



Issue Date September 22, 2011
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Audit Report Number 2011-PH-1015
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TO: Annemarie C. Uebbing, Director, Office of Community Planning and Development, Newark Field Office, 2FD

FROM: //signed//  
John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: Camden County, NJ, Generally Administered Its Community Development Block Grant Recovery Act Funds According to Applicable Requirements

## **HIGHLIGHTS**

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

We audited Camden County, NJ's administration of its Community Development Block Grant funds that it received under the American Recovery and Reinvestment Act of 2009. We selected the County for an audit because we received two complaints alleging that the County misused Recovery Act funds and because of our mandate to audit Recovery Act activities. Our objective was to determine whether the County obligated, expended, and reported its Block Grant funds provided under the Recovery Act according to the Recovery Act and applicable U.S. Department of Housing and Urban Development (HUD) requirements.

### **What We Found**

The County generally administered its Block Grant Recovery Act funds in accordance with the Recovery Act and applicable HUD requirements. However, it (1) approved a subrecipient to execute a change order for work which was outside the scope of the original contract, (2) could not demonstrate that the

subrecipient performed a cost analysis for the change order work items, (3) did not ensure that a subrecipient fully complied with the Davis-Bacon Act, and (4) did not accurately report job creation information on the Federal reporting Web site. We found no evidence to substantiate the alleged misuse of Recovery Act funds.

### **What We Recommend**

We recommend that HUD require the County to (1) provide documentation to demonstrate that \$37,610 expended for work performed under a change order was fair and reasonable or reimburse HUD from non-Federal funds for any amount it cannot support, (2) require a contractor to pay \$1,041 to an employee to whom it paid less than the prevailing wage, and (3) report accurate job creation information for the reporting period ending September 30, 2011.

For each recommendation in the body of the report 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 provided a draft audit report to the County on September 12, 2011, and discussed it with the County at an exit conference on September 14, 2011. The County provided written comments to the draft report on September 16, 2011. It agreed with the conclusions and recommendations in the report. The complete text of the County's response can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVE

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Camden County, NJ, is a Community Development Block Grant entitlement grantee. The U.S. Department of Housing and Urban Development (HUD) annually awards grants to entitlement grantees to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. The County consists of 37 municipalities, governed by a seven-member board of chosen freeholders. The County manages its community development programs through its Community Development Program office located at 512 Lakeland Road, Blackwood, NJ. The director of the Community Development Program office is Gino Lewis.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. The purpose of the Recovery Act was to jumpstart the Nation's ailing economy, with a primary focus on creating and saving jobs in the near term and investing in infrastructure that will provide long-term economic benefits. This legislation included a \$1 billion appropriation of community development funds to carry out Block Grant programs as authorized under Title 1 of the Housing and Community Development Act of 1974.

On July 29, 2009, the County received \$690,882 in Block Grant funds under the Recovery Act. The County planned to use the grant funds on the following 11 activities:

Activity	Amount obligated
Winslow Township senior center photovoltaic system <sup>1</sup>	\$275,000
Collingswood curb cuts	125,000
Supplemental funding for County's peer grouping system	73,000
Grant and program administration	68,922
Pine Hill senior center heating, ventilation, and air conditioning replacement	42,460
Chesilhurst removal of barriers	41,500
Food Bank of South Jersey	20,000
Brooklawn senior center window replacement	15,000
Audubon senior center elevator installation	10,588
AIDS Coalition of Southern New Jersey employment training	10,000
Barrington senior center window replacement	9,412
<b>Total</b>	<b>\$690,882</b>

The Recovery Act imposed additional reporting requirements and more stringent obligation and expenditure requirements on the grant recipients beyond those applicable to the ongoing Block Grant program grants. Transparency and accountability were critical priorities in the funding and implementation of the Recovery Act.

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<sup>1</sup> A photovoltaic system is a solar panel system.

Our objective was to determine whether the County obligated, expended, and reported its Block Grant funds provided under the Recovery Act according to the Recovery Act and applicable HUD requirements.

