



Issue Date September 12, 2007
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Audit Report Number 2007-NY-1012
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TO: Kathleen Naymola, Director, Community Planning and Development, 2FD

FROM: *Edgar Moore*  
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The City of Passaic, New Jersey's Community Development Department Has Weaknesses in Its HOME Investment Partnerships Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City of Passaic's (City) HOME Investment Partnerships Program (HOME) as a result of an October 2006 request for an audit by the director of the U.S. Department of Housing and Urban Development's (HUD) Newark Office of Community Planning and Development. Our audit objectives were to determine whether the City followed HUD and HOME regulations regarding the receipt and disbursement of program income; rehabilitation, acquisition, and new construction activities; and procurement practices.

### **What We Found**

The City did not follow HUD and HOME regulations regarding the receipt and disbursement of program income. Specifically, City officials did not record all program income received and spent in HUD's Integrated Disbursement and Information System and its disbursement records. The City also continued to draw down HOME funds when it had funds from program income available in its local trust accounts.

The City did not always document compliance with HUD and local program regulations regarding rehabilitation, acquisition, new

construction, and monitoring activities. Specifically, City files did not document whether activities met all affordability requirements, appraisals and inspections were conducted, leases and mortgage notes were properly executed, and annual monitoring reviews were performed.

The City did not follow federal procurement regulations regarding a professional service contract and a funding agreement to provide rehabilitation and acquisition services, respectively. Specifically, City officials did not always ensure that contracts were obtained through proper bidding procedures, contracts were properly executed, and disbursements did not exceed contract limits.

### **What We Recommend**

We recommend that the director of the HUD New Jersey Office of Community Planning and Development instruct the City to record \$528,974 in program income in HUD's Integrated Disbursement and Information System, provide adequate support for \$53,053 in disbursements of program income, and expend the \$475,921 balance in its two local accounts before making additional drawdowns from HOME funds. Also the City should reimburse the HOME program from nonfederal funds \$97,500 related to the ineligible acquisition (homebuyer activity) and new construction costs incurred; provide documentation for \$583,602 in unsupported activities; and ensure that annual monitoring reviews are performed to ensure that \$790,441 will be put to better use. Finally the City should provide contracts/written agreements for the unsupported disbursements of \$204,711, implement proper bidding procedures and obtain a current funding agreement with its community housing development organization to ensure that future expenditures of \$360,280 will be put to better use, and repay the \$4,127 paid for rehabilitation services incurred in excess of contract limits.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Also, please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee Response**

We provided a copy of the draft report to HUD and City officials and requested their comments on August 10, 2007. We discussed the report with them at the exit conference held on August 21, 2007 and City Officials provided their written comments on August 28, 2007. The auditee generally agreed with the findings. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The City of Passaic Department of Community Development is located at 330 Passaic Street, Passaic, New Jersey. The department is headed by a director and participates in the HOME Investment Partnerships (HOME) and Community Development Block Grant programs. The City of Passaic (City) received \$5.8 million in HOME funding from fiscal years 2001 through 2006.

The City is governed by a mayor and city council. The mayor is Samuel Rivera.

The HOME program was created by Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by 24 CFR [*Code of Federal Regulations*] Part 92. HOME funds are awarded annually as formula grants to participating jurisdictions. Eligible uses of funds include homeownership downpayment, tenant-based assistance, housing rehabilitation, assistance to homebuyers, and new construction of housing. HOME funding may also be used for site acquisition, site improvements, demolition, relocation, and other necessary and reasonable activities related to the development of nonluxury housing. All housing developed with HOME funds must serve low-and very low-income families.

Our audit objectives were to determine whether the City followed HUD and HOME regulations regarding the receipt and disbursement of program income; rehabilitation, acquisition, and new construction activities; and procurement practices.

