



Hudson County, NJ

HOME Investment Partnerships Program



To: Annemarie C. Uebbing, Director, Office of Community Planning and Development, 2FD

From: **\\SIGNED**
Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

Subject: Hudson County, NJ, Generally Committed and Disbursed HOME Program Funds in Accordance With HUD and Federal Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Hudson County, NJ's administration of its HOME Investment Partnerships program funds.

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 website. 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.



Audit Report Number: 2018-NY-1001

Date: January 12, 2018

**Hudson County, NJ, Generally Committed and Disbursed HOME Program
Funds in Accordance With HUD and Federal Requirements**

Highlights

What We Audited and Why

We audited Hudson County, NJ's HOME Investment Partnerships program (HOME) as part of the activities in our annual audit plan. We selected the County based on a risk analysis that considered the amount of funding, the risk score assigned to it by the U.S. Department of Housing and Urban Development (HUD), and our identification of potential issues. Our objective was to determine whether the County committed and disbursed HOME funds in accordance with applicable HUD and Federal requirements.

What We Found

The County generally committed and disbursed HOME funds in accordance with HUD and Federal requirements. However, it did not always maintain sufficient documentation demonstrating that environmental reviews and environmental review exemptions were completed before committing funds as required and did not ensure that address information in HUD's Integrated Disbursement and Information System¹ (IDIS) was updated for one activity. This condition occurred because the County's staff was not familiar with the HUD Environmental Review Online System² (HEROS) and overlooked the need for data to be updated in IDIS after purchasing a property. As a result, HUD did not have assurance that the County always completed environmental reviews in a timely manner and maintained accurate information on properties assisted with HOME funds.

What We Recommend

We recommend that HUD require the County to strengthen its policies and procedures to ensure that (1) environmental reviews and environmental review exemptions are completed and documented before funds are committed and (2) activity address information in IDIS is current.

¹ IDIS is the drawdown and reporting system for HUD's Office of Community Planning and Development formula grant programs, including the HOME program.

² HEROS was developed by HUD's Office of Environment and Energy and is used by grantees to develop, document, and manage environmental reviews required by HUD. While use of the system is not mandatory, the County began using it to document environmental reviews and environmental review exemptions in 2016.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships program (HOME) was created under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by 24 CFR (Code of Federal Regulations) Part 92. The program provides formula grants to States and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, or rehabilitate affordable housing for rent or home ownership or provide direct rental assistance to low-income people. It is the largest Federal block grant provided to State and local governments designed exclusively to create affordable housing for low-income households.

Hudson County is a participating jurisdiction and was awarded more than \$1.75 and \$1.90 million in HOME funds in fiscal years 2015 and 2016, respectively. The County is governed by a County executive and a nine-member board of chosen freeholders, and its Community Development Division administers the County's HOME program. The funds are used to serve the Hudson County Consortium, which consists of seven communities in urban Hudson County, along with the entitlement municipalities of Hoboken, Bayonne, Union City, and North Bergen.

Participating jurisdictions are required to commit HOME funds within 24 months and spend them within 5 years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement. To commit funds, participating jurisdictions must reasonably expect construction or rehabilitation to begin within 12 months and ensure that environmental reviews have been completed if required.

Our objective was to determine whether the County committed and disbursed HOME funds in accordance with applicable HUD and Federal requirements.

Results of Audit

Finding: Hudson County, NJ, Generally Committed and Disbursed HOME Funds in Accordance With HUD and Federal Requirements

The County generally committed and disbursed HOME funds in accordance with HUD and Federal requirements. However, it did not always maintain sufficient documentation demonstrating that environmental reviews and environmental review exemptions were completed before committing funds as required and did not ensure that address information in HUD's Integrated Disbursement and Information System³ (IDIS) was updated for one activity. This condition occurred because the County's staff was not familiar with the HUD Environmental Review Online System⁴ (HEROS) and overlooked the need for data to be updated in IDIS after purchasing a property. As a result, HUD did not have assurance that the County always completed environmental reviews in a timely manner and maintained accurate information on properties assisted with HOME funds.

