



Issue Date

June 13, 2007

Audit Report Number  
2007-NY-1007

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

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

SUBJECT: The City of Jersey City, New Jersey, Did Not Always Adequately Administer  
Its HOME Investment Partnerships Program

## **HIGHLIGHTS**

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

We audited the City of Jersey City, New Jersey's (City) HOME Investment Partnerships Program (HOME) based on its year 2006 program funding of \$3.1 million and a high U.S. Department of Housing and Urban Development (HUD) risk analysis score. The objectives of our audit were to determine whether the City disbursed HOME funds efficiently and effectively in accordance with applicable rules and regulations, and had a financial management system in place to adequately safeguard the funds.

### **What We Found**

The City did not always disburse HOME funds efficiently and effectively in accordance with applicable rules and regulations, and did not have a financial management system, which adequately safeguarded the funds. Specifically, the City failed to (a) enter into a contract for new construction and ensure that financing was available before disbursing funds, (b) ensure that funds disbursed were adequately secured, (c) repay funds related to two terminated projects, and (d) enter accurate information into HUD's Integrated Disbursement and

Information System (IDIS). As a result, \$354,581 was disbursed without an executed contract, \$78,073 in disbursed funds was not secured, \$267,547 in funds related to two terminated projects was not repaid, and incorrect information related to the City's HOME activities was entered into IDIS. These problems occurred because City officials were not familiar with HUD requirements and, therefore, did not have controls in place to ensure compliance with all of the regulations. Consequently, the administration of the City's HOME program suffered.

### **What We Recommend**

We recommend that the director of HUD's Office of Community Planning and Development, Newark field office, require the City to submit all supporting documentation to HUD regarding the \$354,581 in HOME funds disbursed so that HUD can make an eligibility determination. Any amounts determined to be ineligible should be repaid from nonfederal funds. In addition, the City should repay \$267,547 plus interest for the two terminated rehabilitation projects. Lastly, the City should establish and implement controls to ensure that HOME funds are used in accordance with all program requirements and written agreements, periodic monitoring is performed on the activities so that appropriate action can be taken when performance problems arise, amounts disbursed are properly recorded on mortgage notes and agreements, and accurate information is entered into IDIS.

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

### **Auditee's Response**

We discussed the results of our review during the audit and at an exit conference held on May 17, 2007. Auditee officials provided their written comments at the exit conference, as per our May 4, 2007 request. Auditee officials were generally displeased with the audit finding; however, they recognize that there is always room for improvement. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

## TABLE OF CONTENTS

---

Background and Objectives	4
Results of Audit	
Finding: The City Did Not Always Adequately Administer Its HOME Program	5
Scope and Methodology	11
Internal Controls	12
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	14
B. Auditee Comments and OIG's Evaluation	15

## BACKGROUND AND OBJECTIVES

---

The HOME Investment Partnerships Program (HOME) 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 down payment, 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.

Jersey City is governed by a Mayor and nine council members. The current Mayor is Mr. Jerramiah T. Healy.

The City administers its CDBG (Community Development Block Grant), HOME, ESG (Emergency Shelter Grant) and HOPWA (Housing Opportunities for People With AIDS) programs through the Division of Community Development. The City was awarded \$3.6 million and \$3.3 million in HOME funding from the U.S. Department of Housing and Urban Development (HUD) for program years 2004 (April 1, 2004, to March 31, 2005) and 2005 (April 1, 2005, to March 31, 2006), respectively.

The City uses its HOME funds for its First Time Home Buyer Assistance and rental programs. Funding is also reserved for community housing development organizations and other nonprofit and profit-motivated organizations to develop affordable housing units. In addition, the City provides operating funding to community housing development organizations. Under the First Time Home Buyer Assistance program, funding is provided to individuals toward their downpayment and closing costs. The rental program involves new construction, substantial rehabilitation, and conversion projects.

Our audit objectives were to determine whether the City disbursed HOME funds efficiently and effectively in accordance with applicable rules and regulations, and had a financial management system in place to adequately safeguard the funds.

