 totaling \$8,126,000.
- HOME Grant for \$1,231,000.
- HOPE 3 Grant for \$1,495,051.

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## Audit Objectives, Scope and Methodology

The audit objectives were to determine whether the Grantee: (1) carried out its activities as shown in its applications and agreements in an economical, efficient, and effective manner; (2) complied with HUD program requirements, laws and regulations; and (3) charged costs to its HUD programs that were reasonable and eligible.

The audit covered the period from January 1, 1995 through December 31, 1995. However, we reviewed activity prior and subsequent to the audit period as necessary. Based upon our survey results the audit focused primarily on the Grantee's organizational structure and related administrative and financial controls. The audit site work was conducted from March 25, 1996 through May 3, 1996.

To accomplish the audit objectives the following audit procedures were performed:

- Examined records and files of the Grantee and interviewed staff.
- Reviewed internal controls relevant to the audit objectives.
- Tested selected transactions.
- Evaluated monitoring activities and determined whether selected subrecipients were carrying out program activities defined in their agreements with the Grantee.
- Performed site inspections of selected rehabilitation units to determine whether all work was completed.

The audit was conducted in accordance with generally accepted government audit standards.

A copy of this report was provided to the Grantee.

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# An Effective Organizational Structure is Needed

In 1994, the Grantee reorganized the City government in an attempt to provide a more effective and efficient operation through establishing stronger lines of accountability and responsibility. Unfortunately, the anticipated efficiencies have not been realized in the administration of HUD programs. The administration of the CDBG, ESG, HOME, and HOPE 3 programs has been fragmented among several City departments and subrecipients. No single department or agency exercises complete authority or oversight of the programs. Lines of authority and communication are muddled and the absence of accurate, complete, and timely financial records seriously impacts the Grantee's ability to properly administer the programs. The specific effects of the poor organizational structure are discussed in the other audit findings contained in this report.

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## Criteria

Section 570.610 of the CDBG Regulations require grantees to comply with the policies guidelines and requirements of 24 CFR, Part 85, OMB Circulars A-87, A-110, A-122, and A-133 as applicable. Part 85 is also applicable to the HOME and HOPE 3 programs. Moreover, the grantees responsibility to establish an effective organizational structure is defined in the policy guide section of OMB Circular A-87. The circular provides that "Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards."

Section 570.501(b) provides that grantees are responsible for ensuring that CDBG funds are used in accordance with all program requirements. It further provides that the use of designated public agencies, subrecipients or contractors does not relieve the grantee of this responsibility and that the grantee is also responsible for determining the adequacy of performance under subrecipient and procurement contracts.

Background

The Department of Development and Redevelopment (DDR) is identified as the lead City department administering HUD programs. Our review found that the DDR is not operating in that capacity because it has not been given the authority to accomplish this task. In fact, under the current organizational structure, the DDR has very little formal involvement in any of the structured processes of the City. For example, DDR is not in the line of authority over contracting, purchasing, receipts and disbursements as they pertain to the HUD programs. DDR does not have the authority to review procurement actions, contracts, or purchase orders to determine if the items are allowable and eligible. While DDR has acted as a program monitor, its reports carry little weight and authority.

To DDR's credit, it has managed to construct a reasonable system of unofficial records from copies of purchase orders and contracts obtained from the Comptroller and other departments. While DDR's records were found to be much more accurate than the Comptrollers, they are not the official records and cannot be used for that purpose.

Current Administrative Structure

Authority to administer the various grant activities is fragmented among City departments including the Department of Community Affairs, Housing and Community Development, Environmental Affairs, Planning and Health and Human Services. The Departments are further broken down by divisions and bureaus. In addition, the Grantee employs the Camden Redevelopment Agency (CRA), a public agency, to act as the administrator for several CDBG and HOME activities, as well as performing monitoring of several other subrecipients. In addition, CRA also acts as a subrecipient. To further complicate CRA's administrative role, the City has five of its planning department employees working under the direction of CRA.

Each of the City Departments and CRA implement activities, projects, and procure materials and services. They also submit contracts to the City Council for approval and authorize grant payments. Further, the City Departments and/or CRA also contract with at least forty subrecipients to carry out grant related activities. Program monitoring responsibilities vary between activities and often overlap between entities, resulting in poor program oversight.

## Results of Review

Our review which included interviews with Grantee, CRA, and subrecipient personnel showed that the administration of HUD programs have been impeded by the current organizational structure. Particular weaknesses are described below.

Planning Process

The Grantee does not have a centralized and focused planning process to ensure that HUD programs, private funding, and City resources are used in an effective and coordinated fashion. The Grantee's planning function is fragmented with little emphasis on project management.

Currently, planning personnel are spread between different offices in City Hall and also assigned to CRA. In addition, it appears that other subrecipients perform certain planning functions with little oversight from the Grantee.

