



Hudson County, NJ

Community Development Block Grant Program

**Office of Audit, Region 2
New York-New Jersey**

**Audit Report Number: 2015-NY-1009
August 11, 2015**



To: Anne Marie Uebbing
Director, Office of Community Planning and Development, 2FD

From: //SIGNED//
Kimberly Greene
Regional Inspector General for Audit, 2AGA

Subject: County Officials Did Not Always Administer the County's CDBG Program in Accordance With Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of our review of Hudson County, NJ's administration of its Community Development Block Grant program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 212-542-7984.



Audit Report Number: 2015-NY-1009

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County Officials Did Not Always Administer the County's CDBG Program in Accordance With Program Requirements

Highlights

What We Audited and Why

We audited Hudson County, NJ's administration of its Community Development Block Grant (CDBG) program based on a risk analysis performed by the Office of Inspector General (OIG). This analysis considered the amount of funding awarded to CDBG grantees administered by the U.S. Department of Housing and Urban Development's (HUD) Newark, NJ, field office, the risk score assigned by HUD, and prior OIG audits. The objective of the audit was to determine whether County officials had established and implemented controls to ensure that the County administered its CDBG program in accordance with program requirements.

What We Found

Hudson County's CDBG program had weaknesses in its administrative and financial management controls, which lessened assurance that it administered the program in accordance with program requirements. Specifically, (1) County officials were inconsistent in charging planning and administration costs to the program, (2) program delivery costs for rehabilitation assistance were inflated or unnecessary in proportion to the actual rehabilitation assistance provided, (3) CDBG funds were advanced to another Federal agency, (4) CDBG funds were used to administer a subgrantee's Emergency Solutions Grant program, and (5) deficiencies were noted in the administration of the subgrantee agreements. These conditions occurred because of County officials' inadequate controls over program administration and their misinterpretation of program requirements. These shortcomings led to ineligible and unreasonable costs being charged to the CDBG program as well as unsupported reimbursements to subgrantees. As a result, County officials could not assure HUD that they disbursed \$362,912 in CDBG funds for eligible, reasonable, and necessary program costs.

What We Recommend

We recommend that County officials reimburse HUD (1) \$25,107 for ineligible planning and administration costs charged to the CDBG program, (2) \$127,380 for inflated or unreasonable housing rehabilitation program delivery costs, and (3) \$18,426 for costs associated with ineligible homeowners' housing rehabilitation assistance. In addition, County officials must provide documentation to justify \$39,999 in unsupported housing rehabilitation assistance reimbursed to the subgrantee and \$152,000 in unsupported reimbursements to subgrantees or reimburse the CDBG program those amounts.

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Background and Objective

The Community Development Block Grant (CDBG) is a flexible program that provides communities with resources to address a wide range of unique community development needs. The CDBG program does this by providing annual grants, on a formula basis, to 1,209 general units of local government and States. Hudson County, NJ, is a recipient of CDBG funding, which it uses to provide decent housing and a suitable living environment for County residents and expand economic opportunities, principally for low- and moderate-income persons. As a CDBG grantee, Hudson County also carries out activities that prevent or eliminate slums or blight and meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. A requirement of the CDBG program is that funds be used for activities that meet at least one of the national objectives of the CDBG program. To receive its annual CDBG entitlement grants, Hudson County must submit a consolidated plan that provides its goals for the program to the U.S. Department of Housing and Urban Development (HUD) for approval.

The County executive, together with a nine-member board of chosen freeholders, governs Hudson County. HUD awarded the County \$2.68 and \$3.19 million in CDBG program funding during program years 2012 and 2013, respectively. The County received a score of 51 in HUD's 2014 risk assessment, which ranked it 17th among the 55 CDBG grantees administered by the HUD Newark, NJ, field office. The County's Division of Housing and Community Development administers the CDBG program. The CDBG program provides funding to the County to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services.

The objective of the audit was to determine whether County officials had established and implemented controls to ensure that the County administered its CDBG program in accordance with program requirements.