## RESULTS OF AUDIT

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### Finding: The County Generally Administered Block Grant Funds in Accordance With Applicable Requirements

The County generally obligated, expended, and reported its Block Grant funds in accordance with the Recovery Act and applicable HUD requirements. However, it (1) approved a subrecipient to execute a change order for work which was outside the scope of the original contract, (2) could not demonstrate that the subrecipient performed a cost analysis for the change order work items, (3) did not ensure that a subrecipient fully complied with the Davis-Bacon Act, and (4) did not report accurate job creation information on the Federal reporting Web site. These conditions occurred because the County did not fully understand HUD procurement and job reporting requirements and it overlooked the wage rate discrepancy. As a result, it could not demonstrate that its expenditure of \$37,610 for materials and services was fair and reasonable, a contractor's employee was underpaid \$1,041, and job creation information that it reported on the Federal reporting Web site was understated.

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#### **The County Submitted an Amended Action Plan as Required**

In June 2009, the County submitted a substantial amendment to its fiscal year 2008 annual action plan as required. The annual action plan outlined the activities the County would undertake using the Block Grant funds it received. The substantial amendment to the fiscal year 2008 annual action plan was required to record the activities the County planned to undertake using its Block Grant Recovery Act funds. All of the activities that the County included in its amended action plan were eligible to be funded with its Recovery Act grant, including curb cuts and solar panel activities. The curb cut activity consisted of the removal of barriers at intersections along Haddon Avenue in the Borough of Collingswood to allow for handicap access and encourage disabled persons to participate in local community events, which would improve their quality of life. The solar panel activity included the installation of solar panels, which would use the sun's natural energy to provide heat and hot water for the senior center located in Winslow Township. The following pictures show some of the work completed by the County with its Recovery Act funds.



Before (left) and after (right) pictures illustrate the installation of curb cuts along Haddon Avenue in Collingswood (completed).



Before (left) and after (right) pictures illustrate the installation of a solar panel system at the Winslow Township senior center (completed).

**The County Complied With Obligation and Expenditure Deadlines**

The Recovery Act required the County to obligate 100 percent of its grant by September 30, 2011, and expend 100 percent of these funds by September 30, 2012. As of July 2011, the County had obligated and expended 100 percent of its grant. The County maintained documentation submitted by its subrecipients, such as contractor invoices, to support its expenditures. The documentation adequately supported the payments.

**The County Generally Complied With Procurement Requirements**

The County generally complied with HUD procurement regulations and guidance. We reviewed two contracts, valued at \$344,718, for the curb cut and senior center solar panel system activities. The County entered into subrecipient agreements

with its municipalities for these activities. During our review of the two contracts, we found that the subrecipients

- Complied with HUD guidance for implementing the “buy American” requirement of the Recovery Act in HUD Office of Community Planning and Development Notice CPD-09-05.
- Received an adequate number of bids to ensure that it awarded contracts competitively as required by 24 CFR (Code of Federal Regulations) 85.36. The subrecipients advertised and competitively awarded the contracts and had sufficient documentation to support the procurement.

### **The County Did Not Identify an Improper Change Order**

The County approved Winslow Township to execute a change order for work which was outside the scope of the original contract. The Township issued a change order totaling \$37,610 on the contract for the solar panel system at the senior center. The change order included the following work items: install a fence to surround the solar panels, replace a hot water boiler, and install variable speed circulator pumps. The replacement of the hot water boiler and installation of the variable speed circulator pumps, valued at \$27,380, were outside the scope of the original contract. Change orders should not be made to materially expand the scope of a project as it was originally described in the bid specifications. The subrecipient agreement required the Township to administer and implement the project in accordance with all applicable Federal and State laws and regulations. New Jersey public contract administration code requires change orders to be used to address unforeseen circumstances that were not apparent at the time the specifications were written and the contract was awarded. Since these work items were outside the scope of the original contract, the Township should have executed a new procurement action. Federal small purchase procedures require price or rate quotations from an adequate number of qualified sources for purchases of less than \$100,000. New Jersey local public contract law requires sealed bidding procedures to be used for purchases of more than \$25,000.

