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City of Jersey City, NJ

HOME Investment Partnerships Program

2014-NY-1009

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TO: Anne Marie Uebbing
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//SIGNED//

FROM: Edgar Moore
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SUBJECT: The City of Jersey City, NJ's HOME Investment Partnerships Program Administration Had Financial and Administrative Control Weaknesses

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 Jersey City, NJ's HOME Investment Partnerships Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.

September 18, 2014

The City of Jersey City, NJ's HOME Investment Partnerships Program Administration Had Financial and Administrative Control Weaknesses

Highlights

Audit Report 2014-NY-1009

What We Audited and Why

We audited the City of Jersey City, NJ's HOME Investment Partnerships Program based on a risk assessment that considered the amount of funding, the risk score assigned to it by the U.S. Department of Housing and Urban Development (HUD), and general congressional interest in the HOME program. The objective of the audit was to determine whether City officials had established and implemented adequate controls to ensure that the HOME program was administered in compliance with program requirments and Federal regulations.

What We Recommend

We recommend that HUD recapture $1.5 million in uncommitted and unexpended funds; and instruct City officials to deobligate a commitment of more than $1.48 million for a canceled project; reimburse $566,873 expended for an ineligible use and provide documentation to support that $949,362 was expended for eligible activities; remove $4.36 million in ineligible HOME match funds from the City's match report; and record in HUD's Integrated Disbursement and Information System (IDIS) the receipt of $803,710 and the use of $289,858 in program income.

What We Found

The City's HOME program was not always administered in compliance with program requirements. HOME funds were not always properly committed, expended, or reported in compliance with program requirements due to the City's inadequate controls over recording and reconciling of its commitment and expenditure of funds. Therefore, more than $1.5 million was not committed and expended in a timely manner and more than $1.48 million of ineligible commitments were made.

HOME funds were expended on ineligible and unsupported costs due to inadequate monitoring of the City's subgrantees. Therefore, $566,873 was not available for eligible activities and there is no assurance that $949,362 was expended for eligible HOME activities.

HOME match contributions were not always eligible or adequately supported. This was due to untimely updating and tracking of HOME match contributions reported to HUD and control weaknesses over monitoring HOME match agreements. Therefore, $4.36 million in ineligible match contribution was reported and HOME rent limits were not established for properties assisted with more than $1.28 million in HOME match funds.

HOME program income was not properly reported and used before entitlement funds. We attribute this to incorrectly setting up activities in IDIS, and lack of knowledge for reporting program income in IDIS. Therefore, $803,710 in program income was not recorded in IDIS and used before entitlement funds, and the use of $289,858 in program income was not recorded in IDIS.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships Program, authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, is designed to create affordable housing opportunities for low-income households. The HOME program is the largest Federal block grant program, through which the U.S. Department of Housing and Urban Development (HUD) has allocated approximately $2 billion annually in formula grants to States and hundreds of local governments for creating affordable housing for low-income households. Grantees are required to provide matching funds of 25 percent from non-Federal sources. HOME program regulations are found at 24 CFR (Code of Federal Regulations) Part 92. HUD has provided additional guidance in its guidebook entitled "Building HOME," dated February 2006.

The HOME program allows States and local governments flexibility to use HOME funds for a variety of activities to address local housing needs. Funds may be used to support eligible activities through grants, direct loans, loan guarantees or other forms of credit enhancement, or rental assistance or security deposits. Participating jurisdictions may choose among a broad range of eligible activities, including home purchase or rehabilitation financing assistance to eligible homeowners and new home buyers, building or rehabilitating housing for rent or ownership, or for other reasonable and necessary expenses related to the development of nonluxury housing, including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted development, and payment of relocation expenses.

HUD awarded the City of Jersey City more than $2.88 and $1.57 million in HOME funds for program years 2011 and 2012, respectively. The City's HOME program is administered by its Community Development Division, which is located at 30 Montgomery Street, Jersey City, NJ. The city council is the legislative branch of the City government and consists of six ward councilpersons and three at-large (elected citywide) councilpersons.

The City's HOME program assisted different types of housing activities, including first-time home buyer, home buyer and home ownership, and rental housing activities. However, the majority of the City's HOME drawdowns in program years 2010 through 2012 were provided for the acquisition, rehabilitation, and new construction of rental, home buyer, and home ownership activities rather than first-time home buyer activities.

The objective of the audit was to determine whether City officials had established and implemented adequate controls over the City's HOME program to ensure that the program was administered in compliance with program requirements and Federal regulations.

RESULTS OF AUDIT

Finding 1: City Officials Did Not Ensure That HOME Funds Were Committed, Expended, and Reported in Compliance With Program Requirements

City officials did not always ensure that the City's HOME funds were committed, expended, and reported in compliance with HOME program regulations. Specifically, HOME funds (1) were not committed and expended in a timely manner; (2) remained committed in HUD's Integrated Disbursement and Information System (IDIS)[1] for a terminated project; (3) were not deposited into the HOME trust account when reimbursed; (4) were disbursed for unsupported planning, administrative, and program costs and in excess of the 10 percent limit; and (5) did not always reconcile between IDIS and the City's accounting records. We attribute these deficiencies to weaknesses in procedures to track the commitment and expenditure of HOME funds, ensuring that funds were expended for eligible costs and properly reimbursed, and reconciling financial information reported in IDIS with the City's accounting records. As a result, more than $3.2 million in HOME funds was not made available for eligible activities in a timely manner; $266,463 and $9,371 in HOME funds were used for ineligible and unsupported costs, respectively; and $118,561 in HOME funds was not accurately recorded in IDIS.

HOME Funds Not Committed in a Timely Manner

City officials did not commit $464,663 of the City's program year 2011 accumulated entitlement funds in a timely manner as required. Regulations at 24 CFR (Code of Federal Regulations) 92.500(d)(1)(B) provide for the reduction or recapture of any HOME funds that are not committed within 24 months after the last day of the month in which HUD notifies the grantee that its HOME agreement has been executed. Regulations at 24 CFR 92.2 define commitment as when the grantee executes a legally binding agreement with a subgrantee. While $59.3 million in accumulated HOME funds was required to be committed by July 31, 2013, $464,663[2] was not committed by this deadline. We attribute this condition to City officials' failure to deobligate in IDIS a $2 million commitment

[1] The Integrated Disbursement and Information System (IDIS) is the drawdown and reporting system for all of HUD's Office of Community Planning and Development (CPD) formula grant programs including the HOME program, which is the focus of this audit report.

[2] Of the City's $60.8 million accumulated commitment reported in IDIS as of July 31, 2013, $2 million related to the cancelled project, leaving reported eligible commitments of $58.8 million. Since the City's required commitment was $59.3 million, there was a commitment shortfall of $514,663. However, since $50,000 of the shortfall is questioned in recommendation 2G, we removed this amount to avoid duplication and $464,663 is considered to be a commitment shortfall.

for a housing project that was terminated on September 12, 2012, which caused the officials to believe that more funds than needed had been committed within the time limits. As a result, $464,663 of the City's HOME funds was not available for commitment to other eligible HOME activities.

HOME Funds Not Expended in a Timely Manner

City officials did not expend the City's program years 2005 through 2007 accumulated entitlement funds in a timely manner. Regulations at 24 CFR 92.500(d)(1)(C) provide for the reduction or recapture of HOME funds that are not expended within 5 years after the last day of the month in which HUD notifies the grantee that its HOME agreement has been executed. Community Planning and Development (CPD) Notice 01-13, section V, provides that the 5-year deadline occurs 5 years after the last day of the month in which HUD notifies the grantee that it has executed the HOME agreement. However, City officials did not expend more than $1 million of the City's HOME funds in the required timeframe as follows:

Program year	Deadline for expenditure	Amount not expended by the deadline
2005	07-31-2010	$ 158,559
2006	04-30-2011	598,015
2007	05-31-2012	303,955
Total		$1,060,529

We attribute this deficiency to weaknesses in the City's controls over monitoring the progress of funded housing projects, which hampered its ability to ensure that HOME funds were expended within the required timeframes. As a result, more than $1 million in HOME funds was not available to fund other eligible HOME activities in a timely manner.