## RESULTS OF AUDIT

---

### Finding: The City Did Not Always Adequately Administer Its HOME Program

Contrary to federal regulations, the City did not always adequately administer its HOME program. Specifically, the City failed to (a) enter into a contract for new construction and ensure that financing was available before disbursing funds, (b) ensure that funds disbursed were adequately secured, (c) repay funds related to two terminated projects, and (d) enter accurate information into HUD's Integrated Disbursement Information System (IDIS). As a result, \$354,581 was disbursed without an executed contract, \$78,073 in disbursed funds was not secured, \$267,547 in funds related to two terminated projects was not repaid, and incorrect information related to the City's HOME activities was entered into IDIS. These problems occurred because City officials were not familiar with all HUD requirements and, therefore, did not have controls in place to ensure compliance with all of the regulations. Consequently, the administration of the City's HOME program suffered.

---

**The City Did Not Enter into a Contract with a Community Housing Development Organization or Ensure That Adequate Financing Was Available**

In program year 2001, the City reserved \$650,000 in HOME funding for the construction of 24 affordable housing units, being developed by the Urban League, a community housing development organization (CHDO).

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. The written agreement must ensure compliance with the requirements of this part." However, the City did not enter into a written agreement with the Urban League before disbursing \$354,581 in HOME funds for construction work. Without a written agreement, the City had no legally binding record of the construction work that was to be completed and, therefore, no basis to effectively monitor the progress and performance of the Urban League.

Regulations at 24 CFR 92.504(a) provide 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 agreement, and taking appropriate action when performance problems arise. The performance of each contractor and sub recipient must be reviewed at least annually." However, we were not provided with any documentation

evidencing the City's monitoring of the Urban League related to this construction project.

Although construction work on this project appeared to have been started in September 2005, progress seems to have been extremely slow. During our December 2006 site visit, it was noted that no work was being done. City officials stated that the Urban League was experiencing delays due to issues with the title for the property to be conveyed, financing issues, and construction challenges.

Further, City officials informed us that the total construction project was estimated to cost \$5.39 million and that the cost was likely to increase. City officials listed various sources for the funding, the majority of which was supposed to be provided through private financing (\$1.92 million, or approximately 36 percent). However, City officials also stated that the Urban League is obtaining financing through the State of New Jersey Special Needs Housing Trust Fund instead of private financing. As of February 21, 2007, the Urban League was still meeting with the Division of Supported Housing and Special Needs and the New Jersey Housing and Mortgage Finance Agency in an attempt to secure financing. It appears that the Urban League has been unable to secure financing from program year 2001 to the present. Therefore, little progress has been made on the construction, and there is concern that if costs increase significantly, the completion of the project is uncertain.

It is apparent that the City provided HOME funding to the Urban League without ensuring that the all sources of funding and financing were secured. In program year 1996, the City had also provided HOME funding before all of the financing was arranged by the developer. Regulations at 24 CFR 92.300 (2) (b) require participating jurisdictions to make reasonable efforts to identify CHDOs that are capable, or can reasonably be expected to become capable of carrying out activities.

These problems occurred because City officials were unaware of HOME program requirements and disbursed HOME funding without ensuring that the Urban League had secured financing. Therefore, since the City did not execute a contract, monitor the progress of the project, or ensure that there was adequate financing, the \$354,581 disbursed is considered to be unsupported pending an eligibility determination by HUD. Further, the City should not be allowed to disburse any more of the \$650,000 in funding committed for the 24 affordable housing units until it can demonstrate to HUD that the remaining \$295,419 in funds will be used efficiently and effectively.

### **\$78,073 in Disbursed Funds Was Not Secured**

In addition to the above, the City drew down \$151,747 for a completed two-family rental property, but only recorded \$73,674 on the homebuyer agreement and mortgage note. Therefore, the additional HOME funds of \$78,073 were unsecured. Regulations at 24 CFR 92.504(b) require the participating jurisdiction to enter into a written agreement with any entity to which HOME funds are provided, and section 92.504(c)(5) requires the amount of HOME funds and the form of HOME assistance to be specified on the agreement as a minimum requirement. Since the City did not specify the correct HOME funding amount on the written agreement with the homebuyer, it may lose \$78,073 in HOME funds if there is a default or resale and/or recapture needs to be exercised. This problem occurred because the City did not have adequate controls to ensure that the correct information was recorded on the agreement and mortgage note.