## RESULTS OF AUDIT

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### Finding 1: Receipts and Disbursements of Program Income Were Not Recorded in HUD's Integrated Disbursement and Information System

The City did not follow HUD and HOME regulations regarding the receipt and disbursement of program income. Specifically, City officials (a) did not record \$528,974 in receipts of program income or \$53,053 in disbursements of program income in HUD's Integrated Disbursement and Information System and/or its cash disbursement records and (b) continued to draw down funds when there was \$475,921 in funds from program income available in its local HOME Investment Trust Fund accounts. We attribute these deficiencies to the City not having adequate controls to properly account for the receipt, disbursement, and reporting of program income. Therefore, HOME program income and available funds were not accurately reported to HUD, and City officials continued to draw down funds when there were available funds from program income. Consequently, \$53,053 in disbursed program income is unsupported, and \$475,921 in unexpended program income can be put to better use if program expenses are applied against these funds before drawing down additional funds from HUD.

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#### Receipts and Disbursements of Program Income Were Not Accounted for in HUD's System

During the period from January 1, 2001, through December 31, 2006, City officials recorded receipts of program income totaling \$400,000 in HUD's Integrated Disbursement and Information System while actual program income was \$928,974; thus, program income was understated by \$528,974. In addition, City officials understated disbursements from program income by \$53,053 and lacked adequate supporting documentation that would allow a determination to be made as to the eligibility of the costs.

According to CPD [Community Planning and Development] Notice 97-09, the Integrated Disbursement and Information System is designed to record the receipt and use of HOME program income. Further, CPD Notice 97-09(b) states that participating jurisdictions must maintain records, which adequately identify the source and application of their HOME funds including program income as part of the financial transactions of their HOME program. However, City officials did not adequately do this.

## **City Officials Initiated Unnecessary Drawdowns**

City officials continued to draw funds from the HOME Investment Trust Fund while a \$475,921 balance remained in the City's bank accounts through December 31, 2006, as a result of the unreported program income. Regulations at 24 CFR 92.502(c) (3) state that HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds from the U.S. Treasury. In addition, CPD Notice 97-09, section E, states that program income that is deposited into the local account must be used before additional HOME allocations of funds are drawn down. A participating jurisdiction may not draw down HOME funds while accumulating program income in its local account. Since the City continued to draw down funds when there were available funds from program income, the remaining \$475,921 balance in the City's two local HOME Investment Trust Fund accounts were not used effectively. If these funds had been used before funds were drawn down from the U.S. Treasury, the funds would have been put to better use.

City officials generally concurred with our determinations as controls to properly account for the receipt, disbursement, and reporting of program income were not adequate. Further, if HUD's Integrated Disbursement and Information System were used correctly, City officials would cease drawing down funds when there is available program income.

## **Conclusion**

City officials need to implement adequate controls with regard to how they account for the receipt, disbursement, and reporting of program income. As a result, HOME program income and available funds were not accurately reported to HUD, and City officials continued to draw down funds when there were available funds from program income. Effective controls will ensure that HOME program income and available funds will be accurately reported to HUD, which will prevent unnecessary drawdowns from HUD and/or the U.S. Treasury.

## **Recommendations**

We recommend that the director of HUD's New Jersey Office of Community Planning and Development instruct the City to

- 1A. Record the \$528,974 in program income in HUD's Integrated Disbursement and Information System, which will initiate its expenditure of the remaining \$475,921 in the City's two local

HOME Investment Trust Fund accounts in lieu of making additional drawdowns from HUD or the U.S. Treasury. Thus, the future expenditure of the \$475,921 in program income would constitute funds put to better use.

- 1B. Provide the HUD field office with adequate supporting documentation for the disbursement of \$53,053 in program income, which was not recorded in the City's ledger account and/or in HUD's Integrated Disbursement and Information System and repay any amount that is not supported from nonfederal funds.
- 1C. Establish adequate controls to ensure that all available funds will be accurately reported to HUD, thus preventing unnecessary drawdowns from HUD and/or the U.S. Treasury.

## Finding 2: Compliance with HUD Regulations Regarding Rehabilitation, Acquisition, New Construction, and Monitoring Activities Was Not Always Documented

The City did not always document compliance with HUD and local program regulations regarding rehabilitation, acquisition, new construction, and monitoring activities. Specifically, City files did not document whether activities met all affordability requirements, appraisals and inspections were conducted, leases and mortgage notes were properly executed, and annual monitoring reviews were performed. This situation occurred because the City lacked controls to ensure that it documented compliance with HOME program regulations. As a result, the City cannot assure HUD that its activities and monitoring were conducted in accordance with applicable regulations. Consequently, \$97,500 in incurred costs is considered to be ineligible and \$583,602 in cost is unsupported.