Examples of the decentralization of the planning function are as follows:

- Planning for neighborhoods and housing is fragmented between CRA, certain subrecipients, and the Division of Housing Services.
- Planning for parks and recreational activities flows through the Department of Community Affairs.
- Planning for economic development is split between CRA, Department of Development and Redevelopment and the Cooperative Business Assistance Corporation (CBAC), a subrecipient.
- Planning for land use and site plans are performed by the Division of Planning. While this Division is within the Department of Administration and Finance, the planning staff is supervised by the CRA.

Budget Process

Serious internal control weaknesses (discussed in Finding 2) and the lack of a formal written budget process for HUD funds has adversely affected the Grantee's ability to

administer its programs. There is little assurance that HUD grants and activities will not be over obligated.

#### Monitoring Process

The Grantee's monitoring of HUD funded activities is in disarray. Specific deficiencies are discussed in Finding 3 of this report, but it is suffice to say that adequate monitoring is not being performed under any of the HUD programs.

#### Financial and Internal Controls

There is no discernable system of financial controls or organizational lines of authority and communication to ensure that HUD program activities are effectively administered. Policies and procedures necessary to achieve HUD program objectives have not been implemented. Finding 2 of this report identifies significant deficiencies in the financial records and lack of rudimentary internal controls.

#### Programmatic Communications

The current organizational structure inhibits free and open communication between the various departments and subrecipients. The failure to develop effective lines of authority and the lack of a centralized lead department to administer grants has resulted in a breakdown in communications and caused an aura of rivalry between various entities administering activities.

The absence of an effective organizational structure has been the underlying cause for the significant deficiencies included in the findings in this report. Unless effective corrective actions are taken to resolve the organizational problems, it is unlikely that the Grantee will have the capacity to adequately administer its grants in the future.

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## Recommendations

We recommend that you require the Grantee to:

- 1A. Submit an organizational plan for your review that meets the requirements of the various program regulations and OMB Circulars.

The new organizational structure should establish clear lines of authority and establish a lead department to administer HUD programs.

Since the organizational deficiencies extend into the City's operations, it is unlikely that significant improvements can be made unless the City participates in the organizational changes.

Also, we recommend that you:

- 1B. Review the submitted plan and direct its implementation.
- 1C. Advise the Grantee that unless the plan is effectively implemented in a timely manner, that corrective actions identified in Title 24 CFR Sections 570.910, 911, and 913 will be instituted.

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# Weaknesses in Financial Management System and Related Accounting Controls

Our review disclosed significant weaknesses in the Grantee's financial management system. The weaknesses have adversely impacted the Grantee's assurance that HUD funds are properly safeguarded and that adequate financial records are maintained in accordance with HUD requirements. As a result, the Grantee's financial records are not complete, accurate, or current. The weaknesses can be attributed to the lack of effective management oversight caused by a poor organizational structure.

## Criteria

The requirements mandating grantees to have effective financial management systems are contained in Title 24, Part 85.20 of the Code of Federal Regulations. The standards require financial systems to provide:

- Accurate, current and complete disclosure of financial transactions.
- Records that adequately identify the source and application of funds.
- Effective control and accountability for all grant cash, property and other assets.
- Accounting records that are supported by source documentation.

Moreover, the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments provides that costs must be necessary and reasonable for the proper and efficient administration of the program and that the cost be accorded consistent treatment through the application of generally accepted accounting principles.

## Background and Scope

The Grantee's official accounting records are maintained by the City's Comptroller's Office. The Comptroller is

responsible for maintaining general ledgers, journals, cash receipts and disbursement records for the CDBG, HOME, HOPE 3 and ESG programs.

We reviewed the Grantee's financial management system including internal controls, accounting procedures, and purchasing policies to determine whether the Grantee was in compliance with the aforementioned criteria. We tested the accuracy of the financial records by comparing them with program records maintained by other Grantee departments, subrecipients, HUD Field Office, and the audit performed by the Independent Public Accountant (IPA).

Results of review

Material errors and deficiencies were found in the financial records maintained by the Grantee's Comptroller. The errors and deficiencies have seriously affected the accuracy of program reports, the City's annual audit, and the assurance that HUD funds are properly being used and safeguarded as evidenced by the Findings in this report.

We relied on the unofficial records maintained by the Department of Development and Redevelopment for much of our audit work, because the Grantee's official accounting records were not readily auditable.

Deficient accounting records

Some of the more significant deficiencies and errors are discussed in detail below.

1. Grantee's General Ledger does not account for program receipts and expenditures by grant activity or grant program year.
2. Receipts and expenditures for the CDBG, ESG, and Section 108 programs are commingled in one cash account. This account is not being reconciled.
3. Grantee accounting records do not accurately record the amount due from HUD programs. The outstanding CDBG grant balance is significantly understated on the General Ledger. Additionally, the HOME, HOPE 3, and ESG programs are not even included as General Ledger accounts.
4. CDBG ledger accounts are not posted in a timely manner and therefore are not current. Many

accounts are posted annually using IPA adjusting journal entries.

