



Issue Date March 14, 2012

Audit Report Number 2012-PH-1006

TO: Annemarie C. Uebbing, Director, Office of Community Planning and Development, Newark Field Office, 2FD
//signed//

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

SUBJECT: Gloucester Township, NJ, Did Not Always Administer Its Community Development Block Grant Recovery Act Funds According to Applicable Requirements

HIGHLIGHTS

What We Audited and Why

We audited Gloucester Township, 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 Township for an audit because we received two complaints alleging that it misused stimulus funds and overpaid for services and because of our mandate to audit Recovery Act activities. Our objective was to determine whether the Township 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 Township did not always administer its Block Grant Recovery Act funds in accordance with the Recovery Act and applicable HUD requirements. It did not (1) always maintain documentation to demonstrate that it competitively awarded contracts, (2) create contracts for sewer reconstruction work, (3) execute a

subrecipient agreement and monitor the subrecipient, (4) ensure that contractors complied with the Davis-Bacon Act, and (5) accurately report information on the Federal reporting Web site. We found no evidence to substantiate the alleged misuse of Recovery Act funds. The overpayment for services alleged in the complaint was related to snow removal costs. The Township did not use Recovery Act funds to pay for these costs.

What We Recommend

We recommend that HUD require the Township to (1) provide documentation to demonstrate that \$28,850 expended on a sewer reconstruction project was fair and reasonable or reimburse its program from non-Federal funds for any amount that it cannot support, (2) obtain and review the contractor's weekly payrolls related to its expenditures for the activities identified in the audit to ensure that contractors paid employees prevailing wages according to the Davis-Bacon Act, (3) develop and implement controls to ensure that it complies with all applicable procurement requirements, (4) develop and implement controls to ensure that it creates subrecipient agreements when needed and monitors its subrecipients, (5) develop and implement controls to ensure that contractors comply with Davis-Bacon Act requirements, and (6) report accurate job creation information for the reporting period ending March 31, 2012.

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-4. 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 Township on February 16, 2012, and discussed it with the Township at an exit conference on February 27, 2012. The Township provided written comments to the draft report on March 5, 2012. It agreed with the conclusions and recommendations in the report. The complete text of the Township's response can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: The Township Did Not Always Administer Its Block Grant Funds in Accordance With Applicable Requirements	5
Scope and Methodology	11
Internal Controls	13
Appendixes	
A. Schedule of Questioned Costs	15
B. Auditee Comments	16

BACKGROUND AND OBJECTIVE

Gloucester Township, 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 Township is governed by a mayor, and a seven-member township council. The Township manages its community development programs through its grants department located at 1261 Chews Landing Road, Blackwood, NJ. The Township's grants coordinator is Ms. Joan Eller-Hinski.

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 31, 2009, the Township received \$94,652 in Block Grant funds under the Recovery Act. The Township planned to use \$50,000 in grant funds for the Gloucester Township Housing Authority's Senior One Campus and \$44,652 for a storm sewer reconstruction project.

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.

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

RESULTS OF AUDIT

Finding: The Township Did Not Always Administer Its Block Grant Funds in Accordance With Applicable Requirements

The Township did not always administer its Block Grant Recovery Act funds in accordance with Recovery Act and applicable HUD requirements. It did not (1) always maintain documentation to demonstrate that it competitively awarded contracts, (2) create contracts for sewer reconstruction work, (3) execute a subrecipient agreement and monitor the subrecipient, (4) ensure that contractors complied with the Davis-Bacon Act, and (5) accurately report information on the Federal reporting Web site. These conditions occurred because the Township did not have controls in place to ensure that it complied with applicable procurement requirements and contractors complied with Davis-Bacon Act requirements. It did not fully understand the purpose of a subrecipient agreement and did not fully understand the Recovery Act's job reporting requirements and calculation criteria. As a result, HUD had no assurance that (1) the Township's expenditure of \$28,850 for sewer reconstruction work was fair and reasonable, (2) contractors were aware of all of the Federal requirements governing their work, (3) the Township had a basis for effectively monitoring subrecipient performance, and (4) contractors paid employees prevailing wages according to the Davis-Bacon Act. Also, the Township overstated job creation information that it reported on the Federal reporting Web site.