Results of Audit

Finding: County Officials Did Not Always Administer the County's CDBG Program in Accordance With Program Requirements

Hudson County, NJ's, CDBG program had financial and administrative control weaknesses, and deficiencies existed in the administration of its subgrantee agreement, which lessened assurance that the program was administered in accordance with program requirements. Specifically, (1) County officials were inconsistent in charging planning and administration costs to the program, (2) program delivery costs for rehabilitation assistance were inflated or unnecessary in proportion to the actual rehabilitation assistance provided, (3) CDBG funds were advanced to another Federal agency, (4) CDBG funds were used to administer the subgrantee's Emergency Solutions Grant (ESG) program, and (5) deficiencies were noted in the administration of the subgrantee agreements. We attributed these deficiencies to inadequate controls over program administration and County officials' misinterpretation of program requirements. As a result, County officials could not assure HUD that the County disbursed \$362,912 in CDBG funds for eligible, reasonable, and necessary program costs.

The County's Policy for Charging Planning and Administration Costs to the CDBG Program Was Inconsistent

A review of time distribution sheets and payroll records found that the County's policy for charging salary costs to the CDBG program was not consistent. During the period January through June 2013, an employee worked solely on the ESG program for 13 consecutive pay periods. Our review of time distribution sheets and payroll records showed that 100 percent of this employee's salary was allocated and charged to the ESG program during the period January 11 through March 22, 2013. However, time distribution sheets showed that during the period April through July 2013, 100 percent of the salary costs (\$25,107) for this same employee were allocated to the ESG program but review of the payroll records showed that it was charged to the CDBG program. Office of Community Planning and Development (CPD) Notice CPD 13-07, section III.A.3, states that the grantee's records should clearly show that there is consistent treatment of like costs under similar circumstances. The Notice further states that as a general rule, neither the statute nor the regulations allow CDBG funds to be used to pay program administration costs solely for the administration of the ESG program, the Supportive Housing Program, or the Housing Opportunities for Persons with AIDS program.

We attributed this deficiency to weaknesses in the County's program administrative controls and County officials' misinterpretation of the program requirements. County officials stated that they interpreted the use of "solely" in Notice CPD 13-07 as the staff person's regular responsibilities over the course of the year. Further, the County's financial records and

Integrated Disbursement and Information System (IDIS)¹ reports showed that the officials drew down funds for salaries monthly. Regulations at 2 CFR (Code of Federal Regulations) Part 225, appendix B, paragraphs (8)(h)(5)(a) and (c), state that personnel activity reports must reflect an after-the-fact distribution of the actual activity and must be prepared monthly. Therefore, County officials should have charged the appropriate program monthly. As a result, the \$25,107 in salary costs was an ineligible cost.

Housing Rehabilitation Administration Costs Were Not Reasonable

County officials charged the CDBG program \$127,380 in rehabilitation administration costs (program delivery) that were primarily for salaries and fringe benefits. Specifically, County officials charged the CDBG program \$76,284 during the period April 2013 to April 2014 and an additional \$51,096 during the period April to December 2014. However, the total charges for program delivery costs were not reasonable, economical, or efficient in proportion to the level of actual rehabilitation assistance costs, which in this case, were for grants to homeowners for various rehabilitation work. For instance, County officials funded \$200,000 for a housing rehabilitation assistance activity in August 2010; however, for the past 4 years and as of September 2014, only \$11,740 was used for actual rehabilitation assistance. As a result, the rehabilitation activity was not completed and did not meet a CDBG national objective or a final cost objective. County officials stated that while only one homeowner was assisted under CDBG rehabilitation activity, several units were assisted under the County's HOME Investment Partnerships Program. Since the HOME program was not included in our audit scope, we did not determine whether the same HOME program costs were also charged to the CDBG program. Further, County officials stated that CDBG provided funding to a subgrantee, which resulted in the rehabilitation of six units. However, County officials were not involved in administering this rehabilitation activity because it was carried out by a subgrantee.

We attributed this condition to weaknesses in administrative management controls. In accordance with Notice CPD 13-07, the incomplete activity would most likely be determined ineligible, and the staff costs would be disallowed or possibly considered as general administrative costs. When these costs are assigned as planning and administrative costs, the grantee's obligations may exceed the 20 percent program administration cost limit. In addition, guidance at 2 CFR Part 225, appendix A, paragraph (C)(1)(a), states that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. Therefore, the \$127,380 in rehabilitation administration costs (\$76,284 + \$51,096) was ineligible because it was associated with an incomplete activity. If the staff costs were considered general administrative costs, the County would exceed its 20 percent cap for program administration because County officials had already allocated \$546,604 for planning and administration costs, which was 20 percent of the 2012 grant.

¹ IDIS is a nationwide database that provides HUD with current information regarding program activities and is the drawdown and reporting system for several programs, including the CDBG program.