Funds Committed for a Terminated Project

City officials continued to report $2 million as a commitment in IDIS for a rental housing project that was terminated on September 12, 2012. Regulations at 24 CFR 92.2(1) provide that funds are committed when a participating jurisdiction executes a legally binding agreement with a subgrantee to use HOME funds. When the project was terminated, there was no longer a legally binding agreement, and the funds should have been deobligated. We attribute this deficiency to weaknesses in the City's controls over monitoring the status of HOME-funded projects to ensure that funds are deobligated when funded projects are terminated. As a result, more than $1.48[3] million was not made available for other eligible HOME program activities, and the City's accumulated commitment in IDIS was overstated by more than $1.48 million.

Funds Disbursed for Ineligible Costs and a Terminated Project

City officials disbursed funds for ineligible HOME costs and a terminated project. Regulations at 24 CFR Part 225, appendix (A)(C)(1), provide that costs allowable under Federal awards must be necessary and reasonable for proper and efficient performance and administration of Federal awards. City officials disbursed $23,549 for water and sewer connection fees , $2,100 for costs associated with a canceled project, and $4,375 to replace rollup doors for the nonresidential portion of a mixed-use project—which are ineligible HOME program costs according to 24 CFR 92.214(a)(9) and 503(b)(2). Therefore, the use of the $30,024 was neither necessary nor reasonable for the administration of the City's HOME program. We attribute this deficiency to weaknesses in the City's financial controls that did not safeguard assets by preventing the charging of costs to the HOME program that were not applicable. As a result, $30,024 in HOME funds was not available for other eligible HOME activities.

Funds Reimbursed Not Deposited Into the Trust Account

City officials deposited $190,000 in reimbursed HOME entitlement funds from the City's affordable housing trust fund into the City's local bank account instead of its HOME Investment Trust Fund treasury account. Regulations at 24 CFR 92.503(b)(3) provide that reimbursement of HOME funds disbursed from the participating jurisdiction's HOME Investment Trust Fund treasury account must be repaid to that account. We attribute this deficiency to weaknesses in the City's financial controls for ensuring that reimbursed funds are properly recorded and accounted for in compliance with HOME program requirements. As a result, the City's HOME Investment Trust Fund account was understated by $190,000, and there was no assurance that the $190,000 was or would be used for eligible HOME activities.

[3] The $2 million includes the $464,663 questioned in recommendation 1A and the $50,000 questioned in recommendation 2G. Therefore, the questionable amount should be $1,485,337 ($2,000,000 - $514,663) to avoid duplicate counting of questionable costs.

Unsupported Use of HOME Funds for Administrative Costs

City officials did not maintain documentation to support that HOME funds used for program planning and administrative costs complied with program requirements. CPD Notice 97-09, section II (B), requires a participating jurisdiction to maintain records that adequately identify the source and application of its HOME funds, and 24 CFR 92.207 provides that no more than 10 percent of HOME funds may be expended for program administrative and planning costs. The City's HOME cash account reported $534,191 as available, which would limit its disbursement for planning and administrative costs to $53,419; however, the City disbursed $289,858 from its HOME cash account for planning and administrative costs. Thus, $236,439 ($289,858 less $53,419) was considered ineligible. In addition, the source and use of $93,711 of the $534,191 was not identified. Thus, 10 percent, or $9,371, is considered an unsupported use of HOME funds for planning and administrative expenses until documentation is made available to support the use of the $93,711 for eligible HOME costs other than HOME planning and administrative costs. We attribute this deficiency to weaknesses in the City's financial controls over tracking the source and the use of HOME funds. As a result, $236,439 was not available to fund other eligible activities, and there was no assurance that the $93,711 was used for eligible HOME activities.

Information in IDIS Not Always Reconciled With the City's Accounting Records

Information recorded in IDIS did not always reconcile with information in the City's accounting records. Regulations at 24 CFR 85.20(b)(2) require grantees to maintain accurate financial records. However, the City's accounting records showed that $16,192 in HOME program income was used for two separate housing activities; although $10,325 of the $16,192 was recorded in IDIS as a use of entitlement funds, the use of the remaining amount of $5,867 was not recorded in IDIS. In addition, a drawdown of $102,369 for a home ownership project was mistakenly recorded in IDIS as a drawdown for a rental housing project. We attribute this deficiency to weaknesses in the City's financial controls to ensure that financial information reported in IDIS reconciles to financial information recorded in the City's accounting records. As a result, HOME program income in the City's accounting records was understated by $16,192, and the use of $102,369 in HOME program income recorded in IDIS was not traceable to the correct HOME housing project in the City's accounting records.

Conclusion

City officials did not ensure that HOME funds were committed, expended, and reported in compliance with program requirements. Consequently, funds were not made available for eligible projects, were disbursed for unsupported activity, and were not reconciled between IDIS and the City's records. We attribute these deficiencies to weaknesses in procedures that led to not tracking the commitment and expenditure of HOME funds in a timely manner, ensuring that funds were expended for eligible costs and properly reimbursed, and reconciling financial information reported in IDIS with the City's accounting records.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to

1A. Repay the $464,663 not committed within the required timeframe so that these funds can be recaptured in accordance with Federal regulations.

1B. Repay the $1,060,529 not expended within the required timeframe so that these funds can be recaptured in accordance with Federal regulations.

1C. Deobligate the $1,485,337 committed to a canceled project, thus ensuring that these funds can be put to better use.

1D. Develop financial controls to ensure that HOME funds are committed, expended, and reported in compliance with program requirements and deobligated when previously approved HOME projects are canceled.

1E. Reimburse the City's HOME program line of credit $30,024 from non-Federal funds for the ineligible and duplicate payments and a payment for a terminated project made with HOME funds.

1F. Strengthen the City's financial controls to provide greater assurance that HOME funds are used for eligible and reasonable HOME costs.

1G. Reimburse its HOME Trust Investment Fund treasury account for the $190,000 deposited into the City's local bank account, thus ensuring that these funds can be used for eligible HOME activities.

1H. Strengthen financial controls to provide greater assurance that reimbursement of drawdowns from the City's HOME Investment Trust Fund treasury account are deposited into the account if they are not immediately needed.

1I. Reimburse the City's HOME program income account for the $236,439 disbursed in excess of the allowable limit for planning and administrative costs.

1J. Provide documentation for the unsupported source and use of $93,711 so that 10 percent, or $9,371, disbursed for planning and administrative costs can be considered eligible administrative expenses, and if documentation cannot be provided, reimburse the City's HOME program account from non-Federal funds.

1K. Establish and implement financial controls to ensure that program income is properly reported in IDIS and is not used for program administrative costs in excess of the 10 percent limit.

1L. Reconcile the $118,561 ($16,192 + 102,369) discrepancy between the City's accounting records and financial information reported in IDIS to ensure that these funds have been put to their intended use.

1M. Strengthen the City's financial controls to ensure that the City's accounting records are reconciled to IDIS information.

Finding 2: Administrative Controls Did Not Ensure Compliance With Program Requirements

City officials did not implement adequate administrative controls to ensure that they administered the City's HOME program in compliance with HOME program requirements. Specifically, HOME funds were disbursed for ineligible and unsupported activities, a deed restriction or other mechanism was not always imposed on assisted properties, and program files lacked required documentation, such as environmental clearances, tenant eligibility support, and subrecipient agreements. We attribute these deficiencies to inadequate monitoring of the City's community housing development organizations (CHDO), a lack of communication with a City subgrantee, and a lack of adequate program training to ensure compliance with program requirements. As a result, $250,410 in HOME funds was used for ineligible activities, more than $1.3 million in HOME funds was not used in an effective manner, and $459,991 in HOME funds was used for an unsupported activity.