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### **Compliance on Rehabilitation, New Construction, and Acquisition Activities Was Not Always Documented**

The City did not always follow HUD and local program regulations regarding rehabilitation, new construction, and acquisition activities. As a result, it cannot ensure that the activities met affordability requirements, appraisals and inspections were performed, and leases and mortgage notes were properly executed.

#### Rehabilitation Activities

We examined the City's rehabilitation activities related to projects greater than four units and projects from one to four units to ensure that the City complied with program regulations. We reviewed one activity (IDIS #573) related to rehabilitating a 100-unit project, which received \$400,000 in HOME funds. The City was responsible for monitoring this subrecipient and ensuring compliance with HOME and local program requirements. However, the project's files contained deficiencies. Specifically, the file documentation did not contain evidence that

- Annual inspections were performed and that the project complied with housing quality and local standards.
- The owners complied with the maximum HOME rent limitations during the period of affordability of the project as required by 24 CFR 92.252(a)(1) and (2) to ensure that units were affordable.

- The participating jurisdiction ensured that the subrecipient was in compliance with tenant income eligibility requirements initially and throughout the period of affordability.

Since the project files did not contain this evidence, there is no assurance that the project was in compliance with HOME program regulations. Therefore, the \$400,000 allocated to this project is considered to be unsupported.

In another instance, we analyzed a one-to-four-unit rehabilitation activity (IDIS #452) and noted similar problems with the project files. City officials informed us that they had procured a contractor to administer all rehabilitation activities with one to four units. The contractor was responsible for ensuring compliance with all program requirements including income eligibility, units meeting housing quality standards, and that the files were complete and included mortgages and appraisals. The total amount charged for this activity was \$57,463, of which \$7,552 was applied toward the contractor's administrative fee and the remaining \$49,911 was applied for rehabilitation assistance. The lack of supporting documents in the files leads to questions about the eligibility of this activity. Accordingly, based upon the deficiencies discovered, we view the rehabilitation assistance of \$49,911 as an unsupported cost. Deficiencies encountered with our review of this activity are as follows:

- There was no evidence in the files that tenant income and rent limitations were checked annually and that tenant leases were obtained during the initial and later periods of affordability; thus, there was no documentation of eligibility.
- The file did not contain appraisals to confirm that the value of the property did not exceed 95 percent of the median sales price after rehabilitation as evidence that HOME funds were not used for repairs that exceeded housing quality standards.
- There was no evidence that a current mortgage/note was executed reflecting the final funding amount due as a result of change orders. Thus, there was no evidence that funds advanced were eligible and properly secured by a mortgage.
- There was no evidence that the rehabilitation contractor supplied a construction performance schedule; thus, there was no construction timeframe.
- Owner and tenant certifications were dated more than two years before the period of rehabilitation; therefore, the funds should not have been disbursed for this activity because there was not a

current certification of the occupants and their incomes to ensure their eligibility for the program.

### New Construction Activities

We reviewed three new construction activities, which received \$180,000 in HOME funds (\$60,000 each). The City executed a funding agreement with a community housing development organization, which administered the construction of all three new construction activities. We determined that one of three new construction activities (IDIS # 382 totaling \$60,000) was ineligible because the homebuyer's monthly gross income was less than required in relation to the monthly mortgage payment according to the funding agreement. This noncompliance would result in an increased chance of default due to inadequate income. The remaining two new construction activities (IDIS # 355 & #418) were considered unsupported (\$120,000) due to missing documents in the project files. The deficiencies identified during our review of all three files were as follows:

- The owner affordability could not be determined since the payment for principal, interest, taxes, and insurance was not documented in the file (IDIS #355 & #418).
- Supporting documentation for income determinations was inadequate (IDIS #355, #382 & #418).
- An environmental review was not found in the file (IDIS #355, #382 & #418).
- There was no appraisal(s) in the file (IDIS #355, #382 & #418).
- The file did not contain a funding agreement between the CHDO and the homebuyer (IDIS #418).
- The funding agreement between the CHDO and the homebuyer was created 2.5 years after the disbursement of funds (IDIS #355).
- The file contained inadequate documentation for development "soft costs" as disbursed by the community housing development organization (IDIS #355, #382 & #418).
- The file did not contain documentation that an annual audit was conducted (IDIS #355, #382 & #418).
- Project setup and disbursement information regarding \$60,000 was not entered into HUD's Integrated Disbursement and

Information System (IDIS #418).

### Acquisition Activities

We analyzed one acquisition activity (the homebuyer activity). The total amount charged for this activity (IDIS #451) was \$51,191, of which \$13,691 was applied toward the subrecipient's administrative fee and the remaining \$37,500 was applied for homebuyer assistance. City officials informed us that they procured a community housing development organization, acting in the capacity of a subrecipient, to administer all acquisition activities. The following deficiencies were identified in our review of this acquisition activity:

- The homebuyer's gross monthly income was less than required in relation to the monthly mortgage payment according to the funding agreement between the subrecipient and homebuyer. The monthly payment for principal, interest, taxes, and insurance was 59 percent of the monthly income (40 percent was the limit). This noncompliance would result in an increased chance of default due to inadequate income. Therefore, the \$37,500 for acquisition assistance is an ineligible cost.
- The file did not contain evidence that housing quality standards violations listed in the home inspection were corrected before the occupancy date as required by HUD regulations and the funding agreement.
- Gap funding requirements were not followed during the home closing as required by section 5 of the funding agreement, as the \$10,000 funding limit was exceeded by \$25,000.
- There was no appraisal in the file, which precluded the value of the property from being included in the funding agreement.
- Supporting documentation for the \$13,691 administration charge by the subrecipient was not obtained. Therefore, this amount is unsupported.

### **Annual Monitoring Reviews Were Not Always Documented**

The City did not always provide evidence that monitoring reviews of its community housing development organizations, contractors, and subrecipients were performed. In addition, adequate management follow-up for monitoring reviews completed by the City was not provided. Regulations at 24 CFR 92.504(a) state that the participating jurisdiction is

responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of a subrecipient or contractor does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed annually. In addition, the City's latest action plan states that on-site monitoring will be conducted by community development staff at least once during the program year and that monitoring procedures will provide oversight in three phases: in house, on-site review, and follow-up.

The City's 2007 action plan mentions the importance of conducting and documenting annual monitoring reviews of community housing development organizations, contractors, and subrecipients. The action plan states that the City will monitor activities carried out to further the City's consolidated plan to ensure long-term compliance with performance objectives and with administrative, financial, and programmatic requirements. Accordingly, without documented evidence that the City is monitoring its contractors and in compliance with program requirements, there is no assurance that activities are being conducted in compliance with HOME requirements. Nevertheless, if adequate monitoring procedures for subrecipients and others are developed, City officials can assure HUD that next year's funding for acquisition, rehabilitation, and new construction activities totaling \$790,441 will be used more efficiently and be put to better use.

## **Conclusion**

City officials did not adequately document whether its rehabilitation, acquisition (homebuyer), and new construction activities were in compliance with HOME program requirements, or whether its monitoring reviews were conducted. As a result, \$97,500 of incurred costs is ineligible and \$583,602 of costs is unsupported. As such, City officials need to implement adequate controls over documenting compliance and monitoring of its HOME activities. This documentation will ensure that next years funding for rehabilitation, acquisition (homebuyer), and new construction activities of \$790,441 will be used more efficiently for eligible activities and that the costs are adequately supported. In addition, the City will be able to ensure HUD that monitoring of subrecipients, community housing development organizations, and contractors is being adequately performed.