As explained above, a homeowners' rehabilitation assistance activity that was funded in August 2010 was not completed. However, County officials funded similar activities for \$100,000 and \$79,881, respectively, during program years 2013 and 2014. As a result, the County lacked assurance that funded activities would generate the intended benefits. County officials stated that they did not have adequate staff to carry out homeowners' rehabilitation assistance activities and did not receive applications from the homeowners seeking rehabilitation assistance. Therefore, County officials should not have funded a project that was not ready to move forward. Further, County officials drew down \$48,740 under a 2010 funded homeowner rehabilitation activity, but \$37,000 was used to reimburse another subgrantee. As a result, the County could not ensure that accomplishments and disbursements were accurately reflected in IDIS.

CDBG Funds Were Provided to Another Federal Agency

Based on a review of documents supporting program income and discussions with County officials, the County received \$50,000 from the Environmental Protection Agency (EPA). County officials stated that they advanced CDBG funds to fund management services (administrative costs) for this EPA grant. Regulations at 2 CFR, Part 225, appendix A, paragraph C(3)(c), state that any cost allocable to a particular Federal award or cost objective may not be charged to other Federal awards to overcome fund deficiencies, avoid restrictions imposed by law or terms of the Federal awards, or for any other reason. We attributed this deficiency to the County's weaknesses in administrative and financial management controls. As a result, County officials could not assure HUD that the County spent CDBG funds in accordance with this program requirement.

CDBG Funds Were Used To Administer the Subgrantee's ESG Program

A review of 2013 documents supporting program income noted that County officials used CDBG funds to administer the ESG program for the City of Bayonne, one of the County's subgrantees. However, County officials stated that the City of Bayonne did not have the capacity to administer the ESG program. In July 2013, the City of Bayonne reimbursed \$14,787 to the County. County officials could not explain why their CDBG funds were used since the City of Bayonne received CDBG funds from HUD directly. Notice CPD 13-07, section III.A.3, states that as a general rule, neither the statute nor the regulations allow CDBG funds to be used to pay program administration costs solely for the administration of the ESG program. We attributed this condition to weaknesses in program administration. As a result, County officials could not ensure that CDBG funds were used in accordance with program requirements.

Weaknesses Were Noted in the Administration of Subgrantee Agreements

Unsupported Disbursements

County officials reimbursed a subgrantee, the Town of Secaucus, NJ, \$60,000 for senior citizen housing rehabilitation activity costs without obtaining adequate supporting documents and ensuring that the subgrantee complied with program requirements. Specifically, a review of eight homeowners' files noted that the subgrantee provided \$13,334 to two homeowners who were not eligible and failed to seek repayment of \$6,667 in accordance with the County's policy. Regulatory guidance at 24 CFR 85.20(b)(6) states that accounting records must be supported by source documents. In addition, guidance at 24 CFR 570.501(b) states that the grantee is responsible for ensuring that CDBG funds are used in accordance with the program requirements.

and the use of a subgrantee does not relieve the grantee of this responsibility. We attributed these deficiencies to a lack of oversight to ensure that program requirements were met.

A review of homeowners' files noted issues with three of the following cases:

- The subgrantee provided CDBG funding of \$6,667 to a homeowner who was an employee of the subgrantee and did not qualify as a senior citizen. As outlined in 24 CFR 570.611, providing assistance to an employee creates a conflict of interest. County officials, however, stated that providing assistance to the subgrantee's employee was not a conflict of interest, and the activity was not coded as a program for the senior citizen housing rehabilitation activity. However, our review of supporting documents as well as seven other homeowners' files noted that the activity was for a senior citizen housing rehabilitation activity. As a result, we considered \$6,667 to be an ineligible cost.
- The subgrantee provided CDBG funding of \$6,667 to a homeowner whose income was under-calculated because the household consisted of two individuals but only one individual's income was included. However, after our inquiry, County officials and the subgrantee concluded that the homeowner was ineligible and they would seek repayment to reimburse the County. Subsequently, County officials provided a document to support that \$1,575 was remitted to HUD. As a result, County officials will have to remit remaining \$5,092.
- The subgrantee provided CDBG funding of \$6,667 to a homeowner, but County officials failed to ensure that the subgrantee recovered housing rehabilitation assistance in accordance with the County's policy after one homeowner's estate sold the property within 2 years after the funding was provided. The County's policy requires repayment if the property is sold within 2 years after the funding was provided. After our inquiry, County officials agreed and stated that the subgrantee would repay the County.

