OFFICE OF AUDIT
REGION 2
NEW YORK-NEW JERSEY

Monmouth County, NJ

Community Development Block Grant Program

2014-NY-1006 JULY 02, 2014

Issue Date: July 02, 2014

Audit Report Number: 2014-NY-1006

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: Monmouth County, NJ Expended Community Development Block Grant Funds for Eligible Activities, But Control Weaknesses Need To Be Strengthened.

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final audit report on our review of Monmouth County, NJ's Community Development Block Grant (CDBG) 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.

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July 02, 2014

Monmouth County NJ Expended Community Development Block Grant Funds For Eligible Activities, But Control Weaknesses Need To Be Strengthened

Highlights

Audit Report 2014-NY-1006

What We Audited and Why

We audited Monmouth County, NJ's Community Development Block Grant (CDBG) program based on a risk assessment that considered grantee funding, the U.S. Department of Housing and Urban Development's (HUD) risk analysis, and prior Office of Inspector General (OIG) audit coverage. The objective of the audit was to determine whether County officials established and implemented adequate controls to provide assurance that CDBG funds were expended for eligible activities in accordance with HUD regulations and program requirements.

What We Recommend

We recommend that the Director of HUD's Newark Office of Community Planning and Development instruct County officials to (1) support the salary allocation of $805,504 to the CDBG program or reimburse any unsupported amount, (2) reimburse the CDBG program for the ineligible cost of $1,090, (3) provide documents to support that the $133,453 was expended for eligible activities, (4) provide support that $122,150 in program income was expended in a timely manner, (5) strengthen controls to ensure that the County's books reconcile with drawdowns reported to HUD, (6) provide support that the disbursement of $3,736 in program income was for eligibile costs, (7) seek repayment of the ineligible $50,265 housing rehabilitation loan, and (8) increase by $4,355 a lien on an assisted property.

What We Found

Although County officials expended CDBG funds for eligible activities, several control weaknesses need to be strengthened. Specifically, salary costs of employees who worked on multiple programs were disbursed without adequate support for their allocation, disbursements recorded in County records did not always reconcile with those reported to HUD, accounting for program income was not adequate, housing rehabilitation assistance was not recovered from one recipient in accordance with the County's policy, and a mortgage note on an assisted property was underrecorded. These conditions occurred due to County officials' unfamiliarity with HUD regulations, weaknesses in their accounting controls over salary allocations and program income, and a lack of oversight to ensure that the County met loan requirements.

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BACKGROUND AND OBJECTIVE

The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974 (Public Law 93-383). The program provides annual grants on a formula basis to entitled cities, urban counties, and States to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons. To be eligible for funding, every CDBG-funded activity, except program administration and planning, must meet one of the program's three national objectives: benefit low- and moderate-income persons, aid in preventing or eliminating slums or blight, or address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community. To receive an annual CDBG entitlement grant, a grantee must develop and submit to HUD for approval a consolidated plan that provides the grantee's goals for the program to be funded.

The County of Monmouth, NJ, is a CDBG entitlement grantee. The U.S. Department of Housing and Urban Development (HUD) awarded the County $2.9 and $2.4 million in CDBG funding during program years 2011 and 2012, respectively. The County's CDBG plan provided funding 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 has designated its Community Development Division to administer the CDBG program

The objective of the audit was to determine whether County officials established and implemented adequate controls to provide assurance that CDBG program funds were expended for eligible activities in accordance with HUD regulations and program requirements.

RESULTS OF AUDIT

Finding: Although County Officials Expended CDBG Funds For Eligible Activities, Several Control Weaknesses Need To Be Strengthened.

Although County officials' expended CDBG funds for eligible activities, several control weaknesses need to be strengthened. Specifically, salary costs of employees who worked on multiple programs were disbursed without adequate support for their allocation, disbursements recorded in County records did not always reconcile with those reported to HUD, accounting for program income was not adequate, housing rehabilitation assistance was not recovered from one recipient in accordance with the County's policy, and a mortgage note on an assisted property was underrecorded. These conditions occurred due to County officials' unfamiliarity with HUD regulations, weaknesses in their accounting controls over salary allocations, reconciling books and records with amounts reported to HUD, recording program income, and a lack of oversight to ensure that the County met loan requirements. As a result, (1) $805,504 in employee salaries was charged to the CDBG program without adequate support, (2) $1,090 in salary costs was incorrectly charged to CDBG program, (3) the County's books did not reconcile with amounts reported to HUD in IDIS, (4) the County lacked assurance that $133,453 was expended for eligible activities (5) program income disbursements in the amount of $151,998 were made after the subgrantee agreement expired, (6) $3,736 in program income disbursements was unsupported, (7) $50,265 in housing rehabilitation assistance was not recovered in accordance with the County's policy, and (8) a mortgage note on an assisted property was underrecorded by $4,355.