### **The City Failed to Repay Funds to the HOME Investment Trust Fund When Two Rehabilitation Projects Were Terminated**

Contrary to the federal regulation, the City did not repay disbursed funds to the HOME Investment Trust Fund when two rehabilitation projects were terminated. In the first instance, during program year 1996, the City entered into a written agreement with the Urban League and committed \$582,898 for the rehabilitation of 15 affordable housing units. The rehabilitation project should have been considered as involuntarily terminated when the building had to be demolished in April 1998. The documents in the City's files stated that funds were provided for the project before all of the financing was arranged and all of the required documents were transmitted. Also, we could not determine whether the City evaluated the building to determine whether it was structurally sound before committing the funds.

Regulations at 24 CFR 92.205(e) state, "A HOME assisted project that is terminated before completion, either voluntarily or otherwise, constitutes an ineligible activity and any HOME funds invested in the project must be repaid to the participating jurisdiction's HOME Investment Trust Fund." As of the demolition date, the City had disbursed a total of \$254,231 (\$125,000 plus \$129,231) to the Urban League related to this rehabilitation work. Therefore, these funds should have been repaid to the HOME Investment Trust Fund upon termination. This noncompliance occurred because City officials were unfamiliar with the HOME program requirement, which specifies that the City needs to repay funds to the HOME Investment Trust Fund when a project is terminated. These funds could have been used for other feasible HOME projects or activities if the City had repaid the funding expended for this terminated project.

In another case, the City committed HOME funds of \$197,506 to acquire and rehabilitate two separate two-family rental properties. However, the developer only completed one project and terminated the other project due to high costs. The developer notified the City of the terminated project in February 2004; however, City officials continued to draw down funds totaling \$13,316 through December 2004. Contrary to the above regulations, City officials failed to repay \$13,316 because they were not aware that when a HOME-assisted project is terminated, any HOME funds invested in the project must be repaid. In addition, regulations at 24 CFR 92.205(d) indicate that only the actual HOME-eligible development cost of the assisted units may be charged to the HOME program. Since the terminated property did not produce any assisted units, the direct cost of \$13,316 that was spent for the terminated property should have been determined to be ineligible and repaid by the City to the HOME Investment Trust Fund.

### **The City Should Be Required to Pay Interest**

Since the City failed to repay the above HOME funds totaling \$267,547 in a timely manner, it should be required to pay interest charges in accordance with federal regulations. Regulations at 31 CFR 901.9(a) state, “Agencies shall charge interest, penalties, and administrative costs on debts owed to the United States pursuant to 31 U.S.C. [*United States Code*] 3717. Regulations at 31 CFR 901.9 (b) (3) state that “the rate of interest shall remain fixed for the duration of the indebtedness and interest shall not be compounded.” The interest rate charged is the tax and loan account rate for the U.S. Treasury (also known as current value of funds rate) as prescribed and published semiannually by the secretary of the treasury in the *Federal Register*. Based on the above funds that were not repaid in a timely manner to the HOME Investment Trust Fund, we calculated that interest due HUD is \$113,645.<sup>1</sup>

### **Incorrect Information Was Recorded in IDIS**

City officials recorded incorrect and misleading information into HUD’s Integrated Disbursement Information System (IDIS). In April 1998, the City disbursed \$129,231 to rehabilitate 15 affordable housing units as described above. However, instead of recording this amount in IDIS as drawdowns under rehabilitation projects, the City recorded it under new construction projects. Funding for new construction projects was not reserved and committed by the City until program year 2001. Therefore, the City did not have adequate controls to ensure that correct information was entered into IDIS. The IDIS report as of December 18, 2006, indicates that \$779,231 had been committed and \$483,812 had been drawn down for

