



Middlesex County, NJ

HOME Investment Partnerships Program



Issue Date: June 10, 2014

Audit Report Number: 2014-NY-1005

TO: Anne Marie Uebbing
Director, Office of Community Planning and Development, Newark Field Office,
2FD

//SIGNED//

FROM: Edgar Moore
Regional Inspector General for Audit, New York-New Jersey Region, 2AGA

SUBJECT: Financial and Administrative Control Weaknesses Existed in Middlesex County,
NJ's HOME Investment Partnerships Program

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final audit report on our review of Middlesex County, NJ's HOME Investment Partnerships 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 212-264-4174.



Highlights

Audit Report 2014-NY-1005

June 10, 2014

Financial and Administrative Weaknesses Existed in the Middlesex County, NJ, HOME Investment Partnerships Program

What We Audited and Why

We audited Middlesex County, NJ's HOME Investment Partnerships Program based on a risk analysis that considered funding, the U.S. Department of Housing and Urban Development's (HUD) risk score, and prior Office of Inspector General audits. The audit objective was to determine whether County officials established and implemented adequate controls over their HOME program to ensure that program funds were expended and administered for eligible activities in accordance with HUD regulations.

What We Recommend

We recommend that HUD instruct County officials to (1) provide support showing that \$833,706 was committed in a timely manner, (2) reimburse the County's HOME program line of credit from non-Federal funds for \$24,979 in ineligible costs and any unsupported amount of the allocated costs of \$220,322, (3) record liens or other appropriate notices of record on HOME-assisted properties to ensure that HUD's and the County's \$980,436 interest in these properties is protected, and (4) provide support showing that officials complied with eligibility requirements at the time of the initial certification and recertification of its community housing development organization (CHDO).

What We Found

County officials did not always expend and administer HOME program funds in compliance with program requirements. Specifically, they lacked support to show that funds were committed in accordance with regulations and expended for eligible activities, HUD's and the County's interest in HOME-assisted properties was protected, and a CHDO was properly organized. We attribute these deficiencies to County officials' inadequate financial and administrative controls. Consequently, \$833,706 was not committed in a timely manner as required; \$24,979 and \$220,322 in HOME funds were expended for ineligible and unsupported activities, respectively; HUD's and the County's interest in \$980,436 in HOME-assisted properties was not protected; and the County lacked documentation showing that a CHDO was properly organized.

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BACKGROUND AND OBJECTIVE

The HOME Investment Partnerships Program, authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, is designed to create affordable housing opportunities for low-income households. The HOME program is the largest Federal block grant to State and local governments, through which the U.S. Department of Housing and Urban Development (HUD) has allocated approximately \$2 billion annually in formula grants to the States and hundreds of localities nationwide. Grantees are required to provide matching funds of 25 percent from non-Federal sources. HOME program regulations are found at 24 CFR (Code of Federal Regulations) Part 92. HUD has provided additional program guidance in its guidebook, entitled “Building Home,” dated March 2008.

Grantees are allowed flexibility to use HOME funds for a broad range of eligible purposes to address local housing needs and assist eligible homeowners. A purpose can include many activities, such as home purchase or rehabilitation financing assistance, building or rehabilitating housing for rent or ownership, or other reasonable and necessary expenses related to the development of nonluxury housing, including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted developments, and payment of relocation expenses.

HUD awarded Middlesex County more than \$2, \$1.7, and \$1 million in HOME funds for program years 2010, 2011, and 2012, respectively.¹ The County designated the Division of Housing, Community Development, and Social Services under the Department of Community Services to administer its HOME program. The County is governed by a seven-member board of chosen freeholders, who are elected at large in the November general elections to 3-year terms.

The County’s HOME program disbursed more than \$4.2 million in HOME funds during program years 2010 through 2012 to assist different types of housing activities, including first-time home buyer and rental housing activities. Approximately \$1.5 million, or 34.5 percent, was used for first-time home buyer activities, and approximately \$2.3 million, or 55 percent, was used for rental housing activities. The remaining approximately \$400,000 was used for HOME administration.