Allocation of Salary Costs Inadequately Supported

County officials lacked adequate support for the allocation of the salaries of eight Community Development Division employees' who worked on multiple programs. Federal regulations require a reasonable basis for allocating costs among programs served.[1] While these eight employees worked on multiple programs, $805,504, or 100 percent of their salary cost in program years 2011 and 2012, was charged to the CDBG program. This condition occurred because County officials misinterpreted HUD regulations, believing that there was no

[1] Regulations at 24 CFR (Code of Federal Regulations) 85.20(b)(5) require grantees to follow applicable Office of Management and Budget cost principles and HUD program regulations in determining the reasonableness and allowability of costs. Regulations at 2 CFR 225(8)(h)(4) Appendix B require that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, and Appendix A to Part 225, (C)(3)(a) provides that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.

requirement to allocate employees' time among the various programs on which they worked and that any program could be charged the full cost. As a result, the $805,504 is considered as unsupported costs.

In addition, while County policy provided that 63 percent of another Division employee's salary was to be allocated to the CDBG program, 100 percent was charged to the program in December 2011. We attribute this error to a lack of oversight by County officials; thus, the excess charges of $1,090 are considered to be ineligible.

Disbursements Reported in IDIS Did Not Reconcile with the County's Books

Review of County records for 1 of the 15 activities revealed that they did not reconcile with what was reported to HUD. County officials did not explain the discrepancies. Regulations at 24 CFR (Code of Federal Regulations) Part 85.20(b)(1) require that grantees maintain accurate financial records. We attribute this condition to weaknesses in financial controls related to reconciling the County's books and records to amounts reported in HUD's Integrated Disbursement and Information System (IDIS)[2]. Specifically, review of drawdowns in HUD's IDIS under activity 1618, planning and administration disclosed the following

- $276,045 was drawn down for the activity; however, the County's books and records reported that $256,555 was expended. County officials could not explain the difference; therefore, we could not determine whether the difference of $19,490 was used for an eligible CDBG activity.

- IDIS showed that $126,112 was drawn down; however, the County's books reported that $113,334 was related to fringe benefits and the balance of $12,778 was charged to another IDIS activity. County officials could not explain the difference.

- $101,185 was incurred for housing rehabilitation, but it was charged to and drawn down under planning and administration. County officials said they charged planning and administration because there were insufficient funds in the housing rehabilitation program since the new housing improvement grant funds had not been received.

As a result, the County lacked assurance that all funds were expended for eligible activities and the disbursements were accurately reflected in IDIS. Therefore, the County lacked assurance that $133,453 ($19,490, $12,778 and $101,185) was

[2] IDIS is HUD's drawdown and reporting system. The system allows grantees to request their grant funding from HUD and report on what is accomplished with these funds.

expended for eligible activities and disbursements were accurately reflected in IDIS.

Unsupported and Unreported Program Income Receipts

While County officials reported in IDIS that $182,263 in program income was earned during fiscal year 2011, the County's financial records showed that $32,878 was received. Regulations at 24 CFR 570.504 require that the receipt and expenditure of program income be recorded as part of the financial transactions of the grant program. County officials stated that some of the program income reported in IDIS for 2011 was earned in 2010 and prior years but had not been recorded; therefore, it was reported in IDIS in 2011 but not in their financial records. In addition, the County's financial records showed that program income of $2,333 was received in August 2012, yet no program income was reported in IDIS until December 27, 2013, after we informed County officials that their records did not reconcile with HUD's. We attribute this condition to weaknesses in the County's accounting controls over recording program income.

Unsupported Program Income Disbursements

County officials' drew down program income in advance of disbursement to a subgrantee and disbursed the funds for work completed after the subgrantee's agreement had expired. Regulations at 24 CFR 85.20(b)(7) provide that a grantee must make drawdowns as close as possible to the time of making disbursements. However, while County officials drew down $122,150 in program income on October 23, 2012, the funds were not disbursed to the subrecipient until October 22, 2013, 1 year later.

In addition, regulations at 24 CFR 570.503 provide that a written agreement must be signed before CDBG funds are disbursed to a subrecipient and the agreement should remain in effect during any period in which the subrecipient has control over CDBG funds. However, while the subrecipient agreement expired in November 2012, project documentation disclosed that the project was not completed until June 2013, and County officials disbursed the $122,150 and an additional $29,848 on October 22, 2013, in response to the subgrantee's request for reimbursement of $151,998 on October 7, 2013.

County officials stated that the subgrantee did not provide supporting documents until October 7, 2013, due to flood damage it incurred in October 2012, but did not know why the $122,150 was drawn down in October 2012 and the subrecipient agreement had not been extended. In addition, County officials did not provide supporting documents for the disbursement of additional program income of $3,736

($1,403 and $2,333 for 2011 and 2012, respectively); therefore, we considered these amounts to be unsupported.

Housing Rehabilitation Assistance Loan Not Repaid and HUD's Interest Not Protected

Review of files for eight homeowners assisted under housing rehabilitation activities noted issues with two cases. In the first case, County officials did not exercise the provision in the County's policy and mortgage note that the interest-free loan for rehabilitation assistance must remain a lien on the borrower's premises for a period of 10 years, and must be repaid in the event of the borrower's death or if the property is sold and the title is transferred or conveyed within 10 years of the date of the mortgage note. County officials had provided a $50,265 10-year interest-free deferred loan in March 2010; however, they lacked evidence that they obtained or pursued repayment of the loan upon the homeowner's death in August 2010.