---

<sup>1</sup> Interest charged is the simple treasury interest rate in effect at the time the debt becomes overdue. The rate of interest remains fixed during the duration of the indebtedness. The interest for the \$254,231 is calculated from May 1, 1998, to March 31, 2007 (8 years and 11 months, or 107 months). The interest was calculated as follows: \$254,231 X .05/12 months X 107 months = \$113,345. The interest for the \$13,316 is calculated from January 1, 2005, to March 31, 2007 (2 years and 3 months, or 27 months). The interest was calculated as follows: \$13,316 X .01/12 months X 27 months = \$300.



new construction activity. However, the correct amounts for new construction projects should have been \$650,000 committed and \$354,581 drawn down. Thus, reporting the \$129,231 as a new construction project instead of as a rehabilitation project could mislead HUD and could affect future funding decisions.

Further, City officials entered a terminated rehabilitation project in IDIS reports as a completed project; therefore, HUD could have concluded that the project had been completed and affordable housing units produced. In addition, the project was misclassified when the IDIS information was set up. The rehabilitation project should have been set up as an acquisition and rehabilitation activity since the City had disbursed \$125,000 to the Urban League for acquisition of the building. However, contrary to 24 CFR 92.502(b) (1), which requires the participating jurisdiction to enter complete project setup information into IDIS, this was not done.

## Conclusion

The City did not adequately administer its HOME program, as it did not enter into a written agreement, ensure that there was sufficient financing, or monitor the progress of its construction project. As a result, the \$354,581 disbursed for the new construction activity was not spent efficiently or effectively, as there have been long delays and units may never be completed. Further, the City did not have adequate controls to ensure that funds paid were properly secured, terminated projects were identified, action to recover the funds advanced was timely, and information entered into IDIS was accurately reported. These problems occurred because City officials were not familiar with all HUD requirements and, therefore, did not ensure compliance with all of the regulations. Consequently, the administration of the City's HOME program suffered.

## Recommendations

We recommend that the director of the Newark Office of Community Planning and Development instruct the City to

- 1A. Provide documentation to justify the \$354,581 in unsupported costs so that HUD can make an eligibility determination, and reimburse from nonfederal funds the amount of any unsupported costs determined to be ineligible.
- 1B. Not disburse any more of the \$650,000 in funding committed for the 24 affordable housing units until the City secures funding and implements the above recommendation so that HUD can be assured that the remaining \$295,419 in funds will be used efficiently and effectively.
- 1C. Repay \$267,547 related to the two terminated rehabilitation projects to the HOME Investment Trust Fund treasury account from nonfederal funds.

- 1D. Pay \$113,645 in incurred interest related to funds not immediately repaid on two terminated rehabilitation projects to the HOME Investment Trust Fund treasury account.
- 1E. Establish and implement controls to ensure that terminated projects and/or properties are identified in a timely manner so that action can be taken to recover ineligible costs.
- 1F. Establish and implement controls to ensure that before disbursing any HOME funds, the City has entered into written agreements for the services to be provided so that all funds disbursed are secured.
- 1G. Establish and implement controls to ensure that HOME funds are used in accordance with all program requirements and written agreements and that periodic monitoring is performed on the activities so that appropriate action can be taken when performance problems arise.
- 1H. Establish and implement controls to ensure that agreements are not executed and HOME funds are not disbursed until the developer obtains and secures all sources of funding and financing when the project is funded by various sources in addition to HOME funding.
- 1I. Correct the information on the mortgage note and the homebuyer agreement to reflect the total indebtedness of the actual HOME funds of \$151,747 that were disbursed to complete the property and to account for the additional \$78,073, thereby securing the interest of the HOME program for the funds provided.
- 1J. Establish and implement controls to ensure that data in mortgage notes, agreements, and IDIS are correctly recorded.