The total amount of \$18,426 (\$6,667+\$5,092+\$6,667) was erroneously provided to ineligible recipients. Specifically, two homeowners were not eligible, and in the other case, funds for rehabilitation assistance were not recovered in accordance with the County's policy. The remaining \$39,999 (\$60,000 - \$18,426-\$1,575) was unsupported because County officials did not obtain supporting documents. These documents included agreements between the subgrantee and homeowners and copies of invoices to support the type and costs of the work completed.

The Subgrantee Agreement Was Not Executed as Required by Program Requirements

In August 2009, Hudson County officials gave \$35,000 to the County's Health and Human Services division for the local administration and planning of the County's homeless programs without executing a grant agreement. The County stated that the prior division chief believed that it was not necessary to execute the grant agreement since the County gave the funding to another of its divisions. Regulatory guidance at 24 CFR 570.503(a) states that grantees must sign a grant agreement with the subrecipient before disbursing CDBG funds and that agreement

must remain in effect during any period when the subrecipient has control over CDBG funds. Further, guidance at 24 CFR 570.501(a) states that local governments are subject to the same requirements as subrecipients, while interagency or interdepartmental agreements should include the same provisions required in a subrecipient agreement. We attributed this condition to County officials' unfamiliarity with CDBG program regulations. The lack of a written agreement could affect the County's ability to monitor the performance of the subgrantee to ensure that CDBG funds were used properly. As a result, the \$35,000 in CDBG funds reimbursed to the subgrantee was unsupported.

The Subgrantee Was Reimbursed Without Amendment

In August 2010, County officials funded \$80,000 to EMET Realty and Development Company for a single-room occupancy activity. The term of this agreement expired in June 2011. However, County officials reimbursed a subgrantee \$80,000 in CDBG funds in February 2013, which was outside the agreement term. In addition, \$37,000 was drawn down under the homeowner housing rehabilitation activity funded in 2010 but was used to reimburse a subgrantee in February and June of 2013 without an amendment to the grant agreement. The County amended the grant agreement in August 2014 when County officials gave the subgrantee \$100,000 in additional funding. Guidance in 24 CFR 570.503(a) states that grantees must sign a grant agreement with the subrecipient before disbursing CDBG funds and that agreement must remain in effect during any period when the subrecipient has control over CDBG funds. County officials stated that since the funds from another activity were used, they believed an amendment was not necessary. We attributed these deficiencies to County officials' unfamiliarity with CDBG regulations and weak controls over the administration of the County's subgrantee agreements. The lack of agreement amendments could affect the County's ability to monitor the subgrantee's performance to ensure that CDBG funds were properly used. Therefore, the \$117,000 in CDBG funds reimbursed to the subgrantee was unsupported.

Conclusion

County officials' misinterpretation of the program requirements and implementation of inadequate administrative and financial controls led to ineligible and unreasonable costs being charged to the CDBG program as well as unsupported reimbursements to subgrantees. As a result, County officials could not assure HUD that the County administered the program in accordance with program requirements.

Recommendations

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

- 1A. Reimburse the County's CDBG program \$25,107 from non-Federal funds for planning and administration costs incorrectly charged to the County's CDBG program.
- 1B. Develop and implement a system to ensure that the salaries of staff members who work on other CPD programs are not charged to the CDBG program.
- 1C. Reimburse the County's CDBG program \$127,380 from non-Federal funds for ineligible and possibly inflated program delivery costs.

- 1D. Establish procedures to ensure that costs charged to the CDBG program are necessary and reasonable for administering the program.
- 1E. Establish policies and procedures to no longer fund activities that are inefficient or no longer feasible.
- 1F. Establish a policy and procedure to assure HUD that CDBG funds are spent in accordance with program requirements and costs allocable to other Federal awards are not charged to the CDBG program.
- 1G. Reimburse the County's CDBG program \$18,426 from non-Federal funds for housing rehabilitation provided to ineligible homeowners.
- 1H. Provide documentation to support the \$39,999 in housing rehabilitation assistance reimbursed to the subgrantee. Any amount determined to be ineligible should be reimbursed to the County's CDBG program from non-Federal funds.
- 1I. Establish procedures to ensure that adequate documents are requested and reviewed before reimbursing a subgrantee and that CDBG funds are spent in accordance with program requirements.
- 1J. Strengthen controls over the administration of the County's subgrantees to ensure that agreements are executed and amended when the award or time of performance changes and before the CDBG funds are disbursed.
- 1K. Provide documentation to support the \$35,000 given to the subgrantee without an executed grant agreement so that HUD can determine eligibility. Any ineligible amounts should be reimbursed to the County's CDBG program from non-Federal funds.
- 1L. Provide documentation to support the \$117,000 given to the subgrantee without a grant agreement amendment so that HUD can determine eligibility. Any ineligible amounts should be reimbursed to the County's CDBG program from non-Federal funds.