In the second case, County officials provided a 10-year, interest-free deferred loan and executed a $20,800 mortgage note for homeowner rehabilitation; however, additional work due to a change order increased the CDBG assistance provided to $25,155. County officials stated that the homeowner refused to sign a mortgage modification to increase the note to $25,155, and they had not taken legal action to increase the lien. Consequently, the County could suffer a loss of $4,355 in program income due to the under-recorded mortgage if the property is sold or transferred in less than 10 years. We attribute these conditions to oversights in ensuring that program requirements were met.

Conclusion

Although County officials expended CDBG program funds for eligible activities, several control weaknesses need to be strengthened. Specifically, salary costs of employees who worked on multiple programs were disbursed without adequate support for their allocation, disbursements recorded in County records did not always reconcile with those reported to HUD, accounting for program income was not adequate, housing rehabilitation assistance was not recovered from one recipient in accordance with the County's policy, and a mortgage note on assisted property was underrecorded. We attribute these conditions to County officials' unfamiliarity with HUD regulations and weaknesses in their accounting for salary allocations and program income, and a lack of oversight to ensure that the County met loan requirements.

Recommendations

We recommend that the Director of HUD's New Jersey Office of Community Planning and Development instruct County officials to:

1A. Determine the proper allocation of the $805,504 in salary costs and reimburse the CDBG program for any excess allocation.

1B. Reimburse $1,090 to the County's CDBG program from non-Federal funds for the salary cost that was charged incorrectly.

1C. Develop a cost allocation plan to allocate salaries of employees who work on multiple programs.

1D. Strengthen its financial controls to provide greater assurance that drawdowns reported in IDIS reconcile with County records and if required, make related adjustments to the accounting records.

1E Provide documentation that $133,453 ($19,490, $12,778 and $101,185) was expended for eligible activities and the disbursements were accurately reflected in IDIS. If adequate support cannot be provided, the amount should be reimbursed from non-Federal funds.

1F. Provide documentation to support that $122,150 was expended in a timely manner for an eligible activity after drawdown. If adequate support cannot be provided, the amount should be reimbursed from non-Federal funds.

1G. Provide documentation to support that the $3,736 in program income was disbursed for eligible costs. Any amount determined to be ineligible should be reimbursed to the CDBG program from non-Federal funds

1H. Strengthen controls over accounting for program income to provide greater assurance that program income receipts and disbursements are properly accounted for and used in accordance with CDBG program requirements.

1I. Seek repayment of the $50,265 housing rehabilitation loan or reimburse the CDBG program from the non-Federal funds.

1J. Increase the housing rehabilitation loan lien by $4,355 to protect HUD's interest in the additional amount loaned or reimburse the CDBG program that amount from non-Federal funds.

1K. Strengthen controls to ensure that CDBG funds are recovered for properties sold or transferred within 10 years and mortgage notes include the correct amount to reflect total indebtedness to the program.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the County's office located in Freehold, NJ, between October 2013 and February 2014. The audit generally covered the period January 1, 2011, through December 31, 2012, and was extended as necessary. To accomplish our objective, we

- Reviewed relevant Federal regulations and CDBG program requirements.
- Interviewed appropriate personnel from the HUD Newark, NJ, Office of Community Planning and Development and reviewed relevant grant files to obtain an understanding of CDBG program requirements and identify HUD's concerns with the County's operations.
- Reviewed the County's consolidated annual performance and evaluation reports, action plans, and IDIS reports to document the County's activities and disbursements. Our assessment of the reliability of the data in IDIS was limited to the data reviewed, which were reconciled to County records; therefore, we did not assess the reliability of this system.
- Reviewed County policies, procedures, practices and interviewed key personnel to obtain an understanding of the County's administration of the CDBG program.
- Reviewed County financial books and records and bank statements.
- Reviewed HUD's monitoring and independent accountant audit reports.
- Reviewed and tested the County's files and records of selected projects to test whether the costs were eligible, adequately supported, and the County administered the program in accordance with program requirements.
- Reviewed program income for 2011 and 2012 to determine whether the County accurately and adequately reported program income in IDIS, and whether program income was disbursed for eligible CDBG activities

- Selected a nonstatistical sample of 15 CDBG activities to test compliance with CDBG program requirements. IDIS reported that more than $7 million in CDBG funds were disbursed for 68 activities during our review period. The activities were under the four general categories, planning and administration, public facilities and improvements, public service, and housing rehabilitation. We selected a sample of 15 activities with the highest disbursements valued at approximately $2.4 million, representing 34 percent of the $7 million in funds disbursed during our review period. The sample selection was not statistically based; therefore, the results were not projected to the universe.