The objective of the audit was to determine whether County officials established and implemented adequate controls over their HOME program to ensure that program funds were expended and administered for eligible activities in accordance with HUD regulations.

¹ The County’s program year begins on July 1 of each year and ends on June 30 of the next year.

RESULTS OF AUDIT

Finding 1: There Were Weaknesses in the County's HOME Program Financial Controls

County officials lacked support showing that their HOME program funds were always committed and expended in accordance with HOME program regulations. We attribute this condition to weaknesses in the County's financial controls over maintaining documentation to support the commitment and expenditure of HOME funds, and unfamiliarity with regulations related to allocating expenses to the benefiting programs. As a result, County officials lacked adequate documentation to provide assurance that \$833,706 in HOME funds was committed and expended in accordance with regulations, \$24,979 was expended for eligible activities, and \$220,322 charged to the HOME program for an employee's salary was properly allocated.

The County Lacked Documentation to Properly Support the Commitment of Funds

County officials lacked documentation to show that \$833,706 in HOME funds was committed in a timely manner in compliance with regulations. Regulations at 24 CFR 92.500(d)(1)(B) provide that HOME funds not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnerships Program agreement should be recaptured. Regulations at 24 CFR 92.2 provide that HOME funds are committed when the participating jurisdiction executes a legally binding agreement to use a specific amount of HOME funds.

County officials reported in HUD's Integrated Disbursement and Information System (IDIS)² that they obtained commitments of \$88,100 in a timely manner: \$7,500 in program year 2008 HOME funds for one activity, \$46,100 in program year 2009 HOME funds for six activities, \$29,500 in program year 2010 HOME funds for four activities, and \$5,000 in program year 2011 HOME funds for one activity. However, these activities were later canceled, and County officials had not updated IDIS to reflect the cancellations and lacked documentation to show that the funds had been recommitted for other eligible activities in a timely manner.

In addition, County officials reported in IDIS that \$1.1 million in program year 2011 HOME funds was committed in a timely manner for five activities.

² IDIS is the HUD system through which grantees can draw down their awarded funds and report on what is accomplished with these funds.

However, they lacked executed written agreements, as required, to support the commitment of \$745,606 in activities. We attribute these conditions to weaknesses in the County's financial procedures that did not require it to adequately document commitments to support that they were made in a timely manner, and that funds for canceled activities were deobligated. As a result, the County could not assure HUD that HOME funds were committed within 24 months as required.

The County Disbursed Funds for Ineligible Costs

County officials disbursed HOME funds for ineligible costs. Regulations at 24 CFR 92.616(i) provide that funds disbursed for first-time home buyer activities must be supported by records documenting that the recipient family qualifies as a first-time home buyer. However, County officials drew down \$23,600 for three first-time home buyers who were not income eligible for HOME program assistance. We attribute this condition to weaknesses in the County's verification procedures to ensure that applicants for HOME program assistance were eligible.

In addition, County officials drew down \$1,379, representing \$1,125 that was to be paid from its Community Development Block Grant program and \$254 that was to be paid from the Homelessness Prevention and Rapid Re-Housing Program stimulus funds, which was ineligible as a HOME program administrative cost. We attribute this condition to weaknesses in the County's procedures for reviewing HOME expenditures to ensure that all expenditures complied with program regulations. As a result, HUD lacked assurance that HOME funds charged to the program were for eligible costs.

The County Lacked Documentation for the Allocation of Costs

County officials lacked documentation supporting the allocation of HOME funds for the salary of an employee who worked on both the HOME and Housing Choice Voucher programs. Regulations at 2 CFR Part 225, appendix B, section 8(h)(4), provide that if employees work on multiple activities or more than one Federal award, a distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation. However, County officials charged the HOME program for the employee's total salary of \$220,322 expended during the audit period. We attribute this condition to County officials' unfamiliarity with regulations related to allocating expenses to the benefiting programs. As a result, County officials could not ensure that this employee's salary was properly allocated to the benefiting programs.