HOME-Assisted Units Sold to Ineligible Home Buyers

City officials awarded and disbursed $250,410 in HOME funds to two subgrantees for the construction and rehabilitation of housing units, which were later sold to two ineligible home buyers. Regulations at 24 CFR 92.254(a)(3) provide that HOME-assisted home ownership housing units must be acquired by a home buyer whose family qualified as a low-income family, and 24 CFR 92.2 provides that a low-income family means a family with an annual income that does not exceed 80 percent of the median income for the area. The income of both of these homeowners exceeded this requirement. We attribute this deficiency to weaknesses in the City's administrative controls over determining applicant eligibility, which allowed home buyer assistance to ineligible families. As a result, $250,410 was not available to assist eligible home buyers.

Lack of Documentation To Support the Eligibility of a HOME Housing Activity

City officials disbursed $464,366 from the City's HOME funds for the acquisition and rehabilitation of a rental housing activity without maintaining documentation to support compliance with the maximum HOME subsidy limit, the environmental clearance process, and the identification of the sources and application of program income generated from the activity. Regulations at 24 CFR 92.508(a) provide that participating jurisdictions must establish and maintain sufficient records to enable HUD to determine whether rental housing complies with the HOME program maximum per-unit subsidy, environmental review requirements at 24 CFR 92.352 and Part 58, regarding the source and application of program income. We attribute this deficiency to weaknesses in the City's administrative controls over monitoring its subgrantees. As a result, there is no assurance that $459,991[4] was expended on an eligible HOME rental housing project.

Funds Provided to CHDOs Were Inadequately Supported

City officials disbursed $535,255 in HOME CHDO reserve funds and $50,000 in a CHDO predevelopment loan to two CHDOs without adequate documentation showing that the organizations qualified as CHDOs. Regulations at 24 CFR 92.2 provide that to be eligible as a CHDO, an organization must document that among its purposes to provide decent housing that is affordable to low- and moderate-income people, at least one-third of its governing board should be representatives of low-income communities and no more than one-third should be public officials or appointees of State or local government. The CHDO should also maintain a financial management system that conforms to the financial accountability standards at 24 CFR 84.21.

However, neither of the two CHDOs had bylaws, articles of incorporation, or resolutions to support that at least one-third of its board was composed of representatives of low-income communities and no more than one third of its board members were public officials, or appointees of State or local governments as required. In addition, the CHDO that received $535,255 in CHDO reserve funds did not have a financial management system that conformed to 24 CFR 84.21 when it was certified and did not have documentation to show that providing decent housing that is affordable to low-and moderate-income people was among its purposes in its bylaws, articles of incorporation, or resolutions. We attribute these deficiencies to City officials' lack of training on the requirements to qualify as a CHDO. As a result, the City's CHDO reserve reported in IDIS was overstated by the ineligible $535,255, and $50,000 was not available to an eligible CHDO for predevelopment loans.

Further, City officials waived a repayment of the CHDO's $50,000 predevelopment loan without adequate justification. Regulations at 24 CFR 92.301(b)(3) provide that a participating jurisdiction may waive repayment of a predevelopment loan in whole or in part if there are impediments to project development that the participating jurisdiction determines to be reasonably beyond the control of the CHDO. However, City officials lacked documentation to determine whether the loan was properly waived. We attribute this deficiency to weaknesses in the City's administrative controls related to maintaining

[4] The $459,991 is computed by taking the original disbursed amount of $464,366 less $4,375, which is questioned in recommendation 1E as a part of the $30,024 ($23,549+2,100+ $4,375) to avoid duplicate counting of same questionable amounts.

documentation to ensure that loan repayment waivers are adequately supported. As a result, $50,000 in HOME funds was not available for eligible HOME activities.

Deed Restriction Not Imposed on Three Assisted Properties

City officials did not impose deed restrictions or other similar mechanisms on two properties[5] assisted with $518,250 in HOME funds and another property assisted with $299,744 in HOME match funds. Regulations at 24 CFR 92.252(e) and 254(a)(5) provide that a deed restriction, covenant running with the land, or other similar mechanism must be imposed on property assisted with HOME and eligible HOME match contribution funds. We attribute this deficiency to an oversight in implementing the City's controls, which ensured that HUD's and the City's interest of $817,994 ($518,250 + 299,744) in the properties was protected during the period of affordability. As a result, there was no assurance that the three properties would remain affordable during the affordability period as required.

Funds Committed Without Environmental Clearance

City officials committed HOME funds in IDIS for two housing projects before completing the required environmental clearance process. However the environmental clearance was completed within a month of the subgrantee agreement dates. CPD Notice 01-11, section IV, provides that the participating jurisdiction must not execute a legally binding agreement for property acquisition, rehabilitation, conversion, repair, or construction until environmental clearance has been obtained. However, more than $2.5 million was committed via legally binding subgrantee agreements for two housing projects before this clearance was obtained. We attribute this deficiency to weaknesses in the City's administrative controls to ensure that all environmental requirements were met before the commitment deadline for HOME funds. As a result, there was no assurance that these projects met environmental requirements before funds were committed; however, we do not take a monetary exception since the clearance was obtained within a month of committing the funds.

[5] One of the two properties is a HOME assisted rental property, which is currently owned by the City of Jersey City and will be transferred /sold to a subgrantee in the future. The other property was acquired by a subgrantee with HOME funds; however, it is currently owned by a different subgrantee that plans to ready it as a for sale home in the future.

Lack of Documentation To Support Compliance With Rental Housing Requirements

City officials did not maintain adequate documentation, such as lease agreements and income documentation, including pay stubs for household members; to support compliance with HOME rent limits and the income eligibility of tenants occupying three of the four reviewed rental units. Regulations at 24 CFR 508(a) provide that a participating jurisdiction must establish and maintain sufficient records to demonstrate that each family is income eligible and that each rental housing project meets the affordability and income targeting requirements for the required period. We attribute this deficiency to weaknesses in the City's monitoring of its subgrantee and the City's Real Estate Management Division staff's lack of familiarity with HOME program requirements. As a result, there was no assurance that the three rental housing units were rented and occupied in compliance with HOME program requirements.

Program Administration Not Always Compliant With Program Requirements

City officials did not always maintain proper documentation in their HOME program files to support that funds were disbursed in compliance with HOME program requirements. Specifically,

- HOME funds of $480,000 were awarded and disbursed to 1 of the 16 rental and home ownership activities reviewed (IDIS activity 897) without evidence that a subgrantee agreement and certificate of occupancy were executed to support the eligibility of the housing project. Regulations at 24 CFR 92.508(a) require that each participating jurisdiction establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements at 24 CFR Part 92, which provide that housing constructed or rehabilitated with HOME funds must meet all applicable local codes, and zoning ordinances at the time of project completion.

- HOME funds were both committed and expended before subgrantee agreements were executed. Funds were reported as committed in IDIS for 10 of 15 rental and home ownership properties and were disbursed for 4 of 15 rental and home ownership properties reviewed before HOME subgrantee agreements were executed. This action is contrary to 24 CFR 92.2, which provides that funds are committed when a legally binding agreement is executed between the grantee and the subgrantee, and 24 CFR 92.504(b), which requires a grantee to enter into a written agreement with a subgrantee that ensures compliance with the requirements of Part 92 before disbursing any HOME funds to any entity.

- Interest income on HOME assistance recipients' bank accounts was not calculated when determining the income eligibility of 7 of 10 home buyers, contrary to 24 CFR 92.203, which provides that income includes interest, dividends, and other net income of any kind from real or personal property.

We attribute the deficiencies described above to weaknesses in the City's administrative controls over monitoring HOME activities for compliance with program requirements. As a result, there was no assurance that the City's HOME housing activities were always administered in compliance with program requirements.