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:

- The County did not have adequate controls over the effectiveness and efficiency of program operations when it did not establish adequate procedures to ensure that costs charged to the CDBG program for salaries were allocable to the program, and did not keep track of employees' time when they worked on multiple programs

- The County did not have adequate controls over the reliability of data when it did not accurately report program income transactions in IDIS in a timely manner and the drawdowns reported to HUD did not match the County's accounting records.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		$805,504
1B	$1,090	
1E		$133,453
1F		$122,150
1G		$3,736
1I	$50,265	
1J		$4,355
Total	$51,355	$1,069,198

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

The Board of Chosen Freeholders of the County of Monmouth

DEPARTMENT OF FINANCE
CRAIG R. MARSHALL
Director

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May 30, 2014

Mr. Edgar Moore
Regional Inspector General for Audit
U. S. Dept. of Housing & Urban Development
Office of Inspector General
Office of Audit, New York/New Jersey Region 2
New York, NY 10278

Subject: Draft Audit Report on Monmouth County, NJ
Community Development Block Grant Program

Dear Mr. Moore:

This office is in receipt of the Discussion Draft Audit Report on Monmouth County's Community Development Program Audit sent to me by your office in anticipation of the exit conference scheduled for June 3, 2014.

We would like to offer the following information in response to issues identified in the draft report:

1.0 Allocation of Salary Costs Inadequately Supported:
County officials lacked adequate support for the allocation of the salaries of eight Community Development Division employees' who worked on multiple programs. Federal regulations require a reasonable basis for allocating costs among programs served. While these eight employees worked on multiple programs, $805,504, or 100 percent of their salary cost in program years 2011 and 2012, was charged to the CDBG program. This condition occurred because County officials misinterpreted HUD regulations, believing that there was no requirement to allocate employees' time among the various programs on which they worked and that any program could be charged the full cost. As a result, the $805,504 is considered as unsupported costs.

Comment 1

Response: The Community Development Division's understanding had been that CDBG funds could be used for activity delivery costs for its Housing Improvement Program activities, as long as the clients served were determined to be CDBG-eligible recipients. The County partnered with municipalities to leverage dwindling CDBG funding by using available municipal Mt. Laurel affordable housing trust fund dollars for construction hard costs. The misunderstanding that these Housing Improvement Activity Delivery Costs were permissible under the rules was reinforced by guidance provided in a HUD webinar published August 2011 on OneCDP, "IDIS in 90 Minutes -Common Mistakes Grantees Make in Reporting CDBG Data in IDIS". This webinar provides guidance on how to report units when CDBG is only used for activity delivery cost and not hard cost of housing rehabilitation.

Currently, the CD Division is reviewing staff assignments during the audit period to determine the portion of the $805,504 that may be ineligible for CDBG administrative expense according to the auditor's interpretation of the CDBG regulations.

Ref to OIG Evaluation	**Auditee Comments**

Comment 1

Staff is utilizing both CPD Notice 13-07, "Allocating Costs between Program Administrative Costs vs. Activity Delivery Costs in the Community Development Block Grant (CDBG) Program For Entitlement Grantees" issued by HUD on August 23, 2013 and the CDBG Memorandum "Using CDBG Funds in Implementing the HOME Investment Partnerships and Homeownership for People Everywhere Programs," issued June 9, 1993, to help guide the review of these expenditures. Based on the auditor's interpretation, the County will charge the Mount Laurel expenses to the Mount Laurel Trust Fund and reimburse the CDBG program accounts.

Comment 2

To strengthen internal controls with regard to documenting the validity of CDBG-funded salary expenses, the Community Development Division now requires staff to submit weekly timesheets identifying the hours worked on each program administered by the Division. Periodic account adjustments are made to ensure that in the future only salary expenses meeting the requirements of CPD Notice 13-07 are charged to the CDBG program.

Comment 3

In addition, while County policy provided that 63 percent of another Division employee's salary was to be allocated to the CDBG program, 100 percent was charged to the program in December 2011. The transaction error occurred due to a data entry error in December 2011. The CDBG Program will be reimbursed for the excess charges in the amount of $1,090.00.

2.0 Disbursements Reported in IDIS Did Not Reconcile with the County's Books

Review of County records for 1 of the 15 activities revealed that they did not reconcile with what was reported to HUD. County officials did not explain the discrepancies. Regulations at 24 CFR (Code of Federal Regulations) Part 85.20(b)(1) require that grantees maintain accurate financial records. We attribute this condition to weaknesses in financial controls related to reconciling the County's books and records to amounts reported in HUD's Integrated Disbursement and Information System (IDIS). Specifically, review of drawdowns in HUD's IDIS under activity 1618, planning and administration disclosed the following

• *$276,045 was drawn down for the activity; however, the County's books and records reported that $256,555 was expended. County officials could not explain the difference; therefore, we could not determine whether the difference of $19,490 was used for an eligible CDBG activity.*

• *IDIS showed that $126,112 was drawn down; however, the County's books reported that $113,334 was related to fringe benefits and the balance of $12,778 was charged to another IDIS activity. County officials could not explain the difference.*

• *$101,185 was incurred for housing rehabilitation, but it was charged to and drawn down under planning and administration. County officials said they charged planning and administration because there were insufficient funds in the housing rehabilitation program since the new housing improvement grant funds had not been received.*

As a result, the County lacked assurance that all funds were expended for eligible activities and the disbursements were accurately reflected in IDIS. Therefore, the County lacked assurance that $133,453 ($19,490, $12,778 and $101,185) was expended for eligible activities and disbursements were accurately reflected in IDIS.