In addition, the Township did not perform a cost analysis for the work items included in the change order. Regulations at 24 CFR 85.36(f)(1) require a cost analysis when adequate price competition is lacking, including change orders. This condition occurred because the County misinterpreted HUD procurement requirements and the use of change orders. Because the Township improperly contracted for services and failed to perform a cost analysis on the change order, there was no assurance that it received a fair and reasonable price for the work performed. As a result, the expenditure of \$37,610 was unsupported.

### **The County Generally Ensured Compliance With Davis-Bacon Act Requirements**

The Recovery Act required that all laborers and mechanics be paid the prevailing wage rates in accordance with the Davis-Bacon Act. HUD Handbook 1344.1, REV-1, required the County to perform wage interviews and review the contractor's weekly payrolls. The County complied with these requirements. However, it did not ensure that a subrecipient fully complied with the Davis-Bacon Act. A backhoe operator working on the curb cut activity was not paid the minimum Davis-Bacon wage rate. The operator was underpaid \$1,041 over the 12-week period during which he worked on this activity. The County overlooked this discrepancy.

### **The County Did Not Report Accurate Job Creation Information**

The County did not accurately report the number of jobs created or retained as a result of its Recovery Act activities.<sup>2</sup> Guidance issued in Office of Management and Budget (OMB) Memorandum 10-08, dated December 18, 2009, defines jobs created or retained as jobs funded during the quarter by the Recovery Act expressed as full-time equivalents. The memorandum also provides guidance on how to calculate full-time equivalents. Full-time equivalents were to be estimated by dividing the total number of hours worked and funded by the Recovery Act within the reporting period by the quarterly hours in a full-time schedule.

For the reporting period October 1 through December 31, 2010, the County reported no jobs created or retained, although it expended \$185,961 during that period. The County reported zero jobs created because it was unsure of how to report job creation information. It acknowledged that some job creation should have been reported. The County also reported no jobs created or retained during the period January to June 2011, although it had expended all of its grant funds as of July 2011. The County needs to report accurate job creation information for the reporting period ending September 30, 2011. This would be the last reporting period for the County because it expended the remaining balance of its grant funds during the quarter. OMB Memorandum 10-34, dated September 24, 2010, does not allow recipients to make changes to the number of jobs in prior reports.

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<sup>2</sup> Grant recipients are required to report spending and performance data, including estimates of the number of jobs created and retained, on the Federal reporting Web site, [www.recovery.gov](http://www.recovery.gov).

## Conclusion

The County generally administered its Block Grant Recovery Act funds in accordance with the Recovery Act and applicable HUD requirements. The conditions identified by the audit occurred because the County did not fully understand HUD procurement and job reporting requirements and it overlooked the wage rate discrepancy. As a result, it could not demonstrate that its expenditure of \$37,610 for materials and services was fair and reasonable, a contractor's employee was underpaid \$1,041, and job creation information that it reported on the Federal reporting Web site was understated. To resolve the issues identified by the audit, the County needs to (1) demonstrate that \$37,610 expended for work performed under a change order was fair and reasonable, (2) require a contractor to pay \$1,041 to the employee to whom it paid less than the prevailing wage, and (3) report accurate job creation information for the reporting period ending September 30, 2011.

## Recommendations

We recommend that the Director of HUD's Newark Office of Community Planning and Development require the County to

- 1A. Provide documentation to demonstrate that \$37,610 expended for work performed under a change order was fair and reasonable or reimburse its program from non-Federal funds for any amount that it cannot support.
- 1B. Require the contractor that performed the curb cuts to pay \$1,041 to the employee to whom it paid less than the prevailing wage.
- 1C. Report accurate job creation information for the reporting period ending September 30, 2011.
- 1D. Provide training to its subrecipients on the proper use of contract change orders.

We also recommend that the Newark Office of Community Planning and Development

- 1E. Provide technical assistance to the County regarding the proper use of contract change orders and reporting accurate job creation information on the Federal reporting Web site.

## SCOPE AND METHODOLOGY

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We conducted the audit from May through September 2011 at the County's office located at 512 Lakeland Road, Blackwood, NJ, and at our office located in Philadelphia, PA. The audit covered the period February 2009 through May 2011 but was expanded when necessary to include other periods.