## Recommendation

We recommend that the director of HUD's New Jersey Office of Community Planning and Development instruct City officials to

- 2A. Reimburse the HOME program from nonfederal funds for the \$97,500 in ineligible acquisition and new construction costs charged (\$37,500 and \$60,000, respectively).
- 2B. Provide HUD with adequate documentation related to the \$583,602 in HOME funds disbursed for the unsupported rehabilitation, new construction, and acquisition (homebuyer) activities. Any amounts determined to be ineligible should be reimbursed to the HOME program from nonfederal funds.
- 2C. Implement effective management controls to ensure that annual monitoring reviews of the City's subrecipients, contractors, and community housing development organizations are performed and documented. This will ensure that next years HOME funding totaling \$790,441 will be used more efficiently or be a better use of funds.
- 2D. Record a \$60,000 disbursement for activity number 418 (new construction) in HUD's Integrated Disbursement and Information System.

### Finding 3: HUD Procurement Requirements Regarding Professional Service Contracts and Agreements Were Not Followed

The City did not follow federal procurement regulations regarding a professional service contract and a funding agreement to provide rehabilitation and acquisition services. Specifically, the City did not always ensure that contracts were obtained through proper bidding procedures, contracts were properly executed, and disbursements did not exceed contract limits. We attribute these errors to the City not having adequate controls in place to properly procure professional services and ensure that contracted amounts are not exceeded in accordance with HUD regulations. As a result, there is no assurance that contracts were obtained at the most economical price, \$204,711 in HOME funds was disbursed without an executed contract, and \$4,127 was disbursed in excess of contract limits. Accordingly, if the City implements procedures to ensure that contracting procedures conform to HUD requirements, \$360,280 in future funds will be used more efficiently and effectively.

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#### **Proper Bidding Procedures for Rehabilitation and Acquisition Services Were Not Followed**

For the period April 23, 2002, to December 31, 2006, the City did not provide adequate documentation to substantiate that services provided by its contactor responsible for administering one-to-four-unit housing rehabilitation were competitively procured in accordance with HUD requirements. Regulations at 24 CFR 85.36(b)(1) state that grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and standards identified in this section. Regulations at 24 CFR 85.36(c)(1) state that all procurement transactions will be conducted in a manner providing full and open competition.

City officials stated that although the City did not solicit competitive bids for the rehabilitation services for the period April 23, 2002, to December 31, 2006, the services for the current contract period were obtained through competitive bids. However, City officials did not provide documentation to substantiate that rehabilitation services for one-to-four-unit activities were obtained through competitive bidding procedures. Accordingly, by not documenting that competitive bidding was used in its procurement process, City officials cannot assure HUD that HOME funds were expended for goods and services at the lowest price.

**Executed Contracts Were Not Always Obtained for Acquisition and Rehabilitation Services**

Regarding the acquisition funding agreement with the above subrecipient, City officials did not provide adequate evidence that the funding agreement complied with HUD requirements or was properly executed.

Regulations at 24 CFR 92.504(b) state that before disbursing any HOME funds to any entity, the participating jurisdiction must enter into a written agreement with that entity. Regulations at 24 CFR 92.504(c)(2) list the required elements of funding agreements between a participating jurisdiction and a subrecipient. The items listed must be in sufficient detail to provide a sound basis for the participating jurisdiction to effectively monitor performance under the agreement. Some required elements to be documented in the funding agreement were a budget, the period of the agreement, and a schedule for completing tasks. However, this information was not adequately documented in the funding agreement provided.

If the City obtains a funding agreement with the subrecipient that complies with HUD requirements, including the use of budgeted funds and having a schedule of tasks to be completed, it will enhance the ability of the City to monitor the subrecipient and hold it accountable, thus resulting in a more efficient and effective use of program funds. City officials will then be able to assure HUD that the \$360,280 in program related funds on hand at the community housing development organization will be put to a better use.

The City also did not provide executed contracts related to its one-to-four-unit rehabilitation contractor for the periods April 23, 2002, to February 28, 2004, and January 1, 2007, to May 16, 2007. During these periods, without an executed contract, the City disbursed \$204,711 (\$128,570 and \$76,141, respectively) to its rehabilitation contractor.