## SCOPE AND METHODOLOGY

---

To accomplish our audit objectives, we

- Reviewed applicable federal regulations relating to the administration of the HOME program and conducted interviews and inquiries of officials from the City and HUD's Office of Community Planning and Development.
- Reviewed HUD files related to the City's HOME program including the five-year consolidated plan, consolidated annual performance and evaluation report, action plan, correspondence files, and HUD's monitoring reports.
- Reviewed the independent public accountant's audit report covering the City's HOME program.
- Reviewed administrative draws to determine whether the City complied with the 10 percent limit.
- Reviewed HOME matching fund requirements.
- Reviewed the listing of community housing development organizations receiving operating and reserve funding from the City for program years 2004 and 2005.
- Selected a nonstatistical sample of three IDIS activities, consisting of six projects for which reserve funding was granted, to determine whether HOME program requirements were met and disbursements were made for HOME-eligible activities. In addition, we reviewed two IDIS activities assigned to one project address; the funding for these two activities was committed in program years 1996 and 2001.
- Reviewed operating and reserve funding agreements executed between the City and two community housing development organizations to determine whether the terms and conditions contained in the agreements were adequate to ensure compliance with HUD regulations.
- Selected a nonstatistical sample of 10 of 31 applicants from the City's First Time Home Buyers program, 6 of 21 multifamily rental projects, and 2 of 13 two-family rental projects to determine whether HOME program requirements were met.

We performed our audit fieldwork between October 2006 and January 2007 at the City's Division of Community Development located at 30 Montgomery Street, Jersey City, New Jersey. The audit generally covered the period between April 1, 2004 and March 31, 2006 (program years 2004 and 2005), and was expanded as necessary. The audit was conducted in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

---

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 missions, 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.

---

## 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 resources – 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 the organization's objectives.

## Significant Weaknesses

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

- The City did not have adequate controls to ensure the validity and reliability of data when information was entered into IDIS that was not accurate and timely (see finding).
- The City did not have adequate controls to ensure compliance with laws and regulations when HOME funds disbursed on projects that were terminated were not repaid to the HOME Investment Trust Fund (see finding).
- The City did not have adequate controls to safeguard resources when it did not execute a written agreement with a developer before disbursing HOME funds and did not have funds disbursed properly secured by a mortgage note and homebuyer agreement (see finding).

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$354,581	
1B			\$295,419
1C	\$267,547		
1D			\$113,645
1I			\$78,073
Total	\$267,547	\$354,581	\$487,137

- 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 polices 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 cost reduction in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In these instances, if the City implements our recommendations by ensuring that financing was available before disbursing funding for the construction of 24 affordable housing units, paying interest on funds not repaid to the HOME Investment Trust Fund account related to two terminated projects, and correcting its mortgage notes and agreements to ensure that amounts disbursed are secured, the above HOME funds will be available to be used more efficiently.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

---

### Ref to OIG Evaluation

### Auditee Comments



JERRAMIAH T. HEALY, MAYOR  
CITY OF JERSEY CITY

DEPARTMENT OF  
Housing, Economic Development & Commerce  
**Division of Community Development**

30 Montgomery Street, 4th Floor, Jersey City, N.J. 07302  
Phone: (201) 547-6910  
Fax: (201) 547-5104

May 15, 2007

Mr. Joseph Vizer  
Asst. Regional Inspector General for Audit  
U.S. Dept. of Housing and Urban Development (HUD)  
Office of Inspector General  
26 Federal Plaza – Room 3430  
New York, NY 10278-0068

**Re: HOME Investment Partnerships Program (HOME)**

Dear Mr. Vizer:

This is in response to your draft audit report regarding the above referenced subject. As noted in your report, the City's Division of Community Development is responsible for administering CDBG, ESG, HOPWA and HOME funds. The City was awarded \$3.6 million and \$3.3 million in HOME funds during program years 2004 (April 1, 2004 – March 31, 2005) and 2005 (April 1, 2005 to March 31, 2006), respectively.

During the period covered by the audit, Jersey City funded numerous projects that would lead to the creation of over sixty (60) units of affordable housing. In addition, twenty-three (23) low-income individuals received assistance to purchase their first home. Operating subsidies were provided to several CHDOs to increase their capacity to produce affordable housing in Jersey City.