5. Budgetary controls over the HUD programs are not employed by the Comptroller's Office. There is no assurance that expenditures are compared with budget amounts or that funds are available for the items being charged.
6. Payments are processed without adequate review of source documentation. Payments have been made without executed contracts and/or properly prepared vouchers and advices.
7. HOME and HOPE 3 programs were not included in the IPA annual audit. ESG funds were not identified in the audits, but were erroneously included with CDBG.

Cause

The Grantee has not established an efficient organizational structure to administer its programs. We attribute the deficiencies to the lack of centralized management control over the programs as well as poor communication between the various autonomous departments. Further, there appears to have been little effort on the part of the Grantee to ensure that its system meets HUD and generally accepted accounting principles. Where controls and practices have been established, they are not always followed.

Summary

The Grantee has not complied with the HUD requirements to establish an effective financial management system. As a result, HUD and the Grantee have little assurance that program costs are proper, funds are being used in an economical and effective manner, or that program objectives are being met.

Recommendations

We recommend that you require the Grantee to:

- 2A. Implement effective accounting controls necessary to comply with HUD requirements. The corrective actions should complement the organizational

structure improvements instituted through Finding 1.

- 2B. Conduct a review of its financial records and prepare correcting entries where applicable. The end product should result in books of account that can be reconciled with program records.
- 2C. Ensure that subsequent annual audits include all HUD grant activities. The IPA should be instructed to expand the audit period to include prior years activities that were not audited.

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## Monitoring of Subrecipient Performance Needs to be Improved

The Grantee's monitoring of its subrecipients has not identified internal control weaknesses at the subrecipients and has not detected or corrected untimely or poor performance. Consequently, the Grantee does not have assurance that program funds were used for eligible costs and that activities administered by subrecipients meet program objectives. We believe that adequate monitoring has not been performed because of communication and coordination problems between the various Grantee departments and subrecipients administering the programs.

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### Criteria

Title 24 CFR, Part 85 contains the requirements that grantees are to follow regarding program monitoring including the activities administered by subrecipients. In addition, Part 85 provides financial management standards that must be met by the grantee and subrecipients. Finally, 24 CFR Section 570.501 provides that the grantee is responsible for determining the adequacy of performance under subrecipient agreements and for taking appropriate action when performance problems arise.

### Scope of Review

We examined the program files for 9 of the 41 subrecipients identified by the Grantee as participating in the HUD programs during the audit period. We conducted site-visits to 4 of the subrecipients. The nine subrecipients were selected because our survey work either identified areas of potential weaknesses that required further review, or because the subrecipients received the largest allocation of grant funding.

The purpose of our review was to evaluate the Grantee's procedures for monitoring its subrecipients. Further, to determine whether the subrecipients had implemented financial monitoring systems that would meet the requirements, and whether the subrecipients program activities were achieving the applicable program objectives.

Review results

As a result of our file reviews and site-visits we concluded that the Grantee has not implemented effective procedures necessary to monitor subrecipient performance and compliance with program requirements. We found that Grantee files did not always contain all the required documentation necessary to support program costs and activities. Examples included program files that did not contain; (a) the required audited financial statements, (b) documentation supporting claimed costs, and (c) activity progress reports.

Details pertaining to the more significant weaknesses are discussed separately by subrecipient below.

1. Camden Redevelopment Agency (CRA)

The CRA was established by City Council ordinance to carry out certain redevelopment activities. In addition to administering certain activities for the Grantee, CRA was also under contract to perform monitoring of selected subrecipients.

Formal Monitoring Not Documented

Although under contract to monitor several subrecipients, we found that no monitoring reports were provided to the Grantee during our review period. In addition, we found that CRA's files contained insufficient documentation supporting its monitoring activities. In addition, CRA has not had timely audits performed on its operations as required. The latest audit was for the period ended 12/31/93. The audit report contains findings identifying weaknesses in the internal controls over cash receipts and disbursements. These findings remain unresolved.

Our review of selected activities and subrecipients under CRA's oversight disclosed several significant deficiencies including the unsupported use of grant funds and poor performance as follows:

Morgan Village Community Center - In June 1992, the CRA contracted with the Grantee to administer this project involving \$100,000 in rehabilitation work funded from CDBG funds.

Four years and \$119,875.36 later, the project remains incomplete. More significantly, we were unable to determine the propriety and reasonableness of these costs because the Grantee and CRA were unable to provide us with a construction contract or adequate work specifications. Moreover, we found that the work was procured without the benefit of bidding. An examination of the documentation supporting the payments disclosed that the documentation did not adequately identify the scope of work performed or that the work was properly inspected prior to the payments.