The Township Submitted an Amended Action Plan as Required

In June 2009, the Township submitted a substantial amendment to its fiscal year 2008 annual action plan as required. The plan outlined the activities the Township 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 Township planned to undertake using its Block Grant Recovery Act funds. The substantial amendment consisted of two activities: the Gloucester Township Housing Authority Senior One Campus¹ (\$50,000) and a storm sewer reconstruction project on Ridge Avenue (\$44,652). Both activities were eligible to be funded with Recovery Act Block Grant funds. The actual cost for the reconstruction project at Ridge Avenue totaled only \$28,850 so the Township obligated \$14,650 of the remaining funds for a sewer reconstruction project at Breckenridge Drive. The remaining \$1,152 was to be used to complete another sewer reconstruction project.

The funds provided for the Senior One Campus activity paid for handrails to be installed in the building's hallways. The sewer reconstruction activities consisted

¹ A senior living complex

of demolishing and removing the existing sewer pipes and installing new sewer pipes. The activities met the Block Grant program’s national objective criteria. The following pictures show some of the work completed by the Township with its Recovery Act funds.



These photographs show the installation of handrails throughout the Gloucester Township Housing Authority’s Senior One Campus building (completed).



These photographs show the installation of a yard draining sewer (left) and pipe system (right) related to the sewer reconstruction project at Breckenridge Drive (completed).

**The Township Essentially
Complied With the Expenditure
Deadline**

The Recovery Act required the Township to expend 100 percent of its grant by September 30, 2012. As of June 2010, the Township had expended \$93,500 (99 percent) of its grant. The Township maintained documentation, such as contractor invoices, to support its expenditures. The documentation adequately supported the payments.

The Township Did Not Always Maintain Documentation To Demonstrate That It Competitively Awarded Contracts

The Township did not have documentation to demonstrate that it received an adequate number of price or rate quotations from qualified sources for a sewer reconstruction project. The Township awarded a sewer reconstruction contract for work to be performed at Ridge Avenue totaling \$28,850. The small purchase requirements at 24 CFR (Code of Federal Regulations) 85.36(d)(1) required the Township to obtain price or rate quotations from an adequate number of qualified sources. Additionally, New Jersey Statutes Annotated 40A:11, regarding contract law, requires that all projects over \$25,000 be advertised for bids. Contrary to these requirements, the Township had no documentation to demonstrate that it obtained any quotes other than the quote from the contractor to whom it awarded the contract or that it advertised the work for bids. This condition occurred because the Township did not have controls in place to ensure that it complied with applicable procurement requirements. Since the Township lacked documentation to demonstrate that the price it paid for the work was fair and reasonable, the expenditure of \$28,850 was unsupported.

The Township Did Not Create Contracts for Sewer Reconstruction Work

The Township did not create contracts for its sewer reconstruction projects, and as a result, contractors were not aware of all of the Federal requirements governing their work. Although the Township issued purchase orders and used the contractors' proposals to support the purchase orders, none of the documentation communicated the clauses required for this work by 24 CFR 85.36(i) to the contractors. Among the required clauses that the Township did not disclose were clauses pertaining to termination for cause or convenience, equal employment opportunity provisions, the Anti-Kickback Act, the Contract Work Hours and Safety Standards Act, and reporting requirements. This condition occurred because the Township did not have controls in place to ensure that it complied with applicable procurement requirements. As a result, it had no assurance that (1) its interests were protected; (2) contractors refrained from discrimination; (3) those involved in contracting refrained from offering, accepting, or attempting to accept inducements for favorable treatment in awarding contracts of any kind; (4) contractors and subcontractors paid laborers and mechanics one and one-half times their basic rate of pay for all hours worked over 40 hours in a workweek and avoided unsanitary, hazardous, or dangerous working conditions on

construction projects; and (5) contractors maintained records pertaining to the contract for at least 3 years.