Comment 4

Response:
The County without question expended the CDBG funds on eligible activities. The IDIS system itself has created many of these instances with the First In First Out methodology which makes it virtually impossible to reconcile the County's records to the IDIS system on an activity by activity basis. We could certainly reconcile total funding in the County's financial records across all program years to total funding in the IDIS system across all program years, but it is difficult to reconcile each activity and year individually.

Ref to OIG Evaluation	Auditee Comments
Comment 4	Attached is a memorandum from Clifford Taffet, Assistant Secretary (Acting) in the US Department of Housing and Urban Development received on May 9, 2014 to All CPD Formula Grantees and All CPD Field Offices which acknowledges that the IDIS First In First Out methodology does not comply with federal financial standards, and that the IDIS system must be reengineered to eliminate the First In First Out methodology. When this is complete, it will make it much easier for all grantees to reconcile their financial records to the IDIS system.
Comment 5	While the first item noted is true that $276,055 was drawn down under activity 1618, yet only $256,555 was expended in the County's financial records under activity 1618, the funds drawn down were for eligible CDBG expenses, but did not match between the 2 systems due to the issues with the IDIS software. The additional $19,490 was spent in the County's financial system under different activities, but drawn from activity 1618 in error due to the issues with IDIS and timeliness of grant receipts as will be further explained later in this response.
Comment 6	In the County's financial records, $12,777.93 was charged to activity 1462 and $113,334.41 was charged to activity 1618 for a total of $126,112.34 and paid by check on 11/20/12 to the County for reimbursement of fringe charges which are eligible CDBG administrative expenses. In the IDIS system the entire $126,112 was drawn down under activity 1618 on 10/18/12. Since there is not an audit trail in the IDIS system, it is difficult to determine what the system looked like during this time frame for the County to have made the draw in this manner, but I can only assume that the First In First Out methodology was the cause of the reporting difference. Just to reiterate, the funds were expended on eligible CDBG program expenditures and the only issue was the difference in reporting the activity between the two systems.
Comment 7	The third item noted in this comment was that $101,185 was spent and drawn down under CDBG administrative funds when in fact the funds were expended on housing rehabilitation activities. In this case the County did not receive the new grant year's allocation of housing improvement funds and had a need to expend these funds. The intention was to temporarily utilize the administration funds to cover the housing improvement costs until the new grant allocation was received, and then move the charges in both the County's financial records and the IDIS system to the appropriate categories. This step did not actually take place and needs to be corrected; however, the funds were spent on an allowable CDBG activity and the actual reporting was not reported properly.
Comment 8	The Community Development Division staff routinely reconciles the draw downs in the IDIS system to the County's financial records. However, due to the limitations in the IDIS system with the first in first out methodology, the County concentrated more on reconciling the entirety of our funding as opposed to activity by activity. As the IDIS system is reengineered to comply with federal financial standards, as well as, changes with internal County processes, the County will be able to do a better job of reconciling our financial records to the IDIS system on an activity by activity basis. In addition, there was a technical problem in the HUD IDIS whereby the County's 2011 CDBG total grant amount was set up incorrectly by HUD in the IDIS system. Because of this error on HUD's part, the County's 2011 allocation was "Inactive" in IDIS throughout FY 2011. HUD finally resolved the issue and the County was able to access funds on December 6th, 2011, only 25 days prior to the end of the County's program year. Despite this technical problem with IDIS, HUD issued the County's "Authorization to Use Funds" and expected the County to begin expending funds and meet CDBG expenditure deadlines. This situation made it difficult for the County CD Division staff to reflect disbursements with 100% accuracy in the IDIS system, and HUD program staff was made aware of the difficulties that CD staff was experiencing. Documentation of this technical problem with IDIS was provided to the auditor during the audit engagement. The County's financial records reflect that all funds were expended for CDBG-eligible activities. Discrepancies between the County's records and HUD's IDIS system resulted from difficulties in accurately being able to report expenditures in the IDIS reporting system.

Ref to OIG Evaluation	Auditee Comments

Comment 9

Additional internal control procedures are now being implemented by the Community Development Division and the County's Department of Finance to ensure County Financial Records are accurately reflected in the IDIS system on an ongoing basis, which will complement the implementation of the reengineered IDIS system that will comply with federal financial standards.

3.0 Unsupported and Unreported Program Income Receipts

While County officials reported in IDIS that $182,263 in program income was earned during fiscal year 2011, the County's financial records showed that $32,878 was received, and County officials provided support for only $24,338. Regulations at 24 CFR 570.504 require that the receipt and expenditure of program income be recorded as part of the financial transactions of the grant program. County officials stated that some of the program income reported in IDIS for 2011 was earned in 2010 and prior years but had not been recorded; therefore, it was reported in IDIS in 2011 but not in their financial records. In addition, the County's financial records showed that program income of $2,333 was received in August 2012, yet no program income was reported in IDIS until December 27, 2013, after we informed County officials that their records did not reconcile with HUD's. We attribute this condition to weaknesses in the County's accounting controls over recording program income.