Regulations at 24 CFR 92.504(b) state that before disbursing any HOME funds to an entity, the participating jurisdiction must enter into a written agreement with that entity. In addition, 24 CFR 92.504(c)(4) states that the participating jurisdiction should select a contractor through applicable procurement procedures and requirements and that the contractor should provide goods and services in accordance with a written agreement (contract). The contract must include at a minimum (1) the use of HOME funds, tasks to be performed, a schedule for completing tasks, a budget, and the length of the agreement; (2) the program requirements applicable

to the activities the contractor is administering; and (3) the duration of the agreement, which should not exceed two years.

City officials stated that their office is attempting to obtain the contract for the period April 23, 2002, to February 28, 2004, but this effort has been delayed since the amount of authorized funds from the prior year's contract has not been depleted. City officials also stated that they are negotiating the execution of the contract for the period that began January 1, 2007. However, since HUD regulations require a written contract to be executed with pertinent tasks and duration requirements, which was not done, we view the \$204,711 in disbursements as unsupported costs.

### **HOME Funds Were Disbursed in Excess of the Contract**

Our review of the City's cash disbursement register determined that the City disbursed \$4,127 in excess of contract limits to its housing rehabilitation contractor for the period April 23, 2001, to December 31, 2006. Regulations at 24 CFR 92.504(b) state that before disbursing any HOME funds to an entity, the participating jurisdiction must enter into a written agreement with that entity. In addition, 24 CFR 92.504(c)(4)(i) states that the agreement must include a budget. Since the \$4,127 paid was in excess of the budgeted amount, these excess payments are ineligible. We attribute these errors to the City's not having adequate controls in place to monitor its contract expenditures against contract spending limits.

### **Conclusion**

The City did not ensure that contracted services were competitively procured, expended \$204,711 of HOME funds without an executed contract, and \$4,127 in excess of contract limits. As such, the City needs to implement adequate controls to properly monitor and ensure that its procurement policies are followed. Effective procurement policies will ensure that goods and services are obtained at the lowest price, are adequately supported by an executed contract, and that expenditures do not exceed established contract limits. Furthermore, obtaining a current funding agreement with the subrecipient that complies with HOME requirements will provide assurance that available funds of \$360,280 will be effectively used in accordance with program requirements.

## Recommendation

We recommend that the director of HUD's New Jersey Office of Community Planning and Development require the City to

- 3A. Develop and implement management control procedures to ensure that bids are properly solicited before awarding contracts and contracts are properly executed before disbursing funds.
- 3B. Provide or obtain a contract/written agreement for the \$204,711 in disbursements made to the contractor from April 23, 2002, to February 28, 2004, and from January 1, 2007, to May 16, 2007 (\$128,570 and \$76,141, respectively).
- 3C. Obtain and provide a funding agreement with a subrecipient for acquisition (homebuyer) services in accordance with HUD regulations. This agreement would ensure that future expenditure of the \$360,280 in available cash on hand would be appropriately spent and constitute funds put to better use.
- 3D. Repay \$4,127 to the HOME Investment Trust Fund account for the amount paid to a contractor for administering rehabilitation services in excess of contract limits from April 23, 2001, to December 31, 2006.

## SCOPE AND METHODOLOGY

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To accomplish our audit objectives, we reviewed applicable laws, regulations, and other HUD program requirements. We analyzed the City's action plans, funding agreements, bank statements, funding activity files, and cash receipts and disbursements ledgers. We also reviewed independent public accountant reports, organizational charts, monitoring reviews, and city council resolutions and interviewed HUD and City staff.

With regard to HOME program activities, we obtained background information from HUD's Integrated Disbursement and Information System regarding the commitment and expenditure of funds. Based upon information obtained from HUD's system, we analyzed program income activity and selected a nonrepresentative sample of HOME activities to determine whether they were administered in compliance with program requirements. We tested activities related to acquisition, rehabilitation, and new construction. The City disbursed \$3,024,963 in HOME funds for the period January 1, 2001, through December 31, 2006. We tested 23 percent or \$688,654 of the funds disbursed.