The Township Did Not Execute a Subrecipient Agreement and Monitor the Subrecipient

The Township provided \$50,000 in Block Grant Recovery Act funds to the Gloucester Township Housing Authority to aid in the completion of its Senior One Campus project. However, it did not create a subrecipient agreement to memorialize the terms governing the Block Grant funds that it contributed to the project (such as a statement of work and a schedule for completing the work) and did not monitor the Authority's performance. Regulations at 24 CFR 570.503(a) state that before the grantee disburses any Block Grant funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall remain in effect during any period that the subrecipient has control over Block Grant funds, including program income. Regulations at 24 CFR 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. The Township did not comply with these requirements because it did not fully understand the purpose of a subrecipient agreement. It did not believe that a subrecipient agreement was needed and assumed that the Authority would comply with all Federal regulations. As a result, the Authority was unaware that it was required to implement the contract clauses contained in 24 CFR 85.36(i), and the Township had no basis for effectively monitoring the Authority's performance.

The Township Did Not Ensure 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 Township to perform wage interviews and review the contractor's weekly payrolls. The Township did not comply with these requirements. It did not include a Davis-Bacon Act clause in its sewer reconstruction contracts, nor did it obtain contractor payroll records to ensure that contractors paid employees fairly in accordance with the Davis-Bacon wage rate. Additionally, the Township did not monitor the Gloucester Township Housing Authority to ensure that its contractors complied with the Davis-Bacon Act. The Authority did not include a Davis-Bacon Act clause in its contract. This condition

occurred because the Township lacked controls to ensure that contractors complied with Davis-Bacon Act requirements and it did not create a subrecipient agreement with the Authority and monitor its performance. As a result, HUD has no assurance that contractors paid employees prevailing wages according to the Davis-Bacon Act.

The Township Did Not Report Accurate Job Creation Information

The Township did not accurately report the number of jobs created or retained as a result of its Recovery Act activities.² 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. Contrary to this guidance, the Township reported nine jobs, although it did not obtain contractor payroll records or time sheets to calculate the number of jobs. The Township was unsure of how to report job creation information. It did not fully understand the Recovery Act's job reporting requirements and calculation criteria so it estimated the number of jobs without support. It acknowledged that the job creation information it reported was incorrect. In addition, the Township reported job creation information quarterly, although it made no expenditures after the quarter ending March 31, 2010. OMB Memorandum 10-34, dated September 24, 2010, does not allow recipients to make changes to the number of jobs in prior reports. Therefore, the Township needs to begin reporting correct job information starting with its report for the quarter ending March 31, 2012.

Conclusion

The Township did not always administer its Block Grant Recovery Act funds in accordance with Recovery Act and applicable HUD requirements. The conditions identified by the audit occurred because the Township did not have controls in place to ensure that it complied with applicable procurement requirements and contractors complied with Davis-Bacon Act requirements. It did not fully understand the purpose of a subrecipient agreement and did not fully understand the Recovery Act's job reporting requirements and calculation criteria. As a result, HUD had no assurance that (1) the Township's expenditure of \$28,850 for sewer reconstruction work was fair and reasonable, (2) contractors were aware of

² 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.

all of the Federal requirements governing their work, (3) the Township had a basis for effectively monitoring subrecipient performance, and (4) contractors paid employees prevailing wages according to the Davis-Bacon Act. Also, the Township overstated job creation information that it reported on the Federal reporting Web site. To resolve the issues, the Township needs to (1) demonstrate that \$28,850 expended on a sewer reconstruction project was fair and reasonable and contractors paid employees prevailing wages according to the Davis-Bacon Act; (2) develop and implement controls to ensure that it complies with all applicable procurement requirements, creates subrecipient agreements, and monitors subrecipients and contractors comply with Davis-Bacon Act requirements; and (3) report accurate job creation information on the Federal reporting Web site.