The DCD has worked diligently to improve the overall administration of the City's HOME entitlement grant. During the past few years we have accomplished the following:

- Re-organized files and created systems to better manage the HOME program. This has been instrumental in helping us to insure compliance.
- Successfully implemented procedures to recertify CHDO's.
- Updated and/or created loan documents to better protect the HOME investment.
- Recreated HOME applications and CHDO certification documents to insure that the City is obtaining necessary information.
- Created databases to better track all projects in the City's affordable housing portfolio.
- Implemented pre- and post- purchase training workshops for first-time homebuyers.

Re: HOME Investment Partnerships Program (HOME)  
May 15, 2007  
Page 2

- Improved tracking systems for documents, including HOME agreements. Copies of all executed agreements are maintained at the Division of Community Development (DCD) and the Office of the City Clerk.
- Created a manual for homeownership activities.
- Established a formal relationship with LISC to provide local CHDO's with capacity building assistance.
- Implemented more comprehensive monitoring for affordable housing projects. On-site visits are conducted by project managers and staff inspectors prior to the release of construction related payments.

**Comment 1**

While your audit focused on fiscal years 2004 and 2005, your finding primarily pertains to a project that was funded in 2001 and earlier. The report specifically states that the City did not always disburse funds efficiently and effectively in accordance with applicable rules and regulations and did not have a financial management system which safeguarded the funds. The report further makes several points, each of which are addressed below:

**Point 1 – The City did not enter into a contract with a Community Housing Development Organization or ensure that adequate financing was available – Urban League of Hudson County (█ Grand Street).**

**Comment 2**

**Response:** The City did enter into a contract with the Urban League of Hudson County. However, the contract was misplaced and a replacement agreement was executed. As a policy, the City does not release grant funds without entering into an agreement with funded agencies. All funds disbursed for the project in question were sufficiently supported with proper back-up documentation. In addition, an on-site inspection was performed by the project manager and senior inspector prior to the release of grant funds. As a practice, construction draw downs are initiated by the senior inspector after verifying that the work is in place.

As noted in your correspondence, the City reserved \$650,000 in HOME funds for █ Grand Street in program year 2001. The Urban League has experienced many obstacles in executing this project. Obstacles included, but were not limited to the following:

- Delays in obtaining clear title to the various properties that make up the project site.
- Additional environmental reviews, testing & abatement of assembled properties, including bulk excavation of historical fill.
- Demolition of existing buildings on site, and weatherproofing of adjacent attached buildings.
- The discovery of a sewer line easement across the property, as well as related site utility connection complications.



Re: HOME Investment Partnerships Program (HOME)  
May 15, 2007  
Page 3

- Difficulty with finding a lender comfortable with underwriting a transitional housing facility for veterans.

■ Grand Street is a fairly complicated and unique project. In an effort to keep the project moving, the Urban League chose to approach the project in two (2) phases. The initial phase was primarily funded by New Jersey State Shelter Support. The City (HOME) and Veteran's Administration (VA) covered a portion of the cost.

**Comment 3**

During the past few years, the Urban League has been in communication with various lenders to secure financing. The City had numerous meetings with the Urban League and/or prospective lenders regarding this project. The Urban League previously received a conditional commitment from a local lender. However, the Urban League received a more favorable offer from the New Jersey Housing, Mortgage and Finance Agency (NJHMFA). During the past few months, the Urban League has been in communication with NJHMFA to complete the requirements of their review process. (See attached correspondence dated May 14, 2007.)

**Comment 3**

The City is confident that the Urban League will secure the necessary financing to bring this project to fruition. All agencies, including the City, agree that this is a worthwhile endeavor. The City has never wavered on its commitment to this project. This is further reinforced by the City's recent commitment of nearly \$1,000,000 in Affordable Housing Trust Funds for the veteran's housing project.

**Point 2 - \$78,073 in Disbursed Funds was not secure**

**Comment 4**

**Response:** The City originally funded a non-profit developer to create affordable housing at ■ Astor Place and ■ Monticello Avenue. The developer completed the construction of ■ Astor Place. The cost to complete the construction of this property had increased substantially due to delays. This led to the disbursement of additional funds above what was originally secured by a mortgage. In order to secure this increased amount, a mortgage modification would be necessary. The City will make every effort to have the owner execute a mortgage modification.