T & C Child Development Company, Inc. - CRA had administrative oversight of T & C's construction of 12 units of new housing in East Camden. The project began in March 1995, and is funded from the 1993 HOME and 1994 CDBG programs in the amount \$88,000. To date, \$43,685, in funding has been provided with no discernable progress. In fact, construction has not begun in part due to T & C's failure to secure approximately one million dollars in financing. The Grantee advised that the financial viability of the project is now uncertain.

## 2.Cooperative Business Assistance Corp.(CBAC)

CBAC is a non-profit corporation that administers several economic development loan programs for the Grantee. The programs include CDBG and UDAG, as well as Section 108.

Because the Grantee did not thoroughly review the transfer of its assets from the defunct Camden Economic Development Corp. (CEDC) to CBAC, at least \$251,400 in CDBG funds have been misclassified as from other sources.

In 1993, the Grantee had an independent accountant perform an analysis of all loans and funds at CEDC. The analysis clearly identified \$251,400 in unexpended CDBG funds. Despite the analysis, HUD was advised that all of the assets transferred to CBAC were from non-CDBG sources. As a result, the Grantee has little assurance that the funds will be used in accordance with CDBG regulations and that the mandated program objectives are met. As a result of our review, these funds are now available for program use

and are considered to be a "cost efficiency" for report purposes.

Furthermore, we noted that CBAC has repeatedly requisitioned CDBG funds for administration even though it has significant amounts of funds in its accounts. As of December 31, 1995, CBAC had \$183,000 in its administrative cash account and over \$840,000 in cash from all sources. The Grantee must monitor CBAC's requests for administrative funds and require full disclosure of all funding sources.

### 3. Jersey Counselling & Housing Development (JCHD)

JCHD is implementing the \$1,495,051, 1994 HOPE 3 Grant for the City. The grant is being used to develop home ownership opportunities to 26 low income, first time home buyers. Our review of the HOPE 3 grant showed that the Grantee has not adequately addressed weaknesses associated with JCHD.

JCHD has been delinquent in submitting annual audits of operations to the Grantee. More significantly, the audits submitted in 1991, 1992, and 1993, contain adverse opinions by the independent auditor. The reports describe JCHD's lack of adequate accounting records and an inability to separate expenses by program. Despite the lack of audits for 1994 and 1995, and no meaningful attempt to address and correct issues raised in the prior audits, the Grantee has continued to fund JCHD.

In addition to the unresolved audit problems, progress in completing the grant activities has been slow. A January 1995, technical assistance visit from HUD cited the Grantee for slow progress. HUD approved a one year extension to facilitate property transfers. To date, only \$129,973 of HOPE funds have been expended with \$94,613 of the amount pertaining to administrative and other soft costs.

We believe that the results of our review and subrecipient site-visits underscore the need for improvements in the Grantee's monitoring of its HUD programs. Unless corrective actions are implemented, the Grantee will not



have adequate assurance that subrecipients are complying with program regulations.

## Recommendations

We recommend that you instruct the Grantee to:

- 3A. Monitor program activities as required by Title 24, Part 85 of the Code of Federal Regulations. The monitoring should include procedures to ensure that fiscal and performance reports are accurate and submitted within prescribed time frames.
- 3B. Implement corrective actions that will bring the financial management systems of the subrecipients into compliance with program regulations.

We further recommend that you:

- 3C. Determine the eligibility of the unsupported costs of \$119,875.36 pertaining to the Morgan Village Community Center, and the \$43,685 associated with T & C Development. The Grantee should reimburse the programs from non-Federal funds for any amount determined ineligible.
- 3D. Determine whether corrective actions are needed to improve the Grantee's progress in completing its HOPE 3 project.
- 3E. Advise the Grantee to implement actions to ensure that CBAC's use of the misclassified CDBG funds conform to program regulations and meet the required National Objectives.

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## Section 108 Loan Repayments Made Without Complying With CDBG Regulations

The Grantee did not fulfill its commitment to use municipal appropriations to repay the Section 108 loan used to purchase a fire station located on Liberty and Mechanic Streets. Instead, CDBG funds totaling \$1,835,052 were used to make payments on the debt without filing the required program amendments. The use of the CDBG funds remained undetected because adequate accounting and program records were not maintained by the Grantee. Using CDBG funds in this manner jeopardizes the Grantee's ability to complete its approved activities, adversely affects HUD's ability to evaluate the program's progress, and diminishes the rights of citizens to participate in program matters.

### Criteria

Title 24, CFR Section 570.302 provides that a grantee must submit a final statement including a projected use of funds, with a description of each activity in sufficient detail to allow citizens to determine the degree to which they are affected.