Response:

Comment 10

The difference identified between the $32,878 received in 2011 and the $24,338.00, supported according to the auditor, totaling $8,540.00 can be supported, and documentation is attached to this response. On December 22, 2009 the County paid $8,540.00 to Jonelle Clark/Bremman Construction for housing rehabilitation expenses related to a residence in the Borough of Belmar. This expenditure was identified by CDBG staff as being incorrectly charged to the CDBG housing improvement program and should have been charged to Belmar's Mount Laurel Rehabilitation Trust fund. On April 13, 2011, the County issued a check out of Belmar's Mount Laurel Rehabilitation Trust fund and deposited those funds as a reimbursement of an incorrect expenditure to the CDBG account. This was not reported in the IDIS system as program income since it was correcting an incorrect entry, and the CDBG staff did not see this as program income. These funds were utilized to offset a later draw down since the funds were already in our bank account. This difference noted is clearly supported; however, we acknowledge that we may not have properly handled the recording of this entry in the IDIS system. CDBG staff will contact HUD to understand the proper handling of this type of situation in the IDIS system.

Comment 11

It should be noted that the while IDIS allows the County to enter transaction description details for program income receipts, the IDIS PR09 Program Income Detail Report by Fiscal Year and Program does not include these notations. The only way to view the transaction details for a receipt is to open the individual receipt record in IDIS, a very time consuming and confusing process. The OIG auditor was provided with documentation of the County's efforts to reconcile program income receipted by the County with that reported in IDIS. During this process, the amount receipted into the IDIS in 2011 that was not recorded in the County's financial records was to correct prior year's program income that was never receipted into the IDIS system. In other words the County accumulated a cash balance in the bank account that was recorded in the County's financial system over many, many years, but was never entered into the IDIS system as program income. The CDBG program had a change in management around this time, and the new management identified the discrepancies and entered corrections in the IDIS system to fix the errors that occurred over many years. This is the reason that $182,263 was receipted in the IDIS system in 2011 when the County's records only show receipts of $32,878. The difference of $149,985.00 was recorded in the County's financial records, but was not receipted into the IDIS system. Since prior period adjustments are not allowed in the IDIS system, it was not possible to associate the program income from the prior years with the appropriate prior year that the receipt was recorded in the County's financial system.

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Comment 11

The CD Division and the Department of Finance have instituted a new procedure, so that any new program income is immediately receipted in IDIS prior to forwarding to the Finance Department for deposit into the CDBG bank account. The CD Division's transmittal memo will now identify the IDIS receipt number, and a copy of the screen shot from IDIS of the recorded receipt will be attached. A notation will be included in the County's Financial Records to permanently record the IDIS receipt number, along with information identifying the source of the deposit. This should make matching the County's records to IDIS transactions easier in the future.

Comment 12

The HUD IDIS uses a First In- First Out (FIFO) reporting system, which is not an accounting system, and does not allow for prior period adjustments of errors or omitted transactions. The HUD Office of Inspector General and Office of Management and Budget have determined that this system does not comply with financial standards. The HUD Audit Report Number 2012-FP-0003 (dated November 15, 2011) cites numerous issues with IDIS including the fact that the system does not maintain an audit trail, and only maintains a record of the last change to a transaction. Because of this, it is very difficult to accurately maintain timely records of transactions within a given fiscal year.

4.0 Unsupported Program Income Disbursements

County officials' drew down program income in advance of disbursement to a subgrantee and disbursed the funds for work completed after the sub grantee's agreement had expired. Regulations at 24 CFR 85.20(b)(7) provide that a grantee must make drawdowns as close as possible to the time of making disbursements. However, while County officials drew down $122,150 in program income on October 23, 2012, the funds were not disbursed to the sub recipient until October 22, 2013, 1 year later.

In addition, regulations at 24 CFR 570.503 provide that a written agreement must be signed before CDBG funds are disbursed to a sub recipient and the agreement should remain in effect during any period in which the sub recipient has control over CDBG funds. However, while the sub recipient agreement expired in November 2012, project documentation disclosed that the project was not completed until June 2013, and County officials disbursed the $122,150 and an additional $29,848 on October 22, 2013, in response to the sub grantee's request for reimbursement of $151,998 on October 7, 2013.

County officials stated that the subgrantee did not provide supporting documents until October 7, 2013, due to flood damage it incurred in October 2012, but did not know why the $122,150 was drawn down in October 2012 and the sub recipient agreement had not been extended. In addition, County officials did not provide supporting documents for the disbursement of additional program income of $3,736 ($1,403 and $2,333 for 2011 and 2012, respectively); therefore, we considered these amounts to be unsupported.

Comment 13

Response:

The draw down identified above occurred approximately one week prior to the onset of Superstorm Sandy, which devastated the coastal sections of Monmouth County, including this municipal subgrantee. Most of Monmouth County was without electrical power for several weeks, and County offices were closed for approximately one week. Because of these extremely unusual circumstances, the error in the IDIS draw request was not immediately identified by CD Division staff. Because the draw was a program income item, it did not appear on the CDBG bank statement as an incoming wire transfer. The non-cash program income draw was not detected.

The subgrantee had a CD Division approved contract in place, the construction contract had been awarded and signed, and the road construction work had begun prior to Superstorm Sandy. Adequate work had been completed to bill the County for reimbursement, but because the subgrantee had to respond to urgent needs during the state of emergency, the paperwork required for billing was delayed.