To achieve our audit objective, we

- Obtained relevant background information.
- Reviewed the Recovery Act, OMB implementation guidance, and applicable HUD regulations and guidance.
- Reviewed minutes from the meetings of the County's board of chosen freeholders.
- Reviewed the County's policies and procedures related to procurement, monitoring, and reporting of grant funds, expenditures, and disbursements.
- Reviewed the County's fiscal year 2009 audited financial statements.
- Interviewed relevant County staff and officials from HUD's Newark Office of Community Planning and Development.
- Reviewed relevant subrecipient agreements, monitoring and reporting records, and financial records.
- Selected the Winslow Township senior center solar panel system and Collingswood curb cut activities for review from the list of 11 activities the County included in its substantial amendment to its fiscal year 2008 annual action plan because the total amount of funds budgeted to those activities (\$400,000) represented 57 percent of the \$690,882 grant.
- Reviewed both contracts, valued at \$344,718, for the senior center solar panel system (1 contract, \$251,510) and curb cut activities (1 contract, \$93,208).
- Reviewed \$333,262 in expenditures (48 percent of the grant amount) as of July 2011 for the curb cut and senior center solar panel system activities. The payments were supported by 27 invoices and other supporting documentation.
- Reviewed the County's 2010 and 2011 quarterly reports on the Federal reporting Web site.

- Physically verified that the installation of the solar panel system, the replacement of the boiler, and the installation of the variable speed pumps at the senior center were completed and that curb cuts were completed.
- Reviewed all 24 payrolls associated with the 2 contracts valued at \$344,718 for the curb cut (11 payrolls) and senior center solar panel system (13 payrolls) activities to determine whether the County ensured that its subrecipients complied with Davis-Bacon Act requirements.

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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Policies and procedures that the County implemented to ensure that activities met established program objectives and requirements.
- Policies and procedures that the County implemented to ensure that resource use was consistent with applicable laws and regulations.

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

## APPENDIXES

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### Appendix A

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

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Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A	\$37,610	
1B		\$1,041

- 1/ 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.
- 2/ 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. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the County implements our recommendation, it will ensure that an employee is paid the minimum Davis-Bacon wage rate and meet a primary objective of the Recovery Act.

## Appendix B

### AUDITEE COMMENTS

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#### Department of Economic & Workforce Development

**Louis Cappelli, Jr.**  
Freeholder Director  
Department Liaison

**Gino A. Lewis**  
Program Director  
E-mail: [glewis@camdencounty.com](mailto:glewis@camdencounty.com)

Friday, September 16, 2011

U.S. Department of Housing and Urban Development  
Office of Inspector General  
Wanamaker Building  
100 Penn Square East, Suite 10205  
Philadelphia, PA. 19107-3380  
Attention: John P. Buck, Regional Inspector General for Audit

Dear Mr. Buck,

The purpose of this letter is to respond to the exit conference held at our office to discuss CDBG-R audit.

Our office accepts the finding in the audit report. Pending further recommendations from HUD Newark Office, we will respond to your recommendations with the following actions:

1A.- County will have County engineer or project engineer review change order for the Winslow Township project to verify that cost was fair and reasonable for the work performed under change order.

1B.- County will notify contractor of employee underpayment in the amount of \$1,041.00. Require contractor to pay employee \$1,041.00, provide proof of payment, a notarized statement from employee of payment, and submit adjusted payroll certifications.

1C.-County will review payroll records of CDBG-R projects for job creation or retention information. Make corrections to Federalreporting.com. We are aware that the County may not be able to revise previous report data. If that is the situation we will provide current quarterly report information and provide revision information in comment section of current quarterly report.

1D.- County will provide training to sub-recipients on the proper use of contract change orders.

I would like to commend Gregory Burgwald and Ronald Lloyd on their professionalism and cooperation during the audit.

We will wait for notification and recommendations from the HUD Newark field office before the County will proceed with recommended actions to correct finding recommendations.

Please contact me if you have any questions

Gino A. Lewis  
Director

#### Community Development Block Grant Program

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