Further, Title 24, CFR Section 570.305 provides that grantees shall provide citizens with reasonable notice of, and opportunity to comment on, such proposed changes in its use of funds.

### Background and Scope

In 1991, the Grantee received approval to use \$3,000,000 in Section 108 funds to purchase a fire station developed and built by a nonprofit developer. The project was designed to meet the criteria of economic development through job creation and retention for moderate and low income persons. According to the Section 108 application, the loan would be repaid through annual municipal budget appropriations with future CDBG grant funds serving as security for repayment.

From the first repayment due in February 1992 through February 1996, \$2,235,052 has been paid on the debt. Of the amount, \$400,000 was from unspent funds remaining in the Section 108 fund and \$1,835,052 in CDBG funds. On April 10, 1996, subsequent to our inquiries, the City reimbursed the CDBG program with a \$154,318 general

fund check for" interest only" due on the loan for 8/1/95 and 2/1/96.

Our review included an examination of the Section 108 loan application, purchase agreements and other supporting documentation. Specifics concerning our review are discussed below:

The Grantee has not implemented effective financial controls to account for any of the HUD grants it administers. The Grantee has not established a general ledger that records the receipt and disbursement of funds by approved grant activity or program year. No receivable or payable from the City has been established, nor was \$916,808 of the \$1,835,052 in payments recorded. In addition, the use of these funds was not fully reported in its performance reports to HUD.

The remaining \$918,244 in CDBG funds used for the repayments were charged to various economic development and public facilities activities identified in the applicable final statements. For example, \$462,300 was shown in the 1994 Grantee Performance Report as a special activity related to debt service.

We discussed this matter with the City's Business Administrator who agreed that the City had not made the required payments. He said that he believed that the City had only an obligation to repay the interest on the 108 notes. Contrary to his assertion, the Section 108 loan application states that annual municipal budget appropriations would be used to retire the Section 108 debt. Moreover, a memorandum dated April 13, 1993, prepared by the Business Administrator informing the Fire Department that the CDBG program had advanced funds for the repayment of the loan and must be reimbursed. However, no action was taken.

We believe that the matters discussed in this finding constitute violations of Title 24, CFR Sections 570.302 and 570.305 of the CDBG Regulations. The undisclosed use of CDBG funds to repay the Section 108 loan could jeopardize ongoing approved activities, as well as future ones. Moreover, funding for prior and future program years could

be over obligated. Without adequately prepared final statements and the submission of program amendments, citizens have not been provided with sufficient information to allow them to determine the effect that the use of funds to pay the City's debt will have on program activities.

Additionally, Title 24, Part 85.20 of the CFRs requires that the grantee's financial management system have accurate, current and complete disclosure of financial transactions and that a grantee maintain records which adequately identify the source and application of funds.

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## Recommendations

We recommend that you require the Grantee to:

- 4A. Either reimburse the CDBG Program for the \$762,490 (\$916,808 less the \$154,318 City reimbursement) related to the unaccounted for use of program funds, or submit the appropriate program amendments.
- 4B. Implement procedures to ensure that sufficient financial management controls exist to properly account for HUD funds and that will result in accurate reporting of program progress.

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# Inadequate Administrative Practices Resulted in Uneconomical and Unsupported Use of CDBG Funds

Effective administrative practices necessary to ensure that costs paid from grant funds are allowable and reasonable have not been implemented. Consequently, the program has been charged for costs that are not adequately supported, not necessary or reasonable, or that do not meet the objectives of the program. The finding can be attributed to the absence of a grants management structure that clearly defines lines of authority and communication.

## Criteria

OMB Circular A-87, Cost Principles for State and Local Governments provides that grantees are responsible for the efficient and effective administration of grant programs through sound management practices. In addition, Title 24 CFR, Part 85.40 provides that grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities to ensure compliance with applicable Federal requirements.

Apart from the above, the procurement of property and services by grantees are governed by the requirements of Title 24 CFR, Part 85.36.

## Scope of Review

We reviewed selected transactions that occurred during our audit period and extended the review to prior or subsequent periods, where necessary. The review examined the procurement and contracting processes used for the transactions, the documentation supporting the costs related to the transactions, and the allowability and reasonableness of the expenditures.

## Results of Review

Widespread weaknesses were found in the methods used to procure and contract for services, to purchase supplies and equipment, and in reviewing costs for allowability and reasonableness. The weaknesses will be discussed generally

in the subsections below, followed by specific costs that are unallowable or not adequately supported.

#### Grantee Routinely Circumvents State Procurement Statutes

The Grantee routinely uses the "Extraordinary Unspecifiable Services" (EUS) provision of State Statutes to avoid bidding or competitive negotiations. We share the concerns expressed in the State Treasurer's Report on Camden that the use of EUS contracts is one of the most troubling aspects of the purchasing system. Our review found the following conditions:

- Sole or limited source designations were used to avoid bidding even though it is obvious that the contracted service was offered by numerous vendors in the community. (See Finding 6 for example)
- Services to be provided were described as "unspecifiable" even though the services were not of an unusual nature and were of the type generally seen in grant programs.
- EUS designations were used to approve contracts for services already provided.