Conclusion

Administrative control weaknesses led to noncompliance with program requirements. Specifically, City officials did not implement adequate controls to ensure that (1) HOME-assisted units were sold to eligible home buyers, (2) deed restrictions were imposed on HOME-assisted properties, (3) CHDOs were certified and recertified in compliance with program requirements, (4) the environmental clearance process was completed before funds were committed in IDIS, (5) documentation was maintained to support HOME activities' compliance with program requirements, (6) interest income was considered in calculating home buyers' income eligibility, and (7) HOME program activities were administered in compliance with program requirements and Federal regulations. As a result, HOME funds of $250,410 and $459,991 were expended on ineligible and unsupported costs respectively and more than $1.3 million in HOME funds was not used in an effective manner. We attribute these deficiencies to inadequate training to ensure the eligibility of HOME-assisted home buyers, inadequate monitoring of the City's CHDOs, a lack of communication with a City subgrantee, and unfamiliarity with administrative program requirements.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to

2A. Reimburse the City's HOME program line of credit $250,410 from non-Federal funds for HOME assistance expended on housing units acquired by two ineligible home buyers.

2B Provide training to program employees to ensure that they certify HOME-assisted home buyers in compliance with program requirements.

2C. Provide documentation to support compliance with the maximum HOME subsidy limits, the environmental review process, and the use and application of program income for the unsupported housing activity or repay $459,991 from non-Federal funds to the City's HOME program line of credit.

2D. Strengthen controls to ensure that documentation to support compliance with HOME program requirements is maintained as required.

2E. Reduce the City's CHDO reserve balance for the ineligible $535,255 reported in IDIS.

2F. Provide training to program employees to ensure that the City's CHDOs are certified in compliance with program requirements.

2G. Reimburse $50,000 from non-Federal funds to the City's HOME program line of credit for the ineligible predevelopment loan.

2H. Strengthen controls over the waiver of CHDO repayment of predevelopment loans to ensure that the circumstances for a waiver are properly documented.

2I. Strengthen administrative controls over CHDOs to ensure that City CHDOs are certified and recertified in compliance with HOME program requirements.

2J. Impose a deed restriction or other mechanism approved by HUD on the two HOME-assisted properties when they are sold or transferred to an eligible homebuyer and a subgrantee to enforce affordability requirements or repay the $518,250 from non-Federal funds to the City's HOME program line of credit.

2K. Impose a deed restriction or other mechanism approved by HUD on the property assisted with HOME match contribution funds to enforce affordability requirements or reduce the City's carryover balance of HOME match by $299,744.

2L. Strengthen the City's administrative controls to ensure that a deed restriction or other mechanism approved by HUD are imposed on properties assisted with HOME and HOME match funds to ensure that HUD's interest in assisted properties is protected.

2M. Strengthen administrative controls to ensure that HOME funds are committed in IDIS for housing projects after the environmental clearance for these projects has been completed.

2N. Provide documentation to support compliance with HOME program rent limit and income eligibility requirements for the three tenants who occupy HOME-assisted units.

2O. Provide an executed HOME subgrantee agreement for IDIS activity 897, which was awarded $480,000, to support compliance with program requirements; if not provided these funds should be repaid to the City's HOME program line of credit from non-Federal funds.

2P. Strengthen controls over maintaining documentation to support compliance with HOME rent limits and HOME assistance applicant income eligibility, including ensuring that interest income is included in the calculation of HOME applicants' income eligibility.

2Q. Strengthen controls to ensure that HOME housing activities are administered in compliance with program requirements.

Finding 3: HOME Match Contribution Funds Were Not Administered in Accordance With Program Requirements

City officials inadequately accounted for and administered their HOME match contribution funds. Specifically, they continued to report match contribution funds associated with terminated projects, inaccurately tracked and reported their match contributions, and failed to always include HOME rent limit provisions in subgrantee agreements funded with match contribution funds. We attribute these deficiencies to weaknesses in procedures for the accounting for and monitoring of HOME match contribution use. Consequently, more than $4.3 million in ineligible City HOME match contribution funds could be used to draw down HOME entitlement funds, the City's HOME match liabilities were overstated by $58,824, more than $1.28 million in HOME match contribution funds was used to fund projects with inadequate written agreements to ensure that the projects were eligible, and there is no assurance that future HOME entitlement drawdowns of more than $2.84[6] million will be based on eligible HOME match contributions.

HOME Match Contribution Funds Reported for Canceled Projects

City officials maintained more than $4.3 million in the City's HOME match contribution carryover balance as of September 30, 2012, for projects that had been canceled before September 30, 2012. 24 CFR 92.219 provides that funds reported as HOME matching contribution funds must be disbursed for housing that is assisted with HOME funds or housing that, while not HOME assisted, meets HOME affordability requirements. We attribute this deficiency to weaknesses in the City's monitoring of its HOME match contributions to ensure that the funds were accurately tracked and updated in a timely manner. As a result, the City reported more than $4.3 million in ineligible match contribution funds, which could be used to support drawing down HOME entitlement funds.

Inaccurate Tracking and Reporting of HOME Match Contribution Funds

City officials inaccurately reported a HOME match liability on the City's annual HOME match reports. 24 CFR 92.218 provides that a participating jurisdiction must make matching contributions throughout a Federal fiscal year, based upon the amount of funds drawn from its HOME Investment Trust Fund in that fiscal year, and establish a system that tracks match liabilities as they are incurred and match credit as it is made. However, in its annual reports to HUD for Federal

[6] The $2,845,129 ($8,535,386 /3) represents the average annual HOME entitlement drawdowns from HUD's Line of Credit Control System (LOCCS), which was required to be matched during Federal fiscal years 2010 through 2012.

fiscal years 2010 through 2012, City officials overstated the City match liabilities by $58,824, or more than 12.5 percent. We attribute this deficiency to weaknesses in the City's procedures for tracking its HOME matching liabilities to ensure compliance with program requirements. As a result, the City's matching liabilities reported to HUD in fiscal years 2010 through 2012 were overstated by $58,824.

Match Contribution Funds Provided to Inadequately Supported Projects

City officials did not include HOME rent limit provisions in the City's subgrantee agreements for projects assisted with more than $1.28 million in HOME match contributions. Regulations at 24 CFR 92.219(b)(2)(b) provide that a participating jurisdiction must execute, with the recipient of HOME match contribution funds, a written agreement that imposes the HOME program affordability requirements at 24 CFR 92.252, including the limitation for the maximum HOME rent. We attribute this deficiency to weaknesses in the City' administration of match contribution funds that failed to ensure subgrantee agreements funded with match contribution funds complied with HOME program requirements. As a result, there was no assurance that housing units assisted with more than $1.28 million in HOME match contributions would comply with HOME program rent limits.

Conclusion

HOME match contributions were not administered in compliance with regulations. Specifically, City officials inaccurately accounted for and reported the amount of the City's eligible HOME match contribution funds and provided match contribution funds to projects for which affordable housing agreements were executed without ensuring compliance with HOME rent limits. Consequently, ineligible HOME match of $4.3 million could be used to draw down HOME entitlement funds, HOME match liabilities were overstated by $58,824, more than $1.28 million in HOME match funds was used for projects with inadequate written agreements to ensure affordability, and there was no assurance that future annual HOME entitlement drawdowns of more than $2.84 million will be based on eligible HOME match contributions. We attribute these weaknesses to inadequate procedures for tracking and updating HOME match contribution funds in a timely manner to ensure compliance with regulations.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City officials to:

3A. Remove the $4,360,000 in ineligible HOME match from the City's HOME match report, thus ensuring that the match will not be used to draw down HOME entitlement funds.

3B. Increase the City's HOME match carryover balance by the $58,824 in overstated match liabilities, thus ensuring that the City can use these funds to meet its future match contribution fund obligation.