We computed that funds would be put to better use (finding 1) if the \$475,921 of funds available from program income were expended before drawing down funds from HUD, thus, preventing the unnecessary drawdown of program funds. Since our testing of rehabilitation, acquisition and new construction activities revealed ineligible and unsupported costs of \$681,102 (findings 2), and that the City was not performing any monitoring to ensure compliance with program requirements for these activities. We computed that next years funding for these activities of \$790,441 could be put to better use or be used more efficiently if our recommendations to adequately document compliance and monitoring are implemented. Lastly, we computed that the available funds at a community housing development organization (\$360,280) for which the City did not have a current funding agreement for acquisition services (homebuyer activity) could be put to better use if the City implements our recommendation to obtain and execute a current funding agreement. The funding agreement would identify the tasks to be performed and could be used to hold the entity accountable for the tasks not performed, thereby ensuring an efficient use of funds. This amount represents the available funds that could be spent by the community housing development organization within a one-year time period based on historical data.

We conducted our audit work from December 2006 through May 2007 at City Hall in Passaic, New Jersey. Our audit covered the period from July 1, 2001, through June 30, 2006, but was expanded when necessary.

We performed our audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

A significant weakness exists 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

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

- The City did not have adequate controls over program operations when it did not document annual monitoring of community housing development organizations, subrecipients, and contactors (see finding 2).
- The City did not have adequate controls to ensure the validity and reliability of data and to safeguard resources when its receipts and disbursements of program income were not recorded in HUD's Integrated Disbursement and Information System (see finding 1).
- The City did not have adequate controls to ensure compliance with laws and regulations regarding acquisition, rehabilitation, new construction, and professional service activities and contracts (see findings 2 and 3).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1A			\$475,921
1B		\$53,053	
2A	\$97,500		
2B		\$583,602	
2C			\$790,441
3B		\$204,711	
3C			\$360,280
3D	\$4,127		
Total	\$101,627	\$841,366	\$1,626,642

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures, and any other savings which are specifically identified. In this instance, if the City implements our recommendations, it will more effectively expend \$1.6 million in HOME funds due to the timely expenditure of program income, the completion of annual monitoring reviews, and the procurement of current funding agreements. Our estimate reflects only the initial year of these recurring benefits.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



**CITY OF PASSAIC, NEW JERSEY**  
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August 24, 2007

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U.S. Department of Housing and Urban Development  
Office of Inspector General  
26 Federal Plaza, Room 3430  
New York, NY 10278-0068

Dear Mr. Vizer:

Thank you for taking the opportunity to meet with representatives of the City of Passaic Community Development Department and I in order to discuss the results of the audit that has taken place in the City over the past several months. In response to your letter dated August 10, 2007, the City of Passaic has started to develop a plan to address all of the findings issued in the report. We will be submitting a more detailed response to the findings in September once the City of Passaic's auditors have had the opportunity to more fully review the issues raised in the report.

Given all the challenges of administering the HOME Investment Partnerships Program, the City has taken initiative to restructure the administration of the program. The City is in the process of retaining the services of ML Compliance Management to assist the City in addressing all non-compliance issues identified in the audit. It is the City of Passaic's intention to strengthen the relationship between the City, its CHDOs, its HOME subrecipients and HUD officials.

Some of the issues raised in the audit report were previously identified, and the City was already in the process of taking corrective action. For example, the City has already recorded all the Program Income into the IDIS system, which should resolve a number of issues raised in the report. As a result of the City's completion of updating the data in the IDIS system, the City has also started drawing on the program income. It is the intent of the City to continue implementing controls to properly record and spend program income before funds from the U.S. Treasury are drawn.

In January of 2002, Ms. Lucille Spada, Rehabilitation Management Specialist of the U.S. Department of Housing and Urban Development, New Jersey State Office, conducted a monitoring review of the City's Home Investment Partnerships Program. The review

**Comment 1**

**Comment 2**

**Comment 3**

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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**Comment 3**

covered the City's First Time Homebuyer Program and the new construction of housing, the City's recordkeeping systems, IDIS reporting, Section 504 and Fair Housing.