Scope and Methodology

The review generally covered the period July 2012 through June 2014 and was extended as necessary. Audit fieldwork was performed onsite from September 2014 through January 2015 at the County's office located at 257 Cornelison Avenue, Jersey City, NJ,

To accomplish our audit objective, we

- Reviewed relevant Federal regulations and CDBG program requirements.
- Interviewed appropriate personnel from the HUD Newark, NJ, Office of Community Planning and Development and reviewed relevant grant files to obtain an understanding of CDBG program requirements and identify HUD's concerns with the County's operations.
- Reviewed the County's consolidated annual performance and evaluation reports, action plans, and IDIS reports to document the County's activities and disbursements. Our assessment of the reliability of the data in IDIS was limited to the data reviewed, which were reconciled to County records. Therefore, we did not assess the reliability of this system.
- Reviewed HUD's monitoring and independent accountant audit reports.
- Reviewed the County's policies and procedures and interviewed key personnel to obtain an understanding of the County's administration of the CDBG program.
- Reviewed the County's files and records of selected projects to test whether County officials administered the program in accordance with program requirements.

We selected for review a nonstatistical sample of 17 activities with the highest disbursements valued at approximately \$2.1 million. This amount represented 30 percent of the \$6.8 million in funds disbursed for 128 activities during our review period. The activities were under six general categories: (1) economic development, (2) housing rehabilitation, (3) planning and administration, (4) property acquisition-disposition-clearance, (5) public facilities and improvements, and (6) public service. The results were not projected to the universe because the sample selection was not statistically based.

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

Internal Controls

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

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

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

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- County officials did not have adequate controls over the effectiveness and efficiency of program operations and the administration of subgrantee agreements because they did not establish adequate administrative controls to ensure that (1) CDBG funds were not used solely for the administration of other CPD programs or to pay for costs associated with other

funding sources, (2) costs charged were necessary and reasonable, and (3) a subgrantee agreement was executed or amended when necessary (see finding).

- County officials did not always establish or implement adequate controls to ensure that resources were safeguarded against waste, loss, and misuse, which resulted in CDBG funds being used for unsupported and ineligible costs (see finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$ 25,107	
1C	127,380	
1G	18,426	
1H		\$39,999
1K		35,000
1L.		117,000
Totals	\$170,913	\$191,999

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

**COUNTY OF HUDSON**
DEPARTMENT OF PARKS AND COMMUNITY SERVICES
DIVISION OF HOUSING AND COMMUNITY DEVELOPMENT
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July 6, 2015

Kimberly Green
Regional Inspector General for Audit
US Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278

Dear Ms. Green,

The County has reviewed the Office of the Inspector General's Draft Report and offers the following comments:

1. The County's Policy for Charging Planning and Administration Costs to the CDBG Program Was Inconsistent

The Division strongly disagrees that \$25,107 is an ineligible cost. During program year 2012 (July 1, 2012- June 30, 2013) the Program Director worked on CDBG, HOME and ESG eligible activities and the salary was charged to each program accordingly. When looking at the Program Director's salary over the course of the entire year, the salary was charged 43% to ESG, 32% to CDBG and 25% to HOME. At no point throughout the year did the employee spend 100% of her time on any one of these programs. Revised time allocation sheets for the Program Director have been completed which accurately reflect how the staff person's time was spent throughout the year. These time allocation sheets align with how the salary was charged over the course of the year. See Tab A for revised allocation sheets.

CPD Notice 13-07 Section III, A.3 indicates that CDBG funds can be used to administer ESG if that staff person is not solely administering the ESG programs and the activities

Comment 1

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

are CDBG eligible. Staff job descriptions and work product document that no staff person in the Division is solely dedicated to administering ESG funding. Since the Program Director did not spend 100% of her time on ESG activities and all ESG activities were CDBG eligible, the Division maintains that the \$25,107 was spent on eligible activities. Furthermore, \$14,747 of the \$25,107 in question was reimbursed by the City of Bayonne's ESG funds.