Recommendations

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

- 1A. Provide documentation to demonstrate that \$28,850 expended on a sewer reconstruction project was fair and reasonable or reimburse its program from non-Federal funds for any amount that it cannot support.
- 1B. Obtain and review the contractor's weekly payrolls related to its expenditures for the activities identified in the audit to ensure that contractors paid employees prevailing wages according to the Davis-Bacon Act.
- 1C. Develop and implement controls to ensure that it complies with all applicable procurement requirements.
- 1D. Develop and implement controls to ensure that it creates subrecipient agreements when needed and monitors its subrecipients.
- 1E. Develop and implement controls to ensure that contractors comply with Davis-Bacon Act requirements.
- 1F. Report accurate job creation information for the reporting period ending March 31, 2012.

SCOPE AND METHODOLOGY

We conducted the audit from October 2011 through February 2012 at the Township's grants department located at 1261 Chews Landing Road, Blackwood, NJ, and at our office located in Philadelphia, PA. The audit covered the period February 2009 through September 2011 but was expanded when necessary to include other periods. We selected the Township for an audit because we received two complaints alleging that it misused stimulus funds and overpaid for services and because of our mandate to audit Recovery Act activities. We found that the complaints had no merit. We found no misuse of Recovery Act funds. The overpayment for services alleged in the complaint was related to snow removal costs. The Township did not use Recovery Act funds to pay for these costs.

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 Township's council.
- Reviewed the Township's fiscal year 2009 and 2010 audited financial statements.
- Interviewed relevant Township staff and officials from the Gloucester Township Housing Authority and HUD's Newark Office of Community Planning and Development.
- Reviewed relevant Township financial records and reporting records.
- Reviewed \$93,500 in expenditures (99 percent of the grant amount) for the Gloucester Township Housing Authority's Senior One Campus (\$50,000) and two sewer reconstruction activities (\$43,500). The payments were supported by invoices and other supporting documentation.
- Reviewed contract documentation supporting the Township's expenditure of \$93,500 in funds for the Senior One Campus project (one contract) and the two sewer reconstruction projects (two contracts).
- Reviewed the Township's 2010 and 2011 quarterly reports on the Federal reporting Web site.
- Physically verified that handrails were installed at the Gloucester Township Housing Authority's Senior One Campus and that two sewer reconstruction projects had been completed.

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

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:

- Policies and procedures that the Township implemented to ensure that activities met established program objectives and requirements.
- Policies and procedures that the Township 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.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Township did not have controls in place to ensure that (1) it complied with applicable procurement requirements, (2) it created subrecipient

agreements when needed and monitored its subrecipients, (3) contractors complied with Davis-Bacon Act requirements, and (4) it reported accurate job creation information on the Federal reporting Web site.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$28,850

- 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.

Appendix B

AUDITEE COMMENTS

GLEN V. BIANCHINI Council President		DAVID MAYER Mayor
ORLANDO MERCADO Council Vice President	TOWNSHIP OF GLOUCESTER 1261 Chews Landing-Clementon Rd., at Hider Lane P.O. Box 8, Blackwood, New Jersey 08012	THOMAS C. CARDIS Business Administrator
Council Members MICHELLE GENTEK DAN HUTCHINSON FRANKLIN T. SCHMIDT SAMUEL M. SILER TRACEY TROTTO	(856) 228-4000 • FAX: (856) 374-3527 (Clerk) FAX: (856) 374-3528 (Finance)	DAVID F. CARLAMERE, ESQ. Solicitor
		ROSEMARY DI JOSIE Township Clerk

February 27, 2012

John P. Buck, Regional Inspector General
Philadelphia Region 3AGA
Wanamaker Building
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380

Re: Audit Report of FY2009 ARRA expenditures

Dear Mr. Buck,

This letter is a response to the Audit Report completed by the Office of Inspector General of the U.S. Department of Housing and Urban Development, as it pertains to Gloucester Township's expenditure of FY2009 ARRA Funds in the amount of \$94,642. We understand and do not dispute the findings of the Audit Report. We hereby commit to taking any and all corrective actions required by the U.S. Department of Housing and Community Development. If you need any additional information please contact me at 856-228-4000, x 307 or jae@glotwp.com.

Sincerely,

Joan Eller-Hinski
Grants Coordinator

Cc: Mayor David Mayer