Conclusion

County officials lacked support showing that their HOME program funds were always committed and expended in accordance with program regulations. As a result, they lacked assurance that (1) \$833,706 in HOME funds was committed and expended in accordance with regulations for eligible costs, (2) \$24,979 was expended for eligible activities, and (3) \$220,322 charged to the HOME program for an employee's salary was properly allocated to the benefiting programs. We attribute this condition to weaknesses in the County's financial controls over maintaining documentation to support the commitment and expenditure of HOME funds in a timely manner, and unfamiliarity with regulations related to allocating expenses to the benefiting programs.

Recommendations

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

- 1A. Adjust IDIS to reflect that the 12 activities, for which \$88,100 in HOME funds was drawn down, were canceled and provide documentation supporting that the \$88,100 was committed to other eligible activities in a timely manner as required. If supporting documentation cannot be provided, the amount should be recaptured in accordance with regulations at 24 CFR 92.500(d)(1)(B).
- 1B. Provide documentation supporting that \$745,606, drawn down for activities without evidence of executed agreements, was committed in a timely manner as required. If supporting documentation cannot be provided, the amount should be recaptured in accordance with regulations at 24 CFR 92.500(d)(1)(B).
- 1C. Strengthen controls over the commitment of HOME funds to provide greater assurance that these funds will be committed in a timely manner, properly supported by executed written agreements, and canceled in IDIS when the funds are not disbursed.
- 1D. Reimburse the County's HOME program line of credit \$24,979 from non-Federal funds for the ineligible first-time home buyer expenses and administrative costs incurred.
- 1E. Strengthen the County's financial controls to provide greater assurance that costs charged to the HOME program are eligible.

- 1F. Provide a basis to support a reasonable allocation of the employee's salary costs of \$220,322 charged to the HOME program and reimburse the HOME program line of credit for any excess costs charged.
- 1G. Establish and implement a reasonable basis for the allocation of salary costs for employees who work on more than the HOME program to ensure that each program bears its fair share of the costs.

Finding 2: There Were Weaknesses in the County’s HOME Program Administrative Controls

County officials did not always comply with HOME program administrative requirements. Specifically, they lacked support showing that documents were executed to protect HUD’s interest in HOME-assisted properties, a community housing development organization (CHDO) was properly organized, and subrecipients were monitored as required. We attribute this condition to weaknesses in record-keeping procedures. As a result, HUD lacked assurance that its and the County’s \$980,436 interest in properties that were provided HOME assistance was protected, and that funds were disbursed for eligible activities in accordance with program regulations.

Activity Files Lacked Required Documentation

Our review of County files for 3 of 4 rental housing activities and 13 of 25 first-time home buyer activities, for which HOME funds of \$980,436 were provided, revealed that the files lacked documentation required by program regulations. We attribute this condition to weaknesses in the County’s administrative procedures designed to ensure that the required documents were reviewed and maintained to support HOME program expenditures. The table below shows the number of files missing required documentation.

Schedule of files lacking required documentation

IDIS activity	Form HUD-1, mortgage, mortgage note, or lien or deed restriction ³	Written agreement without all required provisions ⁴	Unsigned or undated written agreements	Lead-based paint report ⁵	Housing quality inspection report
Rental housing					
1304	X				
1667	X		X		
1800	X				

³ Regulations at 24 CFR 92.508(a)(3)(vii) and (xi) require that each participating jurisdiction establish and maintain sufficient records to enable HUD to determine whether each home-ownership and rental housing project meets the affordability requirements of regulations at 24 CFR 92.252 and 92.254 for the required period.

⁴ Regulations at 24 CFR 92.504(c)(5)(i) require that funds disbursed for first-time home buyer activities be supported by a written agreement that conforms to the requirements in regulations at 24 CFR 92.254(a) and specifies the value of the property and the time by which the housing must be acquired.

⁵ Regulations at 24 CFR 92.508(a)(3)(iv) require that records be maintained demonstrating that each project meets the property standards of 24 CFR 92.251 and the lead-based paint requirement of 24 CFR 92.355.