#### Payments Processed Without Executed Contracts

Our review of disbursements found several instances where the Grantee paid for services without executing a contract. This was particularly evident in the Department of Community Affairs where at least fifteen vendors were providing services without contracts. At least three of these vendors were funded through the CDBG program.

#### Contract Provisions Are Poorly Defined

Many of the contracts reviewed during the audit did not contain scope of services provisions that adequately described the actual services to be performed. Instead, the contracts contained similar boilerplate language and references to attachments that consisted of little more than budgetary information submitted by the vendor.



Additionally, many of the contracts did not contain well defined time frames in which the services were to be performed.

#### Grantee Payment Advice Forms Improperly Prepared

Improvements are needed in the preparation of payment Advices prepared by the Grantee to document the receipt of goods and services. The Advice is one of the primary documents used to support disbursements. Examples of problems found included Advices that were not signed by the receiver of the goods or services, and missing dates.

#### System of Purchasing Supplies and Equipment Needs Improvement

Better control and coordination is needed between departments purchasing supplies and equipment. Currently, departments purchase supplies and equipment without regard to collective purchasing procedures. As a result, departments may be ordering supplies that are available or stockpiled in other departments.

We also noted that program funds have been used to purchase over \$95,000 in computer equipment with little evidence that the Grantee evaluated its needs prior to the purchases. Much of the equipment purchased was far more sophisticated than would be ordinarily needed, including high-tech sound cards, stereo speakers, CD ROMs and a preponderance of software. In addition, practically all work stations contained laserjet or color jet printers.

We believe that more planning should be involved in decisions to purchase expensive equipment to ensure that only necessary items are purchased in amounts reasonable to complete the required tasks.

During our review of controls over the disbursement of program funds we found certain expenditures that were either not allowable or were inadequately supported. The costs were incurred because effective procedures were not established to ensure costs were eligible and supported prior to incurrence.

Unallowable and  
Unsupported costs

#### Grant Funds Used For Parades, Parties, Entertainment

Our review of program funds expended for public service for the period January 1, 1995 through February 16, 1996, showed that \$47,309 was charged for entertainment type costs. Examples of the costs included:

- Purchase of ten floats for the Christmas parade (\$6,500).
- Television coverage of Holiday parade (\$3,500).
- Purchase of pumpkins for pumpkin hunt event (\$1,850).
- Two Senior citizen bus trips (\$3,943).

While we realize the desirability of providing entertainment to the residents of Camden, we believe that the grant funds would be more beneficially used to improve the deteriorating conditions of the City's neighborhoods.

We believe that a HUD determination as to the reasonableness of the \$47,309 in costs is needed. Further, a HUD eligibility determination will be needed to ascertain whether the activities meet the National Program objective of low to moderate income designation, and represent a public service as defined by 24 CFR, Section 570.201.

#### Contract For Intergovernmental Relations Services

CDBG funds were used to pay \$35,000 to a consultant for intergovernmental relations. We reviewed the necessity and reasonableness of the costs, as well as the procurement and work product produced. The review found several deficiencies that render the costs as unallowable. Particulars are as follows:

1. Services were deemed to be extraordinary and unspecifiable, so no bidding or Request For Proposals process was followed.
2. Contract for the services was prepared but never executed.

3. Scope of services provisions of the contract required the contractor to perform many and varied services over a 12 month period beginning July 1993. However, the total contract was paid by August 6, 1993, with no evidence that most of the services were provided.
4. Documentation supporting the services provided consisted mainly of documents prepared prior to the contract. Some of the documents were prepared as early as 1992.
5. Documents prepared after the contract award were all dated in July 1993. The documents were of questionable value since they consisted of press releases, newspaper articles, and photocopied faxes of an evaluation of the Community Development Banking Act of 1993, performed by an unrelated entity.
6. Evidence that any of the materials or services were used by the Grantee could not be found. Grantee personnel were unable to demonstrate the reasonableness, use, or need for the services.

Accordingly, we consider the \$35,000 to be unallowable since it does not represent a necessary and reasonable expense to the program.

#### Services Provided Without Executed Contract

We consider costs amounting to \$24,800, paid to two vendors without the benefit of competition or executed contracts to be unsupported. Particulars are as follows:

#### Contract 11-95-281 (Payment \$10,000)

Funds were paid to a weekly publication for unspecified advertising of community affairs. The total contract is for \$14,000, disbursed at a rate of \$1,750 to \$2,000 per month.