In December 2014 the Division revised the policy for keeping time allocation sheets and the process for charging funds was revised. Documentation of the changes was provided at time of audit and can be found in Tab B.

2. Housing Rehabilitation Administration Costs Were Not Reasonable

The Division strongly disagrees that costs were unreasonable and maintains that the homeowner rehabilitation program did in fact produce a significant amount of units throughout the time period in question. While only one housing unit was charged to CDBG during that period, 15 units were rehabilitated using HOME funds under the Hudson County HOME Homeowner Rehabilitation Program representing a total of \$236,986.50 in actual construction costs. Section III, A6 of CPD Notice 13-07 states CDBG funds can be used to carry out housing rehabilitation carried out using other funding sources that meet CDBG program requirements. The Hudson County HOME Homeowner Rehabilitation program meets all CDBG requirements, and therefore the Division maintains that these units should be included when considering the full scope of the program carried out using CDBG Program Delivery funds. Despite the fact that the audit scope did not include the HOME program, these units should not be discounted when reviewing the outcomes of the CDBG Program Delivery project. An IDIS listing of all homeowner rehabilitation projects completed with HOME funds during the period in question can be found in Tab C. Furthermore, at the time of audit the Division provided payroll documentation demonstrating that the salary in question was not also charged to the HOME program. These sheets are again provided in Tab C.

In addition, the Division provided CDBG funding to the Secaucus Home Improvement program during the audit period. This program resulted in the rehabilitation of 6 units for eligible property owners representing a total of \$31,840. These CDBG funds leveraged \$70,000 in funding that the Town of Secaucus provided through their Affordable Housing Trust Fund. The Draft Report indicates that County Officials were not involved in administering this rehabilitation activity, and this is entirely inaccurate. The Division's Housing Inspector, whose salary was paid through the Program Delivery funds in question, and the Division's Architect spent significant time on this activity between August 2011 to April 2012. Dated travel logs for the inspector and completion reports issued by the Division's architect evidence the Division's involvement. Both the travel logs and completion reports can be found in Tab C.

In total, \$280,566.50 in CDBG and HOME funds were expended, and an additional \$70,000 was leveraged, during the audit period resulting in the rehabilitation of 22

Comment 2

Auditee Comments

Ref to OIG Evaluation

Comment 3

eligible units. Therefore, the Division strongly disagrees that the costs were unreasonable as the homeowner rehabilitation efforts of the Division did materialize into a significant amount of eligible projects.

It should also be noted that the changes in leadership within the Division and the Five Year Consolidated planning process provided an opportunity for the Division to revisit all Division programs, including the Homeowner Rehabilitation program. The decision was made to suspend the program, and balances in the housing rehabilitation assistance activities have been reprogrammed to other projects.

Comment 4

3. CDBG Funds Were Provided to Another Federal Agency

The description provided inaccurately depicts the information shared during the investigation as no funds were advanced or transferred from the County to a Federal Agency. Instead, the County submitted draw requests to the U.S. Environmental Protection Agency (EPA) for the project which were then disbursed for eligible expenses. The \$50,000 was remitted to the Hudson County Economic Development Corporation, a non-profit agency, for fund management services provided for the EPA grant.

Comment 5

4. CDBG Funds Were Used to Administer the Subgrantee's ESG Program

In 2012 The City of Bayonne asked the County to administer their ESG funding on their behalf in return for administrative funding from the ESG Grant. The Division accepted applications, made project selections and reviewed vouchers from funded projects. The Division utilized County CDBG funds to pay for the staff's salary up front, and later received reimbursement from the City of Bayonne. County CDBG funds were initially used because it took some time for reimbursement from the City of Bayonne.

See number 1 above for further explanation.