IDIS activity	Form HUD-1, mortgage note, or lien or deed restriction ³	Written agreement without all required provisions ⁴	Unsigned or undated written agreements	Lead-based paint report ⁵	Housing quality inspection report
Home buyer					
1594		X			
1603		X		X	
1616		X		X	X
1641		X		X	
1660		X			X
1662	X	X		X	X
1669		X		X	X
1670	X	X			
1806	X	X		X	X
1818		X			
1861		X			
1894		X		X	
1930		X			
Total	6	13	1	7	5

Without the required documents to support the activities, County officials could not provide HUD assurance that its and the County's \$980,436 interest in the assisted properties would be protected, and that the activities were eligible and carried out in compliance with HOME program requirements.

A CHDO Lacked Supporting Documentation

The County's files lacked required documentation showing that one of its three CHDOs was properly organized to qualify as a CHDO. Regulations at 24 CFR 92.2 define a CHDO as a private nonprofit organization that maintains accountability to low-income community residents by maintaining at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of a low-income neighborhood organization. However, neither the initial certification file nor the recertification file for one CHDO contained documentation to support that this requirement had been met. We attribute this condition to weaknesses in the County's procedures for ensuring that all documentation required for CHDO certification is reviewed and maintained. As a result, the County could not assure HUD that HOME funds were provided to an eligible CHDO.

The County Lacked Documentation Showing That Subrecipients Were Monitored

County officials lacked documentation showing that their subrecipients were monitored as required during program years 2010 through 2012. 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 and that the performance of each contractor and subrecipient must be reviewed at least annually. County policy provided for the monitoring of all program activities to ensure compliance with applicable HUD regulations and requirements, including compliance with executed grant agreements and contracts, and the review of subrecipient audits as required. Further, inspections of construction and rehabilitation projects were to be performed before payment of vouchers, and inspections of social service providers were to be performed annually. In addition, rents and tenant incomes were to be annually monitored during the period of affordability for HOME-assisted projects. However, County officials did not provide records to document that the monitoring of subrecipients had been conducted. We attribute this condition to weaknesses in the County's record keeping, which prevented it from maintaining documentation showing that activities were monitored as required. As a result, the County lacked assurance that its subrecipients performed in accordance with HOME program requirements.

Conclusion

County officials did not always comply with HOME program administrative requirements related to maintaining file documentation, ensuring proper certification of a CHDO, and documenting that subrecipients were monitored as required. Consequently, they could not ensure that HUD's interest in HOME-assisted properties was protected, a CHDO was properly organized, and subrecipients complied with HOME program requirements. We attribute this condition to weaknesses in the County's record-keeping procedures to ensure that all required documents were reviewed and maintained in activity and CHDO files to ensure that HOME program funds were expended for eligible activities.

Recommendations

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

- 2A. Record liens or other appropriate notices of record on the real properties assisted with HOME funds to ensure that HUD's and the County's \$980,436 interest in these properties is adequately protected. If liens are not recorded, County officials should reimburse the County's HOME line of credit for the \$980,436 from non-Federal funds.

- 2B. Strengthen controls over file maintenance to provide greater assurance that HUD's interest in assisted properties is protected.
- 2C. Provide documentation to support that the CHDO in question complied with the eligibility requirements at the time of its initial certification and recertification. If the CHDO did not, the funds provided to it should be recouped and any additional funding should be dependent upon obtaining proper certification.
- 2D. Strengthen monitoring procedures to ensure that subrecipients are monitored at least annually.

SCOPE AND METHODOLOGY

The audit focused on whether County officials established and implemented adequate financial and administrative controls over the HOME program to ensure that HOME funds were expended and administered for eligible activities in accordance with HUD regulations. We performed the audit fieldwork from August 2013 to March 2014 at the County's office at 75 Bayard Street, New Brunswick, NJ.