During the 2002 monitoring review, it was found that the Passaic Affordable Housing Corporation had exceeded the per-unit development costs on its Third Street new construction project of four two-family homes. The proceeds from the sale of these homes were identified and received by the City as program income. The amount of program income versus the amount that the CHDO exceeded per-unit could not immediately be assessed or determined by HUD nor the City, and this resulted in a delay in the City reporting the verified and correct amount of program income into IDIS. Until the actual determination, the City was informed by HUD not to use those funds. Prior to the current Inspector General Audit, however, the City and HUD officials met to discuss how to properly report on the program income. Subsequently, the City has reported those monies into IDIS, including the sales proceeds from the sale of the homes, which came in the form of private monies.

**Comment 4**

The City has started compiling supporting documentation for the case files reviewed during the audit. Furthermore, the City also intends to apply more adequate controls to properly document compliance with HOME program requirements. During the exit conference, for example, the City provided the Inspector General auditor with supporting documentation to support \$7,552 in administrative costs by the City's outside vendor relative to the rehabilitation activity, which I believed had previously been provided. There is also supporting documentation available for the remaining expenses related to that project should you require any additional information.

**Comment 5**

Starting on July 1, 2007, all the City's contracts for professional services were secured through the Purchasing Department in compliance with state and local "pay-to-play" policy. The City will continue its efforts to ensure that all future contracts follow proper procurement policies.

**Comment 2**

One of the most important measures the City has taken to address all the findings of this Audit report was to hire a consultant who will help us in the following areas:

- Help the City clear all findings identified in IG Report.
- Prepare policy guide and manuals for all the HOME programs.
- Prepare a monitoring manual to guide the City in its review process of closed cases.
- Assist the City in its efforts to provide training and capacity building to its CHDOs.
- Offer other staff support and training.

The City looks forward to continue its relationship with the HUD Newark Office to improve and strengthen the programs funded through the HOME Investment Partnerships Program.

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Sincerely,

Ronald Van Rensalier (sc)

Ronald Van Rensalier  
Community Development Director

cc: Samuel Rivera, Mayor  
Greg Hill, Business Administrator  
Matthew Priore, Community Development Attorney  
Mercedes Baez, Program Administrator  
Carlos Sinnung, Community Development Accountant

## OIG Evaluation of Auditee Comments

- Comment 1** City officials stated that they would provide a more detailed response to the findings in September once the City's auditors have more fully analyzed the issues raised in the report. We provided City officials with the draft report on August 10, 2007, and gave them until August 28, to provide a written response. City officials were unable to provide a complete response to the audit report by that time and will provide additional information to the HUD community, planning and development office as part of the audit resolution process.
- Comment 2** City officials stated that they have taken the initiative in hiring a consultant to restructure the administration of the HOME program. The consultant will also assist in addressing the non-compliance issues identified in the audit and strengthen the relationships between the City, its CHDOs, subrecipients and HUD officials. As such, the actions of City officials are responsive to the findings.
- Comment 3** City officials stated that some of the issues in the draft report were previously identified and the City was already in the process of taking corrective action concerning those issues. City officials stated that all of the program income received by the City has already been recorded into IDIS, which should resolve the issues raised. We noted that City officials have attempted to record/revise the correct amount of program income received into IDIS on numerous occasions. However, as of December 31, 2006, all program income received and posted in the City's cash receipts records were not correctly recorded in IDIS as stated in finding 1. A cursory analysis of IDIS as of August 29, 2007 revealed that City officials have begun updating the program income received amounts in IDIS one day after our August 21, 2007, exit conference. As such, the actions of City officials are responsive to our findings.
- Comment 4** City officials stated that they are presently compiling supporting documentation for the case files reviewed during the audit, and they intend to apply additional controls to properly document compliance with HOME program requirements. Lastly, City officials provided additional supporting documentation for questioned costs totaling \$7,552, which they believed was previously provided. We did not receive the supporting documentation for unsupported costs during our on-site review; however, we reviewed the support provided by the City at the exit conference totaling \$7,552 and have reduced the amount of unsupported costs for finding 2 by this amount.

**Comment 5** City officials stated that starting July 1, 2007 all contracts for professional services were procured by the City's purchasing department and they will continue its efforts to ensure that contracts will adhere to proper procurement policies. As such, the actions of City officials are responsive to our findings.