Funds Were Generally Committed in Accordance With Requirements

The County generally committed its HOME funds in accordance with requirements. The \$4.98 million in commitments for six activities reviewed were supported by commitment letters, financing documents, and environmental reviews. However, the County did not submit environmental review documentation into HEROS before committing funds for two activities. While use of the system is not currently mandatory, the County began using it to document environmental reviews and environmental review exemptions in 2016 after HUD encouraged grantees to use the system.

IDIS activity #	Activity type	Commitment date	Date environmental review was submitted into HEROS	Amount committed
2179	Home-buyer acquisition	7/29/2016	8/8/2016	\$214,986
2180	Home-buyer acquisition & rehabilitation	7/29/2016	8/8/2016	214,986
Total				429,972

Although the environmental reviews performed for the activities were sufficient, the County did not adequately document that the reviews were completed before committing the funds as

³ IDIS is the drawdown and reporting system for HUD's Office of Community Planning and Development formula grant programs, including the HOME program.

⁴ HEROS was developed by HUD's Office of Environment and Energy and is used by grantees to develop, document, and manage environmental reviews required by HUD.

required by 24 CFR 92.352(b)⁵ and did not ensure that current address information was maintained in IDIS for one activity (2180) as required by an IDIS training manual for participating jurisdictions receiving HOME funds. This condition occurred because the County's staff was not familiar with HEROS and had overlooked the need for data to be updated in IDIS after purchasing the property. As a result, HUD did not have assurance that the County always completed environmental reviews before committing HOME funds and maintained accurate information in IDIS on properties assisted with HOME funds.

Funds Were Disbursed in Accordance With Requirements

The County disbursed its HOME funds in accordance with requirements. The County used the \$735,740 in nonadministrative disbursements reviewed for eligible expenses related to construction costs of a senior residence and acquisition of a property, and its files contained adequate documentation to support the expenses. Further, the County complied with the 10 percent limit on administrative costs for program years 2013 through 2016 and used the \$254,838 in administrative and planning drawdowns reviewed for eligible costs, such as staff training, salaries, and fringe benefits.

Conclusion

The County generally committed and disbursed HOME funds in accordance with HUD and Federal requirements but did not always maintain sufficient documentation demonstrating that environmental reviews and environmental review exemptions were completed before committing funds as required and ensure that address information in IDIS was updated. This condition occurred because the County's staff was not familiar with HEROS and overlooked the need for data to be updated in IDIS after purchasing a property. As a result, HUD did not have assurance that the County always completed environmental reviews in a timely manner and maintained accurate information on properties assisted with HOME funds.

Recommendations

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

- 1A. Strengthen its policies and procedures to ensure that environmental reviews and environmental review exemptions are completed and documented before HOME funds are committed.
- 1B. Strengthen its policies and procedures to ensure that activity address information in IDIS is current as required.

⁵ Regulations at 24 CFR 92.352(b) state that no funds may be committed to a HOME activity or project before the completion of the environmental review except as authorized by 24 CFR part 58. Regulations at 24 CFR 58.38 state that the responsible entity must maintain written determinations of environmental reviews undertaken and of other review findings such as determinations that a project is exempt and categorically excluded from environmental review requirements.

Scope and Methodology

We performed our audit work from April through September 2017. We conducted the audit onsite at the County's office located at 830 Bergen Avenue, Jersey City, NJ. The review covered the period July 2014 through December 2016 and was expanded as necessary.

To accomplish our audit objective, we reviewed relevant background information on the program and County; applicable laws, regulations, HUD handbooks, guidebooks, and notices; the County's policies and procedures; the County's consolidated annual plan; HUD risk assessments; and the independent public accountant audit report. We also interviewed key HUD and County officials.