To accomplish our objective, we

- Reviewed relevant HOME program requirements and applicable Federal regulations to gain an understanding of HOME program administration requirements.
- Interviewed HUD field office and County staff to gain an understanding of the County's program.
- Obtained an understanding of the County's management controls and procedures through analysis and testing of the County's responses to management control questionnaires.
- Reviewed the County's organizational chart for its HOME program and its HOME program policies, including home buyer, monitoring, and accounting policies.
- Reviewed the County's audited financial statements for the fiscal years ending December 31, 2010, and December 31, 2011, to identify trends and potential irregularities.
- Analyzed reports from IDIS to obtain HOME disbursement data for the audit period. Our assessment of the reliability of data included in IDIS reports was limited to the data sampled, which were reconciled to County records; therefore, we did not assess systems generating the data.
- Analyzed reports from LexisNexis⁶ to obtain information related to real properties assisted with HOME funds.
- Selected a sample of 30 activities funded with \$1.7 million during the period July 2010 to June 30, 2013, to test compliance with HOME program regulations. The activities consisted of 25 first-time home buyers, 4 rental activities, and 1 tenant-based rental activity. The results of this sample are limited to the items tested and cannot be projected to the universe of HOME-assisted properties.
- Reviewed bank statements for accounts used for the County's HOME program funds and traced payments and deposits listed on the statements to the County's accounting records and IDIS reports for its HOME program.

⁶ LexisNexis is a private provider of information that helps users verify a person's identity, comply with legislation, and support law enforcement and homeland security initiatives.

The audit generally covered the period July 1, 2010, through June 30, 2013, and was extended as needed to accomplish the objective.

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 had not implemented adequate internal controls to ensure that resources were always used in compliance with laws and regulations because they lacked documentation to show that HOME funds were committed in a timely manner (see finding 1).
- County officials had not implemented adequate internal controls to ensure that resources were always safeguarded against waste, loss, and misuse because HOME funds were used for unsupported and ineligible costs (see finding 1).
- County officials had not implemented adequate internal controls to ensure that valid and reliable data were always obtained, maintained, and fairly disclosed in reports because financial information included in the County's accounting records did not reconcile to IDIS (see finding 1).
- County officials had not implemented adequate internal controls to always ensure the achievement of program objectives because HOME activities were not always administered in compliance with program requirements and Federal regulations (see finding 2).

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			\$88,100
1B		\$745,606	
1D	\$24,979		
1F		\$220,322	
2A			\$980,436
	<u>\$24,979</u>	<u>\$965,928</u>	<u>\$1,068,536</u>


- 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.
- 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. 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 case, if the County provides documentation showing that the commitment of the \$88,100 was obtained in a timely manner, HUD can be assured that the funds were put to better use, and if liens are recorded on the assisted properties, HUD's interest in the properties, which were provided \$980,436 in HOME funding, will be protected.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

<p>Ronald G. Rios <i>Freeholder Director</i></p> <p>Carol Barrett Bellante <i>Deputy Director</i></p> <p>Kenneth Armwood Charles Kenny H. James Polos Charles E. Tomaro Bianquita B. Valenti <i>Freeholders</i></p>	 <p>COUNTY OF MIDDLESEX DEPARTMENT OF COMMUNITY SERVICES Office of Human Services</p>	<p>Bianquita B. Valenti <i>Chairperson, Community Services Committee</i></p> <p>John A. Pulomena <i>County Administrator</i></p> <p>Gery Mackenzie <i>Department Head</i></p> <p>Melyssa Lewis <i>Director</i></p>
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May 22, 2014

Mr. Edgar Moore
Regional Inspector General for Audit
US Department of Housing & Urban Development
Office of the Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278

RE: Response to Audit Report

Dear Mr. Moore:

The following is in response to the recommendations made by the HUD Office of Inspector General (OIG) for the Middlesex County HOME Investment Partnerships Program audit.

Recommendation 1A:

Middlesex County proposed to make the necessary adjustments to IDIS to reflect activities that had draw downs, but were subsequently cancelled. Most of these resulted from homebuyer downpayment assistance, where checks were cut in anticipation of a closing date and that particular homebuyer deal fell through. Assistance was provided back to the program through either voided checks and/or repayments from the potential homebuyers attorneys, without the necessary adjustments being made in IDIS. Activities that didn't result in a closing will be cancelled and the funds spent applied to the correct activity in IDIS. Middlesex County will be able to document that these funds were still committed in a timely manner.