3C. Strengthen controls over match contribution fund accounting and reporting to ensure that HOME match contributions and liabilities are correctly calculated and reported properly and in a timely manner to HUD in compliance with HOME program requirements, thus ensuring that future HOME entitlement drawdowns of $2,845,129 will be based upon eligible HOME match contribution funds.

3D. Revise subgrantee agreements for the three rental housing projects assisted with HOME match funds, to include HOME program rent provisions, or reduce the City's carryover balance of HOME match by $1,284,000.

3E. Strengthen administrative controls to ensure that subgrantee agreements for projects assisted with HOME match contribution funds include HOME program rent limit provisions.

Finding 4: Program Income Was Not Always Reported and Expended Before HOME Entitlement Funds

City officials did not always report program income in IDIS or disburse program income before drawing down HOME program entitlement funds. Specifically, $803,710 in HOME program income was not recorded in IDIS, and $513,852 of it was not disbursed before HOME entitlement funds were drawn down. We attribute these deficiencies to weaknesses in procedures for HOME subgrantee agreements that did not require program income provisions, City employees' inadequate knowledge of how to record program income in IDIS, and the City's poor tracking of the receipt and use of program income. As a result, the City's program income reported in IDIS was understated by $803,710, the use of $289,858 in program income for administrative costs was not recorded in IDIS, and HOME entitlement funds were drawn down before $513,852 in available program income was used.

Lack of Program Income Provisions in Subgrantee Agreement

City officials did not ensure that provisions for recording and accounting for program income were included in subgrantee agreements for 12 of the 15 HOME activities reviewed. Regulations at 24 CFR 92.504(c) require participating jurisdictions to have program income provisions in their subgrantee written agreements. We attribute this deficiency to weaknesses in the City's procedures for ensuring that subgrantee agreements include all required provisions. As a result, there was no assurance that all program income was reported and used for eligible HOME activities.

Unreported Program Income Not Used Before Entitlement Drawdowns Were Made

City officials did not report in IDIS $513,852 in program income generated after October 2012. In addition, rather than use these funds first, they drew down HOME entitlement funds from LOCCS. Regulations at 24 CFR 92.503 provide that program income must be deposited into the participating jurisdiction's HOME Investment Trust Fund local account unless the participating jurisdiction permits the recipient to retain the program income for additional HOME projects pursuant to a written agreement. Further, CPD Notice 97-09, section III, provides that HOME funds in the local account must be disbursed before entitlement drawdowns, and that IDIS is designed to record the receipt and use of HOME program income and the participating jurisdiction should establish a program income fund in IDIS to record the receipt of program income. We attribute this deficiency to weaknesses in the City's administrative controls over establishing HOME activities in IDIS, and the lack of program income provisions in HOME subgrantee agreements. As a result, City officials drew down entitlement funds instead of using the unreported program income, and the City's recorded program income in IDIS was understated by $513,852.

Receipt and Use of Program Income Not Recorded in IDIS

City officials did not properly account for program income. CPD Notice 97-09, section III (N), provides that a participating jurisdiction must establish a program income fund in IDIS to record the receipt and use of program income. However, City officials did not record in IDIS the receipt or use of $289,858 in program income received before April 2010 and used during the period April 2010 through May 2013 for the City's HOME program planning and administrative costs. We attribute this deficiency to weaknesses in the City's financial controls over monitoring the accuracy and completeness of program income recorded in IDIS. As a result, the City's reported program income in IDIS was understated by $289,858.

Conclusion

City officials did not always record and properly expend HOME program income as required. Therefore, the receipt of $803,710 (289,858 + 513,852) in program income was not recorded in IDIS, and $513,852 of this amount was not used before making HOME entitlement drawdowns. We attribute these deficiencies to City officials' failure to include program income provisions in their subgrantee agreements and their unfamiliarity with the administration of and accounting for HOME program income. As a result, the $513,852 was not used before HOME entitlement drawdowns were made, and program income reported in IDIS was understated by $803,710.

Recommendations

We recommend that the Director of HUD's Newark, NJ, Office of Community Planning and Development instruct City Officials to

4A. Strengthen administrative controls to ensure that program income provisions are included in subgrantee agreements as required.

4B Record $513,852 in program income in IDIS and use it before making entitlement drawdowns from LOCCS, thus ensuring that $513,852 in program income is properly accounted for and put to better use.

4C. Strengthen controls to ensure that program income is used before making entitlement drawdowns as required by program regulations.

4D. Record the receipt and use of $289,858 in program income in IDIS, thus ensuring that $289,858 in program income is properly accounted for and put to better use.

4E. Strengthen financial controls to ensure that the receipt and use of program income is reported in IDIS in a timely manner.

4F. Request technical training on the administration of and accounting for program income.

SCOPE AND METHODOLOGY

The audit focused on whether City officials had established and implemented adequate controls over the City's HOME program to ensure that the program was administered in compliance with HOME program requirements and Federal regulations. We performed the audit fieldwork from September 2013 to April 2014 at the City's Community Development Division at 30 Montgomery Street, Jersey City, NJ.

To accomplish our objectives, we

- Reviewed relevant HOME program requirements and applicable Federal regulations to gain an understanding of the HOME administration requirements.

- Interviewed staff from the HUD Newark, NJ, Office of Community Planning and Development and the City.

- Obtained an understanding of the City's management controls and procedures through analysis of the City's responses to management control questionnaires.

- Reviewed the City's consolidated annual performance and evaluation reports and action plan for HOME program years 2010 through 2012 to gather data on the City's expenditures and planned activities.

- Reviewed reports from IDIS to obtain HOME disbursements and program income data for the audit period, and reports from LexisNexis to obtain information related to real properties assisted with HOME funds. Our assessment of the reliability of IDIS and LexisNexis data was limited to the data sampled, and the data were reconciled with data in the City's records; therefore, we did not assess the reliability of these systems.

- Reviewed the City's organization chart for its HOME program and its HOME program policies, including its HOME policy and procedures manual, and accounting and purchasing policies.

- Reviewed the latest HUD monitoring report for the City's HOME program and the city council resolutions for program years 2010 through 2012.

- Reviewed documentation for the annual recertification of three nonprofit entities that received CHDO operating, loan, or reserve funds during program years 2010 through 2012.

- Selected and reviewed a sample of more than $4.59 million, or 43 percent, of the City's total HOME fund drawn downs made in the years 2010 through 2012, and more than $4.4 million from the City's HOME drawdowns made before or after the years 2010 through 2012. The sample was selected based on one or more of the following risk factors: the City drewdown HOME funds from LOCCS or committed HOME funds in IDIS a few months before the HOME-assisted property was acquired, a lien or deed restriction was not imposed on the assisted property, projects were progressing slowly, or a HOME-assisted property was later sold to the City.

- Reviewed documentation, including subgrantee agreements, environmental reviews, appraisal reports, deeds, invoices, contract requests for payment, and canceled checks, to support the eligibility of the 16 IDIS HOME activities included in our sample and to support the eligibility of costs associated with these 16 IDIS HOME activities.

- Selected and reviewed matching contribution fund documentation associated with a sample of $2,863,744, or 35 percent, of the total matching contribution funds reported for Federal fiscal years 2007 through 2009.[7]

- Reviewed a copy of the bank statements associated with the City's HOME program and traced deposits to IDIS reports. Our assessment of the reliability of data included in bank statements and IDIS was limited to the data sampled, which were reconciled among different sources; therefore, we did not assess systems generating the data.

- Selected and reviewed a sample of 4 of 30 rental housing units at 3 housing projects assisted with HOME funds.

- Selected and reviewed a sample of 14 of 20 for-sale units at 3 housing projects assisted with HOME funds.

The audit generally covered the period April 1, 2010, through March 31, 2013, and was extended as needed to accomplish the objective.

We conducted the audit in compliance 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.

[7] The City did not report any HOME match contribution funds on its HOME match reports for the years 2010 through 2012; therefore, we selected a sample of the years 2007 through 2009.