To determine whether the County committed and disbursed HOME funds in accordance with applicable HUD and Federal requirements, we selected three samples for review as discussed below.

- The County committed \$5.83 million in HOME funds to 10 activities from February 2014 through December 2016. We selected a sample of six activities for which the County had committed funds within the same month as its commitment deadline. These six activities represented \$4.98 million, or 85 percent, of the \$5.83 million committed. We reviewed commitment letters, financing documents, and environmental reviews for the activities to determine whether the County complied with applicable commitment requirements.
- The County drew down \$3.43 million in HOME funds for nonadministrative and planning activities from July 2014 through December 2016. We selected a sample of two drawdowns with the highest dollar amount from 2015 and 2016. These two draws represented \$735,740, or 21 percent, of the \$3.43 million drawn for nonadministrative and planning activities during our audit period. We reviewed contracts, invoices, and architect certificates for these draws to determine whether the County complied with applicable requirements when disbursing funds.
- The County drew down \$619,224 in HOME funds for administrative and planning costs related to 20 vouchers from July 2014 through December 2016. We selected all vouchers paid in 2016 for review. These draws represented \$254,838, or 41 percent, of the \$619,224 drawn for administrative and planning costs during our audit period. We reviewed supporting documentation, such as payroll documentation, employee reimbursement documentation, and staff training invoices, to determine whether the County complied with applicable requirements when drawing down funds for administrative and planning costs.

The results of our sampling apply only to the items reviewed. Although our sampling approaches did not allow us to make projections to the full \$5.83 million committed and \$4.05 million disbursed, they were sufficient to meet our objective.

To achieve our objective, we relied in part on computer-processed data generated by the County as well as data maintained in HUD's IDIS and HEROS. We used these data as background information and to select a sample of commitments and disbursements for review. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing included comparing the data in HUD's systems to the data in the County's financial reporting system and supporting documentation as discussed above. We based our conclusions on the source documentation obtained from the County.

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:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- 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 the management has implemented to reasonably ensure that program implementation is in accordance with 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 controls as a whole.

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1


COUNTY OF HUDSON
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December 19, 2017

Kimberly S. Dahl
Regional Inspector General for Audit
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26 Federal Plaza, Room 3430
New York, NY 10278

Dear Ms. Dahl,

The County of Hudson has reviewed the Audit Report issued by your office on December 13, 2017 for the Hudson County HOME Program. We are pleased that the report states that "Hudson County, NJ Generally Committed and Disbursed HOME Funds in Accordance with HUD and Federal Requirements". This is reflective of the County's commitment and efforts to expand affordable housing opportunities in compliance with all applicable regulations.

The draft report included two recommendations which have already been implemented by the Division of Housing and Community Development. We have revised our HOME Policy Manual and Commitment Checklist to ensure that proper documentation of completed environmental reviews are maintained in HEROS prior to committing funds, and that any amendments to projects are promptly updated in IDIS. Additionally, Division staff has, and will continue to participate in HOME, IDIS and HEROS trainings made available by HUD and its partners.

Thank you for the opportunity to respond to the draft report. We appreciated the professionalism displayed by the OIG staff as they conducted a fair and thorough review of our HOME program. The County of Hudson values the partnership with HUD and the OIG and all guidance provide to ensure proper program administration.

Sincerely,


Randi Moore
Division Chief

OIG Evaluation of Auditee Comments

Comment 1 The County indicated that it had implemented the two recommendations contained in the report. Specifically, the County indicated that it updated internal policies to ensure that proper documentation of completed environmental reviews are maintained prior to committing funds, and that any amendments to projects are promptly updated in IDIS. The County also noted that it would continue to participate in available HOME, IDIS, and HEROS trainings. These actions are responsive to our recommendations. However, because the County did not complete these actions prior to the end of our audit fieldwork, we did not obtain or review documentation related to them. As part of the normal audit resolution process, HUD will need to assess any documentation provided by the County to ensure that it fully implemented the actions noted in its response.