#### Contract 6-95-134 (\$14,800)

Funds were paid to a music school for an unspecified music program. The payments were made between August and December 1995.

## Recommendations

We recommend that you require the Grantee to:

- 5A. Cease its practice of routinely designating contracts as extraordinary and unspecifiable unless it can adequately document the condition.
- 5B. Implement procedures to ensure that goods and services are procured according to HUD requirements.
- 5C. Institute contracting procedures that will ensure that all services procured are supported by an executed contract containing a detailed scope of services and performance time frames.
- 5D. Implement controls to ensure that costs are eligible, reasonable, and documented prior to payment.
- 5E. Adopt policies and procedures that will control and coordinate the purchase of supplies and equipment. Prior to the purchase of equipment, the Grantee should carefully analyze its needs to ensure that the appropriate items are purchased.
- 5F. Reimburse the program with non-Federal funds for the unallowable cost of \$35,000.
- 5G. Provide justification or documentation on the unsupported costs to enable the necessary eligibility determinations to be made.
- 5H. Reimburse the program with non-Federal funds for any of the unsupported costs found to be ineligible.

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# Improvements Needed in the Administration of Housing Rehabilitation Programs

The Grantee has incurred high delivery and administrative costs under its housing rehabilitation programs. We attribute the high cost to inefficient management caused by the absence of an effective organizational structure. As a result, we are questioning the reasonableness of certain personnel costs charged to CDBG and are recommending procedural and procurement improvements to lower the cost of delivering rehabilitation activities.

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## Background

The Grantee's rehabilitation programs are administered by the Division of Housing Services (DHS), a component of the Department of Housing and Community Development. DHS administers four single family programs, one HOME First Time Home Buyers Program, and oversees a subrecipient's administration of a HOPE 3 project.

DHS charges the salaries of ten employees directly to rehabilitation delivery costs for processing applications for assistance. In addition, DHS contracts with five consultants who perform initial inspections and prepare work write-ups. Further, administrative costs are charged for 100 percent of the Commissioner of the Department of Housing and Community Development and two of his support staff, despite the fact that they provide minimal administrative support.

## Scope of Review

We randomly selected 36 of 163 rehabilitation cases completed during the 1995 program year. The examination included an analysis of the processing and a review of documentation contained in the case files. Moreover, we selected 12 of the cases for inspections to determine if the rehabilitation had been successfully completed.

Apart from the above, we analyzed program delivery and related administrative costs charged to the CDBG program.

Results

We also reviewed the procedures used to select consultants and evaluated the reasonableness and necessity of the cost.

Our case file reviews and property inspections found that the cases were processed in accordance with the Grantee's procedures and that all the required rehabilitation work had been performed. However, we found that the Grantee has incurred an inordinate amount of costs to administer and deliver its rehabilitation programs. Further, we found weaknesses in the procurement methods used to employ consultants. The weaknesses are discussed in detail below.

High Program Delivery Costs

Our analysis of the program charges related to delivery of the rehabilitation programs found that the costs exceeded the established national average reported in CPD-91-22, Productivity Guide for CDBG Rehabilitation Programs. For example, the delivery costs for single family and HOME programs for 1995, were 32.59 percent of the total funds expended. Conversely, the Productivity Guide established 22 percent as a national average.

While we recognize that the Productivity Guide is not an absolute criteria on which to solely base conclusions, we believe it is a useful measure of productivity. Especially, considering the simplistic nature of the rehabilitation programs administered by the Grantee and the relatively moderate work load in process.

The high delivery costs can in part be attributed to the use of consultants in addition to the ten employees assigned to DHS. We believe that this arrangement may not be efficient or economical. Moreover, the Grantee's current organizational structure does not provide a system of checks and balances needed to ensure that the cost of administering activities is reasonable. The Grantee should determine if duplications of effort are occurring and whether more productivity should be expected of its staff.

Administrative Costs Related to Rehabilitation Are Excessive

Administrative costs are unsupported

Apart from the delivery cost, we noted that the full salary of the Commissioner and his support staff totaling \$124,132 for 1995 was charged to the CDBG program.

Our review of these charges showed that they were not reasonable and could not be supported. Our determination is based on the organization structure of the Department of Housing and Community Development. Contrary to the Department's name, it does not administer all CDBG programs, but is limited to the rehabilitation programs identified above. DHS is only one of five bureaus under the auspices of the Commissioner and his support staff.

Four of these bureaus employing over forty people perform City, not CDBG duties (Examples, include rent control, licensing and inspections, etc.). We found little documentary evidence to justify the charges, and believe that actual administrative duties performed by the Commissioner take up a proportionally small amount of his time. Accordingly, we consider the charges to be unsupported pending a HUD determination identifying the correct allocation of costs to CDBG.