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 City did not always implement adequate internal controls to ensure the achievement of program objectives because HOME housing activities were not always administered in compliance with program requirements and units assisted with HOME funds were sold to ineligible home buyers (see findings 1 through 4).

- The City did not always establish or implement adequate internal controls to ensure that resources were used in compliance with laws and regulations because (1) HOME funds were not committed and expended as required, (2) HOME funds were used for HOME program planning and administrative costs in excess of allowable limits, (3) units assisted with HOME funds were sold to ineligible home buyers, (4) a deed restriction or other similar mechanism was not always imposed on HOME-assisted properties, (5) funds were provided to nonprofit entities that did not meet CHDO requirements, (6) the City provided HOME assistance to housing projects without ensuring compliance with all program requirements, and (7) HOME match contribution funds and program income were not adequately managed and reported (see findings 1 through 4).

- The City did not always establish or implement adequate internal controls to ensure that resources were safeguarded against waste, loss, and misuse as HOME funds were used for unsupported and ineligible costs (see findings 1 and 2).

- The City did not always establish or implement adequate internal controls to ensure the validity and reliability of data because the receipts and the use of program income were not always reported in IDIS, information in the City's accounting records was not always reconciled with that in IDIS, and information listed on the City's HOME match reports submitted to HUD was not always traceable to IDIS reports (see findings 1, 3, and 4).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$ 464,663		
1B	1,060,529		
1C			$1,485,337
1E	30,024		
1G			190,000
1I	236,439		
1J		$9,371	
1L			118,561
2A	250,410		
2C		459,991	
2E	535,255		
2G	50,000		
2J			518,250
2K			299,744
2O		480,000	
3A			4,360,000
3B			58,824
3C			2,845,129
3D			1,284,000
4B			513,852
4D			289,858
	$2,627,320	$949,362	$11,963,555

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommendation improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other saving that are specifically identified. In this case, If HUD implements the recommendations to

- Deobligate $1,485,337 committed in IDIS and reimburse $190,000 to the trust account, these funds will be available for eligible HOME activities.
- Require City officials to reconcile the discrepancy between IDIS and City records, it can be assured that the $118,561 has been properly reported.
- Require that deed restrictions are imposed on the three assisted properties, HUD's and the City's interest of $817,994 ($518,250 + 299,744) will be protected and affordability requirements will be enforced.
- Require the City to comply with HOME match contribution fund requirements, HUD can be assured that (1) the $4.36 million in ineligible match fund contributions will not be used to draw down HOME funds, (2) $58,824 of the match contribution will be available to meet future match liabilities, (3) eligible match contributions will be used to support drawdowns of more than $2.84 million, and (4) HOME affordability requirements will be applied to properties assisted with more than $1.28 million in HOME match contribution funds.
- Ensure that program income receipts and uses are reported in IDIS, $803,710 in program income ($513,852 and $289,858) will be available for eligible HOME activities.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

DEPARTMENT OF
HOUSING, ECONOMIC DEVELOPMENT & COMMERCE
DIVISION OF COMMUNITY DEVELOPMENT

30 Montgomery Street, Suite 404, Jersey City, N.J. 07302
Phone: (201) 547 - 6910
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STEVEN M. FULOP, MAYOR
CITY OF JERSEY CITY

July 22, 2014

Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Re: **City of Jersey City – HOME Draft Audit**

Dear Mr. Moore:

Comment 1

This letter is in response to the Office of the Inspector General draft audit report. We appreciate the opportunity to respond to the draft audit. As stated in your report, you audited the City of Jersey City's HOME Investment Partnerships Program. While the initial focus of your audit was for the period of 2010 through 2012, the audit was expanded to include projects dating back to 2003 and it included projects that were funded in 2013.

The audit contained various recommendations and observations. In some cases, the auditor recommended that controls needed to be strengthened to insure full compliance with HOME regulations. Also, the audit revealed that the City's HOME commitment process should be modified to ensure that funds are not committed in IDIS prior to execution of Subgrantee Agreements. Changes have already been put in place to prevent further issues related to this matter. In addition, delayed closings in three (3) out of four (4) cases cited in the report, resulted in a determination that the City did not meet its commitment deadline. However, we are disputing this determination. Furthermore, challenges with cancelling an activity in IDIS resulted in a determination by the auditor that the City did not meet its commitment deadline. The auditor pointed out that the City needs to strengthen financial and administrative controls in specific cases and specific observations regarding the City's matching funds were noted. Finally, the auditor recommended that the City strengthen controls related to program income.

The City welcomes constructive feedback that will assist with improving the overall administration of the HOME grant. However, we dispute some of your observations and we are vehemently opposed to statements made regarding the City's use of HOME Match funds.

The following are responses to specific findings identified in the audit and the schedule found in the Appendix.

Finding 1: City Officials Did Not Ensure That HOME Funds Were Committed, Expended And Reported In Compliance With Program Requirements.

Ref to OIG Evaluation **Auditee Comments**

Re: City of Jersey City – HOME Audit
July 22, 2014
Page 2

Response 1:

Comment 2

Of the numerous projects funded by the City, funds for one (1) cancelled project were not de-obligated in IDIS. This was an isolated case. This was due to a draw down error involving a pre-development loan. As a result of this error, the City experienced difficulty with de-obligating funds for the activity in question. The City made an earnest attempt to de-obligate the funds including reaching out to IDIS technical support and HUD. However, circumstances, including Superstorm Sandy Recovery and the displacement of the division after the storm led to the City focusing on other pressing priorities. This is a technical error that should not result in the recapture of funds.

Comment 3

Comment 4

Comment 5

As it relates to funds not expended in a timely manner, this was primarily the result of delays in closing on a few HOME eligible affordable housing projects. Although the project closings were delayed, all units were completed, sold and/or rented to HOME eligible households with one (1) exception which is addressed in Finding No. 2. One (1) activity, in particular, experienced a delay in closing of approximately five (5) weeks. This is not unusual for real estate transactions. The explanation for the delay was justifiable and it was communicated to the auditor during the audit. The City disputes the auditor's recommendation for the recapture of these funds including the recapture of funds related to 723 Grand Street. The auditor is recommending that funds in the amount of $158,559 be recaptured as a result of delays in crediting the HOME account for City funds reimbursed to HUD for 723 Grand Street which is a cancelled project.

Comment 6

The auditor noted issues with the City's fiscal controls, fiscal data entry and IDIS reconciliations. The City takes great pride in ensuring fiscal accountability. Vouchers are carefully reviewed on multiple levels. The single case identified where double billing occurred in the amount of $23,549 was an anomaly. Upon discovering this error, the City immediately addressed this issue with the developer and the funds were returned to the City for deposit into the HOME account.

Comment 7

The City has experienced some challenges with IDIS and with understanding the process for wiring funds back to HUD. This has led to delays in returning monies to the City's HOME Investment Trust Fund Treasury account. In a couple of instances, this has led to the City retaining funds in the dedicated HOME account for an extended period. The City is requesting technical guidance from HUD on the administration and accounting of program income.

Also, in an effort to address discrepancies in the City's accounting records and IDIS, the City will have its auditors analyze the City's HOME account and IDIS records to identify weaknesses and discrepancies and to put additional controls in place to insure that the City's accounting records are reconciled to IDIS information.

Finding 2: Administrative Controls Did Not Ensure Compliance With Program Requirements.

Response 2:

Comment 8

The City recognizes that is was not compliant with program requirements when two (2) homebuyers were deemed ineligible based on HUD income requirements. The City utilized State certification forms in some instances involving projects where CHOICE Program funds were involved. The State is compensated for certifying homebuyers under the State CHOICE program and the HOME program. The City relied on the State's certification for compliance. Internal procedures have been modified to require full certification on City forms to ensure eligibility. This was a deviation from the norm because the City was short staffed at the time.