**Point 3 – The City Failed to Repay Funds to the HOME Investment Trust Fund when Two Rehabilitation Projects were Terminated**

**Comment 5**

**Response:** It is important to note that the City only terminated one (1) of two (2) rehabilitation projects. The two (2) projects in question are ■ Monticello Avenue and ■ Grand Street. The City did cancel ■ Monticello Avenue; however, the City never cancelled ■ Grand Street. It was necessary to cancel ■ Monticello Avenue because project costs had increased substantially due to numerous delays. This project required an additional investment in HOME funds that would have exceeded the 221d3 limits. The City acknowledges that we must repay the \$13,316 in HOME funds for this project that was cancelled in 2005.

As previously stated, the City did not cancel ■ Grand Street. The project was originally funded as a rehabilitation project. Unfortunately, the building collapsed during construction and it had to be demolished.

Re: HOME Investment Partnerships Program (HOME)  
May 15, 2007  
Page 4

This resulted in the developer modifying the original plans for the project. This unfortunate occurrence delayed the project for a few years. Throughout this delay, the City remained committed to developing affordable housing at █ Grand Street. There was no reason for the City to reimburse the HOME account for an active project that was delayed as a result of circumstances that were beyond the developer's and City's control.

When entering data in IDIS, the City clearly stated that the project was not completed due to the building collapse in 1998. We further stated that the project was being revised to newly constructed housing for veterans. This is stated under HUD Activity No. 503 and No. 423. While the City reported that the activity was completed in HUD Activity No. 423, we clearly noted that no units were created and we explained why. The City made every effort to be as transparent as possible to avoid misrepresenting what transpired. Perhaps there is another way to report such unforeseen occurrences in IDIS. The City would appreciate guidance from HUD to prevent such errors in the future. In spite of this reporting error, everything else in the City's IDIS data entry clearly notes that █ Grand Street was a modified project, not a cancelled project.

**Comment 6**

**Point 4 - Incorrect Information was Recorded in IDIS**

**Response:** Activity No. 503 was originally a rehabilitation project. When the City added additional funds to this activity in 2001, it appears that the activity was modified to reflect new construction. We now know that we should have created a new activity for the additional funds awarded to █ Grand Street in 2001. This has recently been done with the assistance of the IDIS Technical Support team (see attachment). We have segregated the rehabilitation activity (HUD Activity No. 503) from the new construction activity (HUD Activity No. 1340). HUD Activity No. 503 has been reclassified as a rehabilitation activity. The City has further corrected information recorded in IDIS to segregate the amounts committed and drawn for rehabilitation and new construction activities referenced above. Again, while the activity categories were not correctly classified, the City clearly noted the status of █ Grand Street.

**Comment 6**

As it relates to HUD Activity No. 423, this activity was reported as completed in 1998. However, the narrative specifies that the rehabilitation was not completed because the building collapsed. Also, there were no units reported as having been completed. HUD staff is well aware of when units are produced as it would be noted in IDIS. Again, the City was very transparent in the accomplishments narrative for this project. We clearly stated that the project was revised. This activity was set up in 1995 and IDIS was very new to Grantees. We will check with IDIS Technical Support to find out if we can reclassify this activity as Acquisition and Rehabilitation.

**Comment 6**

While the City is displeased with any findings, we recognize that your observations are limited to two (2) activities that were funded several years ago. As previously noted, the Division of Community Development (DCD) has implemented many systems to effectively and efficiently manage the HOME program. As the second largest entitlement City in the State of New Jersey, Jersey City takes its responsibility for administering HUD programs quite seriously. We recognize that our work impacts the residents of Jersey City.

Re: HOME Investment Partnerships Program (HOME)  
May 15, 2007  
Page 5

Many improvements have been made during the past few years and we intend to continue improving the overall quality of our HOME program. For example, the Division of Community Development has begun developing a HOME Program manual that will serve as a guide for managing the HOME program. The manual will be instrumental in assisting staff to effectively manage all aspects of the HOME program.

We are proud of our accomplishments in managing the City's HOME program. Also, we recognize that there is always room for improvement. As noted above, the Division of Community Development is taking additional steps to improve the overall efficiency and effectiveness of the HOME program.