Recommendation 1B:

Middlesex County can document that Activity 1945 had a written agreement approved and executed on 6/20/13 and was committed in IDIS on 7/2/13. The remaining 4 activities totaling \$740,606 were approved by the Middlesex County HOME Committee on May 9, 2013 including one CHDO project. Because of the amount of funding available, projects weren't funded at their requested amount. Notification of these awards was provided to the applicants and confirmation was received back that they the applicant would accept the HOME award in the amount recommended by the committee. One activity, (IDIS #1948) had its commitment formally by the Board of Chosen Freeholders at its 6/6/13 meeting prior to being committed in IDIS on 7/23/13, but the full written agreement took longer to execute because it was a Low Income Tax Credit project and specific language needed to be approved by attorneys from both parties.

Middlesex County... "The Greatest County in the Land"
75 Bayard Street New Brunswick, NJ 08901
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Comment 1

Comment 2

Ref to OIG Evaluation

Auditee Comments

Comment 3

IDIS Activity #1947 was committed in IDIS on 7/2/13. At that time the agreement was signed by the applicant and on the agenda for Freeholder approval at the 7/18/13 meeting after which it was fully executed. The 7/18/13 date was prior to the HUD commitment deadline of 7/30/13. The other projects did not have fully executed written agreements at the time of commitment, but had more informal MOU's at the time of commitment in IDIS. No funds for any of the above five activities were drawn down until the full written commitment was fully executed and authorized by resolution.

Recommendation 1C:

Middlesex County will adjust the timing of when the HOME Committee reviews application proposals for prospective projects to earlier in the program year. In accordance with the new HOME Final Rule, no commitments in IDIS will be made both without a written agreement and documentation from the applicant that all other necessary financing had been secured. Per guidance previously received by HOME staff through HUD sponsored CHDO training in Newark, NJ, Middlesex County may issue conditional approvals to HOME projects, but will not commit any conditional approvals in IDIS without written agreement, approved by the Board of Chosen Freeholder, and documentation of other financing.

Comment 4

Recommendation 1D:

The OIG's office identified 3 activities (IDIS #1603, 1641 and 1669) that appeared to have household income higher than the homebuyer program allowed at the time assistance was provided. Middlesex County will provide documentation that will show income eligibility at the time of application.

Comment 5

Recommendation 1E:

Middlesex County will strengthen its financial controls to provide greater assurance that costs charged to the HOME program are eligible by a review of internal processing procedures, by using the HUD online income calculator to assist in making household income eligibility determinations, and by implementing an allocation of the salary costs for employees working on more than one HUD program based upon the percentage of time they spend on each program.

Comment 6

Recommendation 1F:

During the program years in questions (2010, 2011 and 2012) one employee's salary was charged to the HOME program. The HOME program represents approximately 90% of this employee's time. During this time period other staff members of the Division of Housing & Community Development also worked on the HOME program, but their salary & benefits weren't cross charged to the HOME program. This includes a Housing Technician who spent 7% of her time administering the HOME TBRA program; the Housing Supervisor who spent 10% of his time on HOME activities; and the Management Specialist (fiscal person) who spent at least 10% of his/her time on HOME activities, including processing vouchers, preparing drawdowns and maintaining accounts. The time and corresponding salaries of these three employees spent working on the HOME program would exceed the amount of time the salary of the employee whose salary was paid exclusively by HOME.

Comment 5

Recommendations 1G:

Middlesex County will establish and implement an allocation of the salary costs for employees who work on more than one HUD program to ensure that HOME and the other programs bear its fair share of the costs.

Ref to OIG Evaluation

Auditee Comments

Comment 7

Recommendation 2A:

Middlesex County will provide documentation to the OIG's office that the proper liens have been recorded to secure HOME funding for the projects identified.