Ref to OIG Evaluation **Auditee Comments**

Comment 8

The second case involved the exclusion of unemployment benefits when calculating income. This was an oversight on the part of the Loan Advisor who was covering for another Loan Advisor who was sick at this time. Given the number of certifications done annually by the City, two (2) certifications over several years hardly represent a weakness in the City's administrative controls.

Comment 9

Comment 10

As it relates to lack of documentation to support a HOME housing project, the City funded the activity in question over ten (10) years ago. The City performed the required due diligence including Environmental Clearance and this activity was deemed eligible. Also, it was noted that a couple of projects lacked Deed Restrictions. Deed Restrictions for two (2) activities in question are attached. One (1) Deed Restriction will be recorded upon the conveyance of a City-owned property to a new entity.

Finding 3: HOME Match Contribution Funds Were Not Administered In Accordance With Program Requirements.

Response 3:

Comment 11

According to the auditor, the City inadequately accounted for and administered the HOME match contribution funds. The City acknowledges that the HOME match report was not updated to reflect activities that were cancelled during the audit period. However, in addition to not updating the report to detail cancelled activities, the report did not include match credit for eligible activities. This was due to the City having excess match credit of over $17 million. As a result, the 2012 report had not been reconciled to reflect cancelled projects, nor did it reflect new HOME match contributions. This was brought to the attention of the auditor when he was provided with the match reports. In fact, the City took this opportunity to reconcile the HOME match report. A copy of the reconciled report was sent to HUD's CPD Director on November 6, 2013 (see Attachment 3A-3D). A copy of the reconciled report was also given to the auditor. As noted in the report, after removing cancelled projects totaling $4,772,494 and adding other eligible match credit totaling $5,380,164, the City had excess match credit totaling $607,670. The auditor recommended that the City remove $4,360,000 from the City's HOME match credit report. However, this was already done when the City reconciled HOME matching funds in November 2013. Prior to this reconciliation, the excess match carryover balance was $17,311,983.71. The HOME match carryover balance after the reconciliation is $17,919,653.71. The auditor's observations regarding the HOME match report are misleading.

As it related to agreements for HOME matching funds, the Division of Community Development will consult with the City's Law Department to explore appropriate language to be incorporated into the City's HOME Match Agreements to further reinforce long term affordability.

Finding 4: Program Income Was Not Always Reported And Expended Before HOME Entitlement Funds.

Response 4:

Comment 12

The City concurs with the recommendation to strengthen fiscal controls related to the HOME grant. The City is in the process of evaluating internal fiscal controls and changes that are deemed necessary will be made to address deficiencies. The City will be consulting with its auditors to strengthen financial controls. Also, the City is in the process of modifying its HOME Subgrantee Agreement to include Program Income provisions.

Ref to OIG Evaluation **Auditee Comments**

Appendix: Schedule Of Questioned Costs And Funds To Be Put To Better Use

The City's responses to items identified in the Appendix are incorporated into this correspondence as Appendix A.

In summary, the City has been diligent and steadfast in administering its HOME program. While some technical errors have occurred, this should not deflect from the overall effectiveness of the City's administration of the HOME program. The Division of Community Development has taken great pride in overseeing HOME funds and in all cases the activities are carried out with a high level of integrity. We look forward to resolving all outstanding findings noted in this report.

Sincerely,

Rodney Hairston
Acting Director

Attachments:

- Appendix A
- 1E: Memo, Copy of Check & Accounting Entry Log form for Double Billing Correction
- 1G: Resolution Authorizing Use of Affordable Housing Trust Funds (AHTF)
- 1L: IDIS form for Activity 1981

- 2C: IDIS form for Activity 1114 and 2005/2008 221d3 Limit Forms
- 2J: Deed Restrictions – 291-297 Halladay Street
- 2JA: Redevelopment Agreement – Between JCRA and JCECDC
- 2K: Deed Restriction – Forrest Senior Apartments
- 2O: Certificate of Occupancy – 522 Ocean Avenue and Deed Restriction

- 3A-3D: HOME Match report sent to HUD on November 6, 2013

- 4B: IDIS Receipt Audit Trail by Fiscal Year and Program Sheet

cc: Robert J. Kakoleski, Business Administrator – City of Jersey City
Anthony Cruz, Director – HEDC

RH:sah

Ref to OIG Evaluation **Auditee Comments**

APPENDIX A

Recommendation No.	$ Amount	IG Classification
1A	$464,663	Ineligible

Comment 2

RESPONSE:
This activity was cancelled as it was deemed infeasible to complete the project. The City made multiple attempts to de-obligate funds in IDIS; however, we were unable to do so due to a draw down error involving the $50,000 pre-development loan. After making a few attempts to resolve this matter with IDIS tech support, the City reached out to HUD. A copy of the email communication with the HUD CPD representative was shared with the auditor. The HUD representative was instrumental in directing the City to an IDIS tech representative. However, several circumstances, including Superstorm Sandy and the displacement of the office led to this matter falling off the City's radar. We acknowledge that this has impacted on the commitment timing, but the City is hopeful that HUD would consider the various factors that resulted in delays in de-obligating these funds.

Recommendation No.	$ Amount	IG Classification
1B	$1,060,529	Ineligible

Comment 3

Comment 5

Comment 4

RESPONSE: The City acknowledges that there were delays in closing on three (3) affordable housing projects. However, as a result of funding these projects, that were eligible for HOME funds, 16 HOME eligible affordable housing units were created in Jersey City. The report states that the activities are ineligible; however, that is an inaccurate representation. Due to unforeseen delays in closing on these activities, the auditor recommended that the funds be disallowed. Given that the City did comply with all HOME requirements, but for unforeseen delays in closing on the properties and all projects were completed in compliance with requirements, the City objects to the auditor's recommendation to recapture HOME funds for these activities. Also, as the auditor is aware, the City has previously reimbursed the HOME account for 723 Grand Street, as this is a cancelled project. The auditor is recommending that $158,559 be recaptured for this 2005 activity because the funds were not properly credited back to the City's HOME account within a reasonable time period. This is an unreasonable recommendation as the City has already repaid the HOME account for this cancelled project that was initially funded in 2002. The closing for one (1) HOME activity, in particular, was delayed by approximately five (5) weeks. This is not unusual for real estate transactions. The explanation for the delay is justifiable and this information was communicated to the auditor. The developer encountered title issues with the clearance of bulk sales tax liens that resulted in a delay in closing on the property. The auditor's recommendation pertaining to this finding is unsubstantiated, unreasonable and unconscionable. The recommendation is based on the auditor's beliefs. Again, all projects cited in this recommendation, with the exception of 723 Grand Street (cancelled project), were completed. They were completed in a timely manner and they were completed in compliance with all HOME regulations with the exception of unforeseen delays with closings and one (1) over income homeowner. In fact, a total of twenty-five (25) affordable housing units were created, of which twenty-four (24) were HOME eligible.

Recommendation No.	$ Amount	IG Classification
1C	$1,485,337	Better Use of Funds

Comment 13

RESPONSE: This project was cancelled because it was deemed infeasible to move forward with development. The City acknowledges that the delay in de-obligating funds resulted in the commitment shortfall noted in item 1A.

Ref to OIG Evaluation | **Auditee Comments**

Recommendation No.	$ Amount	IG Classification
1E	**$30,024**	**Ineligible**

Comment 6

RESPONSE: • Double billing of this cost ($23,549 Water/Sewer Connection Fees) was due to an error caused by a minor glitch in the accounting system utilized by the developer. Upon notification of the double billing, the developer issued a check back to the City for $23,549.33 and it was processed back to the appropriate account. (See attachment 1E for a copy of the memo, check and accounting entry log form.)

Comment 13

• These funds ($2,100 - Costs Associated with Cancelled Project) are associated with an expense item of $2,100 to Pronesti Surveying Inc. - Topographic for 10 Bidwell Avenue Project. The City owned this property and the City inadvertently sold the lot which was supposed to be conveyed to the developer. This was done without the knowledge of the developer.