Sincerely,



**Darice Toon**  
**Director**

cc: Barbara A. Netchert, Director – HEDC  
Brian O'Reilly, Business Administrator - City of Jersey City

Attachments

DT:sam

## OIG Evaluation of Auditee Comments

**Comment 1** City officials state that although the audit focused on fiscal years 2004 and 2005, the finding primarily pertains to a project that was funded in 2001 and earlier. However, it should be noted that the scope and methodology section of this report provides that the audit generally covered the period between April 1, 2004 and March 31, 2006, and was expanded as necessary. Thus we audited transactions that occurred before and after the audit period as deemed necessary.

**Comment 2** City officials stated that the City did enter into a contract with the Urban League, a community housing development corporation (CHDO) for the new construction project, but the contract was misplaced and a replacement agreement was executed. They also state that the City does not release grant funds without an agreement and all disbursements were properly supported. In addition, site inspections were performed prior to the release of funds.

However, the City did not provide us with or maintain a copy of the original agreement as required by the regulations. 24 CFR 92.508 (a) (4) (i) and (iv) requires a participating jurisdiction to maintain written agreements reserving HOME funds to the community housing development organization (CHDO) and records demonstrating that each CHDO complies with written agreements. Further, the replacement agreement referred to by the City was obtained after we started our review, and was dated December 2006. The replacement agreement was incomplete and did not contain a reason why the replacement agreement was executed nor did it include timeframes, deadlines or key milestones. Thus, the City disbursed \$354,581 of HOME funds without having a documented signed agreement, had no legally binding record of the construction work that was to be completed, and had no basis to effectively monitor the progress and performance of the CHDO. Without this information, the City's ability to conduct progress monitoring was limited. In addition, City officials did not provide any documents to support that an on-site inspection was performed by the project manager and senior inspector before the release of grant funds.

**Comment 3** The City is confident that the Urban League will secure the necessary financing to bring this project to fruition. Although the Urban League received correspondence from the New Jersey Housing and Mortgage Finance Agency, dated March 14, 2007, indicating that the project meets eligibility requirements, no funding has been provided and it appears to be contingent on the Urban League's finalizing funding from all other sources. Thus, the project's progress has been impacted by the Urban League's inability to secure financing from program year 2001 to present and therefore its ability to complete the construction work is highly uncertain and it might jeopardize completion of the project.

**Comment 4** The auditee's comments are responsive to the recommendations in the finding.

**Comment 5** City officials agreed that the rehabilitation of one project had been cancelled and acknowledge the City must repay \$13,316. However, City officials stated that the other project was not cancelled or terminated, but was modified from a rehabilitation project to a new construction project after the building's collapse. City officials stated that there was no reason to reimburse the HOME program for an active project that was delayed as a result of circumstances that were beyond the developer's and City's control. This rehabilitation project should be considered as an involuntarily terminated project. Regulations at 24 CFR 92.205 (e) states that "a HOME assisted project that is terminated before completion, either voluntarily or otherwise, constitutes an ineligible activity and any HOME funds invested in the project must be repaid." City officials did not provide any evidence to show that before committing funds and executing a written agreement with the Urban League, the building's physical condition and structure was evaluated to determine if the building could be successfully rehabilitated. As such, without evidence of an inspection the City cannot assure us that the structure of the building was sound or whether the building collapse was an unforeseen occurrence. Based on property transfer records that we obtained, the Urban League had purchased the building in July 1997, and building had to be demolished within ten months of the purchase of the building.

**Comment 6** City officials indicated that they made every effort to be as transparent as possible in reporting in IDIS on the rehabilitation projects and that HUD staff were aware of the status of the various projects. However, our review of the IDIS Status of HOME activities report as of July 15, 2006, September 05, 2006 and December 18, 2006 reported the status of the rehabilitation project (IDIS activity number 423) as completed. According to HUD staff, it should have been shown as a cancelled activity instead of as a completed activity otherwise it provides misleading information that the project was completed and produced affordable housing units as indicated in the report.