Comment 5

Recommendation 2B:

Middlesex County has already implemented some changes recommended by the OIG's office regarding file maintenance including providing more detail on the homebuyer agreements (such as to specify the purchase price of the property in the agreement). The county's MinuteTraq meeting management system now provides online access to all adopted resolutions and signed agreement making it easier to document compliance. Checklists will be implemented to ensure file completeness upon project completeness. County staff will continue to avail itself of any technical assistance training opportunities and the adoption of best practices around the HOME program, especially in line with the new HOME Final Rule.

Comment 8

Recommendation 2C:

Middlesex County will provide the OIG's office with documentation from the CHDO in question that their board did have 1/3 low income representation upon certification and recertification when additional funds were committed to project. The CHDO serves a special needs population and the board members in question were low income disabled clients. Income declarations will be obtained that can document the board members were low income during their term and that the board met the 1/3 low income criteria.

Comment 5

Recommendation 2D:

Middlesex County will strengthen its monitoring procedures to ensure that all HOME assisted projects are submitting annual reports on income and rents and are monitored regarding their tenant selection process and affirmative marketing and that the project remains financially viable. Onsite monitoring will include review of tenant files to see source documentation of income as required and that written leases are in the files. Projects will be monitored for property standards currently based on HQS (inspected every 1-3 years based on project size) and then in accordance to any future guidance (scheduled to be released in January 2015) issued by HUD.

We thank you for the opportunity to respond to the audit report and are committed to making the above changes to improve the operation of the HOME Investment Partnerships program.

Sincerely,


Paul Buckley, Division Director

OIG Evaluation of Auditee Comments

- Comment 1** County officials stated that they will adjust IDIS to report that the subject activities were cancelled, and that they can provide documentation that the funds associated with these activities were subsequently committed to additional activities in a timely manner. This documentation needs to be provided to the HUD field office for verification as part of the audit resolution process. If documentation cannot be provided, the amount should be recaptured in accordance with regulations at 24 CFR 92.500(d)(1)(B).
- Comment 2** County officials stated that a written agreement was executed for 1 of the 5 activities prior to committing funds in IDIS. County officials further contend that, while agreements for the other 4 activities had not been fully executed before committing the funds, the agreement for one was executed prior to the funds' commitment deadline. During the audit resolution process with HUD, County officials will need to provide documentation that written agreements were executed and funds were committed prior to the funds' commitment deadline. If documentation cannot be provided, the amount should be recaptured in accordance with regulations at 24 CFR 92.500(d)(1)(B).
- Comment 3** County officials' proposed action that no commitment of funds will be made in IDIS without an executed written agreement and documentation from HOME fund recipient that all necessary financing has been secured, is responsive to the recommendation.
- Comment 4** County officials stated that they will provide documentation that the three households that received HOME assistance were income eligible at the time assistance was provided. If the documentation is not provided, the County needs to reimburse its HOME line of credit from non-Federal funds.
- Comment 5** County officials agreed to take action that is responsive to the recommendation.
- Comment 6** County officials stated that the salary of one employee, who works approximately 90 percent of the time on the HOME program, was charged 100 percent to the HOME program, and that the HOME program was not charged for any of the salary of three other employees who worked some of their time on the HOME program. County officials further contend that the salaries of these three employees which could be allocated to the HOME program exceeded the salary allocated for the one employee questioned in the finding. However, during the audit County officials did not provide documentation to support any salary allocation for the three employees. Therefore, during the audit resolution process with HUD, County officials will need to provide documentation and obtain HUD approval for the allocation of these employees' salaries to the HOME program.
- Comment 7** County officials stated that they will provide documentation that the proper liens have been recorded to secure HOME funding for the projects identified. This

documentation needs to be provided to the HUD field office for verification as part of audit resolution process. If liens are not recorded, County officials should reimburse the HOME line of credit from non-Federal funds.

Comment 8 County officials stated that they will provide documentation to support the eligibility of the CHDO. This documentation needs to be provided to the HUD field office for verification as part of the audit resolution process. If documentation is not provided to support the CHDO's eligibility, the funds provided to the CHDO should be recaptured and any additional funding should be dependent upon demonstrating eligibility.