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Comment 13

The subgrantee municipality's residents sought shelter and relief services at the municipal building, which was converted to an ad-hoc FEMA relief site. Extension of the subgrantee agreement with the County was overlooked during this crisis situation.

Subsequently, the County worked with the subgrantee to obtain all the paperwork necessary to document compliance with federal wage and hour requirements, and contract billing. Payment was not issued to the subgrantee until all documentation was obtained, to safeguard CDBG funds. Because this was a program income draw item, it was not revised in IDIS. The County's portion (approximately one fourth of the $571,240 total contract) was physically completed well in advance of the October 7, 2013 final payment to the sub recipient. All funding for this project was expended for CDBG eligible costs. The technical oversight of not extending the project agreement in writing should not trigger repayment of these funds. The County will strengthen its internal control systems to ensure that expiring project agreements are identified and if the circumstances merit, formally extended in writing by both parties.

5.0 Housing Rehabilitation Assistance Loan Not Repaid and HUD's Interest Not Protected

Review of files for eight homeowners assisted under housing rehabilitation activities noted issues with two cases. In the first case, County officials did not exercise the provision in the County's policy and mortgage note that the interest-free loan for rehabilitation assistance must remain a lien on the borrower's premises for a period of 10 years, and must be repaid in the event of the borrower's death or if the property is sold and the title is transferred or conveyed within 10 years of the date of the mortgage note. County officials had provided a $50,265 10-year interest-free deferred loan in March 2010; however, they lacked evidence that they obtained or pursued repayment of the loan upon the homeowner's death in August 2010.

In the second case, County officials provided a 10-year, interest-free deferred loan and executed a $20,800 mortgage note for homeowner rehabilitation; however, additional work due to a change order increased the CDBG assistance provided to $25,155. County officials stated that the homeowner refused to sign a mortgage modification to increase the note to $25,155, and they had not taken legal action to increase the lien. Consequently, the County could suffer a loss of $4,355 in program income due to the under-recorded mortgage if the property is sold or transferred in less than 10 years. We attribute these conditions to oversights in ensuring that program requirements were met.

Response:

The Community Development Block Grant regulations do not require the County to lien the Housing Improvement Program recipient's property. This decision to institute a 10-year interest-free loan is a County policy. Repayment of the loan is required only in the event that the property does not remain the homeowner's primary residence for the 10-year loan period. After 10 years, the loan converts to a grant, and the County cancels the mortgage and the homeowner has no obligation to repay.

Comment 14

In the first instance cited above, the County was advised of the homeowner's death in August 2010, and advised by the executor of the homeowner's estate the estate was in probate. The County expected the loan to be repaid during the probate process, but to date, the County has not been advised that the estate proceedings have been concluded. The mortgage remains in effect, and a sale of the property should trigger the repayment of the loan. The County will refer the matter to County Counsel to determine the status of the estate and pursue possible legal remedies to obtain repayment.

In the second instance, the County initially placed a mortgage on the homeowner's property prior to beginning the rehabilitation work. During construction, the homeowner was unsatisfied with the original contractor on the project. The County's inspector felt the work completed to date was adequate, but to satisfy the client's concerns, another contractor was engaged to complete the rehabilitation. The cost differential between the first and second contractor was the $4,355 identified by the auditor.

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At the conclusion of the project, the client refused to sign the mortgage modification agreement to add this cost to her mortgage. The County decided not to pursue legal action against the client, as the immediate cost to the

Comment 15

CDBG Program in staff resources and legal fees would likely exceed the amount available to recoup. Given that the loan would only be repaid in the event that that client sold the home before the end of the 10 year lien period, the costs to pursue enforcement would likely have exceeded the benefit of any potential program income in this instance.

Draft Audit Report Conclusion

Although County officials expended CDBG program funds for eligible activities, several control weaknesses need to be strengthened. Specifically, salary costs of employees who worked on multiple programs were disbursed without adequate support for their allocation, disbursements recorded in County records did not always reconcile with those reported to HUD, accounting for program income was not adequate, housing rehabilitation assistance was not recovered from one recipient in accordance with the County's policy, and a mortgage note on assisted property was under-recorded. We attribute these conditions to County officials' unfamiliarity with HUD regulations and weaknesses in their accounting for salary allocations and program income, and a lack of oversight to ensure that the County met loan requirements.

The County has reviewed the recommendations of the Draft Audit Report including significant deficiencies and has provided detailed responses and appropriate remedies to adequately address the report's findings. The County is dedicated to maintaining adequate controls over the costs charged to the CDBG program as well as the reliability of data reported in IDIS, despite the deficiencies identified in HUD's own internal audit of its' financial reporting systems. It should be reiterated that HUD's IDIS system is in the process of a complete overhaul because it does not comply with federal financial standards. When this process is complete and the County is working with the reengineered IDIS system, many of the issues noted in this report will be easily corrected in concert with the new policies and procedures the County has implemented to further ensure compliance with HUD's requirements.

We wish to thank you for the professionalism exhibited by your audit team during their assignment here in Monmouth County. The County looks forward to working with the HUD Newark office to resolve the issues identified and implement procedures that will strengthen internal controls over the CDBG Program.