Comment 2

5. Weaknesses Were Noted in the Administration of Subgrantee Agreements

Unsupported Disbursements: Secaucus Homeowner Rehabilitation

The Division provided \$60,000 to the Town of Secaucus to assist in funding a homeowner rehabilitation program within the town. The Town of Secaucus used money from their affordable housing trust fund for the initial \$10,000 of work on each unit, and the county CDBG funding made up the balance. Initially, 12 units were to be completed at a total cost of approximately \$5,000 per unit of County CDBG Funds. Only 8 units were ultimately funded through CDBG ranging from \$640- \$8,960 a home. In total only \$38,545 should have been provided to the Town of Secaucus for all 8 homes. See

**Ref to OIG
Evaluation**

Auditee Comments

Comment 6

spreadsheet in Tab G for detailed breakdown. The County acknowledges that \$21,455 was remitted to the Town of Secaucus in error and is requesting repayment. In addition, the County has reviewed the files of the three units in question and provides the following comments:

a) Non-Senior Citizen

The County maintains that there was no conflict of interest however acknowledges that the individual did not meet the requirements of the program as she was not a senior citizen. In total, \$5,130 in CDBG funding was provided to the Town of Secaucus on behalf of this homeowner. The County agrees to repay this amount.

b) Over-income

The County agrees with this finding and the full amount of \$11,575 has been returned to the Town of Secaucus. Only \$1,575 was paid by CDBG funds and the remaining \$10,000 was paid by the Secaucus Trust Fund. \$1,575 was returned to the County and was remitted to HUD. Documentation of repayment is included in Tab G.

c) Noncompliance- property sold

The Town of Secaucus provided \$10,000 in funding through the town's Affordable Housing Trust Fund and recorded a mortgage for their portion of the funds. The CDBG funding in the amount of \$5,300 was provided as a grant and therefore a lien was not placed. Only \$10,000 which was provided by the Town of Secaucus as a loan was recouped due to noncompliance. The County did not have a policy requiring repayment, and therefore the CDBG funding in the amount of \$5,300 should not be repaid.

Comment 7

The County maintains the remaining homeowners were eligible and all costs were supported. Final inspection reports and agreements between the homeowners and the Town of Secaucus can be found in Tab G.

In total, the County agrees that \$28,160 was provided in for ineligible costs. \$1,575 has already been remitted to HUD, and the County agrees to remit the balance of \$26,585.

Comment 8

The Subgrantee Agreement Was Not Executed as Required by Program Requirements

The County acknowledges that a subrecipient agreement should have been executed prior to providing funding to another Hudson County Department. However, the Division maintains that the funding that was provided for CDBG eligible activities. The Division implemented a policy in August 2014 that no funding will be provided to any agency without an executed agreement. Prior to issuing any payment, Division staff ensures an executed agreement is on file.

Auditee Comments

Ref to OIG Evaluation

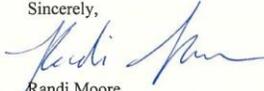
Comment 9

The Subgrantee was Reimbursed Without Amendment

The County acknowledges that amendments to the initial subrecipient agreement should have been made prior to reimbursement of funds. However, the County maintains that all funds were disbursed for eligible activities that are supported by documentation which included in the program file at the time of audit. A copy of these documents is included in Tab L. Note that all of these items were in the project file at time of audit.

Thank you for the opportunity to respond to the Draft Report. Please do not hesitate to contact me should you have any additional questions on our response or the documentation provided.

Sincerely,



Randi Moore
Division Chief

OIG Evaluation of Auditee Comments

Comment 1 County officials disagreed that \$25,107 was an ineligible cost, and they later revised the time allocation sheets for the period July 13, 2012, through June 2013.² In addition, according to County officials, \$14,747 of the \$25,107 in question was reimbursed by the City of Bayonne's ESG program. Also, officials revised their time allocation policy and the process for charging funds. The revision to the time allocation sheets was made 3 years after the costs were allocated to the ESG program and charged to the CDBG program. As of June 17, 2015, the employee salary in question was allocated 43 percent instead of 100 percent to the ESG program. However, County officials did not provide documentation to support the 43 percent calculation. In January 2015, County officials provided documentation showing that 50 percent of the salary was allocated to the ESG program. Therefore, the revisions made in January and June 2015 differ and were made with no supporting basis. Further, based on the County's revised time allocation in June 2015, the employee's time was allocated 43 percent to the ESG program from July 12, 2012, through June 28, 2013. Therefore, the City of Bayonne may have to reimburse additional funds to the County. County officials also did not provide evidence to support that they had revised their process for charging funds. Therefore, the entire \$25,107 stands as an ineligible cost.