#### Reassigned DHS Employee Charge to Program

Our review of payroll transactions found that the CDBG program has been charged \$3,874.40 in salary costs for a DHS employee transferred to the Bureau of Licenses. Since the Bureau of licenses does not perform CDBG eligible activities, the salary is not an allowable charge to the program.

#### Reasonableness of Costs Related to Consultant Services Not Supported

During the period under review, the Grantee entered into contracts with five consultants to provide rehabilitation work write-ups and perform inspections. The aggregate amount of the contracts totalled \$103,000.

Our review showed that the Grantee has not established effective procedures as required by Part 85.36 of the Regulations. The Grantee avoided the bidding requirements established by the New Jersey State statutes by declaring

the contract work as "extraordinary and unspecifiable". Moreover, the Grantee certified to the City Council that this type of contract was required because of "scarce availability" of firms available to bid on the work. The mere fact that five consultants were involved in the contract work seems to dispute this contention.

In addition to the above, we found that the contracts executed with the consultants were not applicable for the services to be rendered. The contracts used were identical in form to contracts executed with subrecipients and contained many nonapplicable clauses. Examples of clauses included program income, relocation, acquisition and disposition of real property, etc.

In summary, the weaknesses and deficiencies discussed in this finding have unnecessarily increased the costs of administering the Grantee's rehabilitation programs. Close adherence to the provisions of the CDBG regulations, State of New Jersey statutes, and the cost provisions of OMB Circular A-87 will enable the Grantee to establish a reliable system to evaluate the reasonable of costs.

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## Recommendations

We recommend that you require the Grantee to:

- 6A. Reimburse the program with non-Federal funds for the ineligible salary costs of \$3,874.40.
- 6B. Provide all documentation on the unsupported and excessive administrative costs to enable the necessary eligibility determination to be made.
- 6C. Reimburse the program with non-Federal funds for the unsupported costs found to be ineligible.
- 6D. Assess the cost that it is incurring to deliver the rehabilitation programs and streamline the process to ensure that delivery costs are reasonable.
- 6E. Adopt procurement procedures that will result in open competition and ensure that costs attributed to consultants are necessary and reasonable. Also,



ensure that the contracts executed with consultants contain only applicable clauses.

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# Internal Controls

In planning and performing our audit, we evaluated internal management controls with respect to selected auditing procedures. The evaluation was not intended to provide an opinion on the overall adequacy of the internal controls.

Internal controls are management's adopted plan, methods and procedures to assure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

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## Relevant Internal Controls

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

- Controls over cash receipts and disbursements.
- Controls over the monitoring HUD programs.
- Controls over procurement and contracting.
- Controls over supporting documentation for costs.
- Controls over property and equipment.

A significant weakness exists if internal controls do not give reasonable assurance that: (a) resource use is consistent with laws, regulations, and policies; (b) resources are safeguarded against waste, loss and misuse; and (c) reliable data are obtained, maintained, and fairly disclosed in reports.

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

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## Follow Up On Prior Audits

An audit of the Grantee was performed by an Independent Auditor (IA) for the period ended June 30, 1995. The report contained one audit finding pertaining to the Grantee's inability to reconcile its accounting records with various Federal and State Funding documentation. This finding was repeated in both the 1993 and 1994 audits. To date, meaningful corrective actions have not been implemented.

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# General Comment

In December 1994, President Clinton announced the designation of the Philadelphia/Camden Empowerment Zone (EZ) . Camden's portion of the \$100 million funding is \$21 million. The Camden Empowerment Zone Trust Commission is the governing structure and consists of 35 members made up of community residents.

Since receiving the designation, progress in implementing the program has been slow. The reasons for the slow progress are varied, but tend to mirror the organizational problems impeding the administration of other HUD programs.

To accelerate the progress, HUD, the Grantee, and the State of New Jersey has begun to implement actions to improve the administration and delivery of EZ funds to the City. In this regard, a non-profit organization called the Camden Empowerment Zone Corporation has been established, a Board of Trustees have been appointed, and By-Laws have been adopted. It appears that these actions have put the implementation of the EZ back on schedule and should result in a successful implementation of program activities.

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## Schedule of Ineligible and Unsupported Costs, and Cost Efficiencies

Finding Number	Ineligible (1)	Unsupported (2)	Cost Efficiency (3)
3		\$163,560	\$251,400
4	\$762,490	918,244	
5	35,000	72,109	
6	3,874	227,132	
Total	\$801,364	\$1,381,045	\$251,400

- (1) Costs clearly not allowed by law, contract, HUD or local agency policies and regulations.
- (2) Costs not clearly eligible or ineligible but warrant being contested (e.g. lack of satisfactory documentation to support the eligibility of the costs, etc.).
- (3) A cost efficiency is an action by management in response to the Inspector General's recommendations to prevent improper obligation or expenditure of funds or to avoid further unnecessary expenditures.



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# Auditee Comments





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