Sincerely,

Craig R. Marshall

Craig R. Marshall
Director of Finance

OIG Evaluation of Auditee Comments

Comment 1 County officials acknowledged that they misinterpreted guidance provided in a HUD webinar published in August 2011, which could have caused improper allocation of salaries. County officials said that they are reviewing County staff assignment documentation to determine what amount of the $805,504 questioned may be ineligible and should be repaid to the CDBG program. This documentation will need to be reviewed by HUD during the audit resolution process to confirm any ineligible allocated salary cost.

Comment 2 County officials noted that they have strengthened controls over salary allocation by instituting time sheet procedures to accurately track staff time spent on each program administered by the County officials. This is responsive to our recommendation and will need to be verified by HUD during the audit resolution process.

Comment 3 County officials agreed to reimburse the CDBG program for the ineligible salary cost as we recommended.

Comment 4 County officials stated that reported discrepancies in disbursements between what was reported in IDIS and the County's records were caused by the first-in first out (FIFO) methodology for grant accounting used by IDIS. IDIS does charge drawdowns from the oldest budget fiscal year appropriation's (grant year) funding source available at the time of the drawdown without regard to the original source of funding (referred to as FIFO). However, this methodology should not have prevented reconciliation of drawdowns by activity between IDIS and the County's records. Therefore, as explained in comments below County officials will need to provide documentation to HUD to support the $133,453 to HUD.

Comment 5 County officials agree that the difference between IDIS and the County's records of $19,490 reported for activity 1618 was because it was charged to an activity other than activity 1618 in the County's records. County officials will need to provide documentation to HUD during the audit resolution process that the $19,490 was disbursed for an eligible CDBG activity.

Comment 6 County officials acknowledge that, while $126,112 was drawdown and reported in IDIS under activity 1618, on the County's records $113,334 was charged to activity 1618, but $12,778 was charged to activity 1462. County officials will need to provide documentation to HUD during the audit resolution process that the $12,778 was disbursed for an eligible CDBG activity.

Comment 7 County officials stated that they used CDBG planning & administration funds for housing improvement activity expenses because the new grant year's funding was not received , and that they had intended to make an adjusting entry in IDIS and the County's records when the grant funds were made available. County officials acknowledged that this adjustment was not made. Therefore, County officials will need to make the adjustment and provide documentation to HUD during the audit resolution process that the $101,185 was expended for an eligible housing improvement activity.

Comment 8 County officials stated that due to limitations with the FIFO methodology used in IDIS, they concentrated more on reconciling the entirety of their funding as opposed to activity by activity. Nevertheless, County records and IDIS should be reconciled on an activity by activity basis.

Comment 9 County officials stated that additional internal control procedures are being implemented to ensure that the County's records will be accurately reflected in IDIS. This is responsive to our recommendation and the adequacy of these procedures will need to be verified by HUD during the audit resolution process.

Comment 10 County officials provided documentation to support that $8,540 should not be considered program income, but rather was an adjustment to correct an erroneous entry in a prior year. Therefore, we deleted the phrase that County officials provided support for only $24,338. Nevertheless, County officials acknowledged that this may not have been properly recorded in IDIS and have agreed to consult with HUD on its proper treatment.

Comment 11 County officials acknowledged that $149,985 of program income earned over many years had not been reported in either the County's records or IDIS, and that once the oversight was noted, an adjustment was made to the County's records to report the program income. However, County officials stated that it was not possible to associate the prior year program income with the appropriate prior year in IDIS. County officials will need to work with HUD during the audit resolution process to reconcile County records with IDIS. County officials have implemented a new procedure to record new program income in the IDIS system, which is responsive to our recommendation.

Comment 12 While the FIFO methodology used in IDIS has been recognized by HUD as having limitations, these limitations should not have prevented County officials from recording program income receipts and disbursements into IDIS in a timely manner and periodically reconciling IDIS with the County's records. County officials should contact the HUD Newark field office when technical assistance is needed.

Comment 13 County officials acknowledged that the error in this IDIS drawdown went unnoticed due to subsequent events beyond their control, which we acknowledge. However, County officials should not drawdown funds in advance of need and without obtaining adequate supporting documentation. Therefore, County officials will need to provide documentation to HUD during the audit resolution process to support that $122,150 was expended in a timely manner for an eligible activity. If adequate support cannot be provided, the amount should be reimbursed from non-Federal funds.

In addition, during the audit resolution process with HUD, County officials will need to provide documentation to support that $3,736, which County officials did not address in their comments, was expended for eligible activity.

Comment 14 County officials stated that CDBG regulations do not require the County to impose a lien on program participants' property. However, the County's Housing Improvement program policy does require recording a mortgage in the amount of assistance provided to protect HUD and the County's interest, and require repayment in the event of the borrower's death or if the property is sold and the title is transferred or conveyed within 10 years. Consequently, the County has agreed to refer the matter to its Counsel for possible legal remedies to collect the $50,265.

Comment 15 As recommended in the report, County officials should increase the housing rehabilitation loan lien by $4,355 to protect HUD's interest in the additional amount loaned or reimburse the CDBG program that amount from non-Federal funds. As a part of the audit resolution process with HUD, County officials will need to obtain HUD's approval for not pursuing legal action.