Comment 2 County officials disagreed that the housing rehabilitation costs were unreasonable. Based on the County's HOME program report, a total of eight units were assisted, representing \$100,667 in HOME program funds, during the period April 2013 through November 2014. Since the HOME program was not in our audit scope, we could not determine whether the units assisted met HOME program requirements. If CDBG funds were used for the HOME program, County officials should charge IDIS matrix code 21H for the CDBG funding of HOME administrative cost or 14J for the housing services in support of the HOME program. However, County officials charged program delivery cost under IDIS matrix code 14H, which is CDBG rehabilitation delivery cost.

County officials disagreed that they were not involved in administering the program. This program provided CDBG funding to eight homeowners; however, County officials reimbursed a subgrantee without obtaining adequate supporting documents and ensuring that program requirements were met. Therefore, the

² We reviewed IDIS activity 1996, Planning and Administration, for which the County drew down funds for salary and fringe costs for the period October 2012 through December 2013. However, County officials provided revised time allocation sheets only for the period July 13, 2012, through June 28, 2013. They did not mention whether the timesheet allocation had been revised for the period July through December 2013.

costs charged as program delivery costs were not justified. Further, the travel logs provided as support did not provide sufficient information pertaining to which properties were inspected, including the \$583 in gas and mileage costs, and it appeared that the costs had been charged to the HOME program administration. Therefore, the \$76,284 and \$51,096 charged to the CDBG program were ineligible costs.

Comment 3 County officials state that the homeowner rehabilitation program was suspended and the balance was reprogrammed to other activities. As noted in the audit report, County officials had funded \$200,000 in August 2010, and only \$11,740 was used for actual rehabilitation costs; therefore, County officials will be required to reprogram the difference of \$188,260 to other eligible projects.

Comment 4 County officials stated that the description that CDBG funds were provided to another Federal agency inaccurately depicted the information provided during the audit. The details in the audit report are based on the written response from County officials and our review of the program income documentation. It should be noted that during the exit meeting, County officials acknowledged that CDBG funds should not have been used for the EPA grant. As a result, County officials could not assure HUD that the CDBG funds were spent in accordance with program requirements.

Comment 5 County officials agreed that CDBG funds were used because of a delay in reimbursement from the City of Bayonne.

Comment 6 County officials agreed to repay \$5,130 because the non-senior citizen did not meet the requirements of the program; however, officials contend that there was no conflict of interest. Officials are reminded that assisting an employee creates a conflict of interest, as outlined in 24 CFR 570.611. Based on the documentation provided, the employee was provided \$6,667 in CDBG funding; therefore, County officials will be required to repay \$6,667.

In addition, County officials agreed that assistance was provided to a homeowner who was ineligible because the homeowner's income was over the program limit and provided documentation to support that \$1,575 had been remitted to HUD. However, based on the documentation provided, the homeowner was provided \$6,667 in CDBG funding; therefore, County officials will be required to repay the remaining \$5,092.

Also, County officials contend that the repayment of funds provided to the homeowner who sold the property within 2 years after receiving funding is not required since the County did not have a policy in place requiring repayment. This claim contradicts the documents previously provided, stating that the subgrantee, Town of Secaucus, had recouped the funding due to noncompliance and would remit the funds to the County. Further, when County officials provided their housing rehabilitation policy, they told us that the same policy was

applicable for the housing rehabilitation activity funded with CDBG and HOME program funding. Therefore, County officials will be required to repay \$6,667.

- Comment 7** County officials contended that the remaining homeowners were eligible and all costs were supported. The questioned ineligible costs were reduced from \$20,001 to \$18,426 since \$1,575 had been remitted to HUD. Since County officials did not provide supporting documents for the \$39,999, it is considered an unsupported cost. County officials will have to work with HUD field office staff to address this issue during the audit resolution process.
- Comment 8** County officials acknowledged that the subgrantee agreement should have been executed before funding was provided to the County's Health and Human Services. Officials implemented a policy in August 2014, requiring an executed agreement before providing funding to any agency.
- Comment 9** County officials agreed that the subgrantee was reimbursed funds without an amended grant agreement but stated that all funds were disbursed for eligible and supported activities. The project file reviewed during the audit fieldwork did not contain all necessary supporting documents, and we asked officials to provide them. The matter was discussed with County officials several times. The additional documents provided by County officials after the audit fieldwork did not contain detailed information to support the cost reimbursed, such as a copy of an invoice detailing the breakdown for labor and equipment costs for the electrical system upgrade, replacement of the fire safety system, and the architect and engineering firm's fees. County officials will have to work with HUD field office staff to address this issue during the audit resolution process.