Comment 13

• This cost ($4,375 - Replacement of Roll-up Door for Nonresidential Portion) was associated with the 513-517 Communipaw Avenue project involving a Change Order. The replacement of the old roll-up door was a requirement of the City to meet City ordinances. The City agrees that this was an ineligible HOME cost. Therefore, the City is only responsible for the ($2,100 + $4,375 =$6,475) as ineligible costs. The remaining ($23,549) is inaccurately classified as ineligible HOME costs.

Recommendation No.	$ Amount	IG Classification
1G	**$190,000**	**Better Use of Funds**

Comment 7

RESPONSE: Funds were wired back to HUD as required. The City mistakenly approved the use of HOME Funds for the acquisition of city owned property that was conveyed to a non-profit developer. Upon realizing this error, the City sought council authorization to award Affordable Housing Trust Funds for the acquisition of the City owned property. (See Attachment IG for Resolution Authorizing the Use of Affordable Housing Trust Funds.) This was corrected on August 10, 2011. The HOME account was to be reimbursed upon receiving Council authorization. Unfortunately, the funds were not wired back to HUD in a timely manner.

Recommendation No.	$ Amount	IG Classification
1I	**$236,439**	**Ineligible**

Comment 13

RESPONSE: This is the result of the City not being able to record Program Income in IDIS at the time. The funds were deposited into the City's HOME account. However, the funds were erroneously used for Administrative purposes which caused the City to exceed the 10% Administration Cap. The City recognizes that these funds must be credited back to the HOME account for future affordable housing projects.

Ref to OIG Evaluation	Auditee Comments

Recommendation No.	$ Amount	IG Classification
1J	$9,371	Unsupported

Comment 14

RESPONSE: The City is continuing to analyze data utilized by the auditor to support his recommendations of reimbursing the City's HOME program account from non-Federal funds.

Recommendation No.	$ Amount	IG Classification
1L	$118,561	Better Use of Funds

Comment 15

RESPONSE: The City had two new projects for this developer and the $102,369 was erroneously charged to the wrong activity. The City corrected this error when it was brought to our attention (See Attachment 1L for IDIS sheet). To state that these funds could be put to better use is a misrepresentation of the facts. The funds were used to create affordable housing units. As previously stated, there was an error in our IDIS data entry.

Comment 16

Additionally, of the $16,192, $10,325 was drawn down for 268 Fairmount Avenue. The balance of $5,867 was unrecorded program income that was utilized to cover cost associated with activity #1352 (see Attachment 1L).

Recommendation No.	$ Amount	IG Classification
2A	$311,925	Ineligible

RESPONSE:

Comment 17

• The City has utilized State certification forms in the past involving certain projects where CHOICE Program funds are involved. The State certifies homeowners under the State CHOICE program and the HOME Program. DCD was understaffed at this time due to one loan advisor being out sick. The remaining loan advisor relied on the State's certification for compliance. However, $175,000 of funds deemed ineligible are part of the $520,000 as noted in 1B. Therefore, to recommend that the City reimburse the HOME account for a project that requires repayment under 1B is duplicative and imprudent.

HOME Investment	# of Units	$ / Unit
$525,000	3	$175,000

• The City did not include unemployment benefits when calculating income for one (1) unit with this project. This was an oversight. This has resulted in a repayment of $136,925 as noted below.

HOME Investment	# of Units	$ / Unit
$958,474	7	$136,925

Comment 8

• The City's loan advisor has over twenty (20) years of experience in income certifying tenants/homeowners. Of the many affordable housing projects that are in the City's portfolio that are monitored on an annual basis, two (2) homebuyer certifications hardly represent a weakness in the City's administrative controls. DCD takes pride in its work to make certain that all guidelines are followed when income certifying tenants / homeowners. Over the past ten (10) years, hundreds of certifications have been processed in accordance to HUD requirements. The above cases are isolated instances involving income certifications.

Ref to OIG Evaluation	**Auditee Comments**

Recommendation No.	$ Amount	IG Classification
2C	$459,991	Unsupported

Comment 9

RESPONSE: The City initially funded this project with $300,000 of HOME funds on February 22, 2005. The City funded two (2) 2 bedroom units and one (1) 1 bedroom unit. (See Attachment 2C for 221d3 limit and IDIS setup forms) The maximum HOME funds 221d3 limit was $436,848. Based on the original allocation, the City was 31% below the maximum 221d3 limit.

The project was later awarded additional HOME funds in the amount of $164,336. The total award in 2008 increased from $300,000 to $464,366. At that time the City re-calculated the 221d3 limit and determined that the project was within the increased limit of $480,286.

Recommendation No.	$ Amount	IG Classification
2E	$535,255	Ineligible

Comment 13

RESPONSE: The CHDO (MCRACDC) in question had affordable housing development as one of its core missions. We acknowledge that it was not memorialized in their by-laws at the time. Also, certain weaknesses were identified in their organizational audit. Both of these deficiencies were addressed during this audit. As a result of this, if it is deemed that these deficiencies justify not classifying MCRACDC as a CHDO at that time, the City will seek to have the organizational status reclassified.

Recommendation No.	$ Amount	IG Classification
2G	$50,000	Ineligible

Comment 18

RESPONSE: Bay Bay – Pre-development Loan. Participating Jurisdictions are allowed to waive repayment of CHDO loans if the project is deemed infeasible. The project was deemed infeasible because delays in moving the project forward impeded the City's ability to fund other shovel-ready projects. The City pressed developers to carry out their projects in a timely manner. This developer did not execute the project in a timely manner.

Recommendation No.	$ Amount	IG Classification
2J	$518,250	Better Use of Funds

Comment 10

RESPONSE: The missing Deed Restrictions for 268 Fairmount Avenue will be recorded upon the conveyance of the property to a new owner. As previously advised, this is a City owned property.

• 291 - 297 Halladay Street – this is a homeowner project where the Deed Restriction is not recorded during construction. As the properties are sold, Deed Restrictions are placed on the individual homes. (see Attachment 2J for Deed Restrictions.)

See Attachment 2JA for copy of the Redevelopment Agreement between Jersey City Redevelopment Agency (JCRA) and Jersey City Episcopal Community Development Corporation (JCECDC), Article VI, Covenants and Restrictions, Section 6.02(d) [Page 19] for language regarding affordable housing.

Ref to OIG Evaluation **Auditee Comments**

Recommendation No.	$ Amount	IG Classification
2K	$299,744	Better Use of Funds

Comment 19

RESPONSE: This is a HOME Match funded project. The auditor is overstepping his boundaries and it is unfair to the City for the auditor to state that funds used to create forty-three (43) units of eligible affordable Senior housing could be put to better use because a Deed Restriction was not provided at the time. This is a Low Income Housing Tax Credit project that received less than $7,000 per unit in City HOME Match funds. The Deed Restriction was recorded, as required, however, the City did not have a copy to provide the auditor at the time. A copy of the executed Deed Restriction is attached. (See Attachment 2K). Again, the City objects to the auditor's claim that these funds could be put to better use and we strongly encourage you to remove this information from your report. Additionally, the City will incorporate language in its HOME Match fund documents to coincide with HOME rent limits in instances where these funds are used as matching funds.

2O	$480,000	Unsupported

Comment 20

RESPONSE: As previously stated to the auditor, the City was unable to locate the Subgrantee Agreement for this 2003 project. This is attributable to documents having been damaged as a result of the basement flooding and/or packing and transference of files to our off-site storage facility. See Attachment 2O for a copy of the Certificate of Occupancy. The finding of unsupported costs is unfounded and it should be removed from your chart.

3A, 3B, 3C, 3D and 2K	$8,847,697	Better Use of Funds

Comment 21

RESPONSE: The City strongly urges you to remove these items from your draft report. The auditor has overstepped his boundaries and it is an inaccurate representation for the auditor to state that $8,847,697 in City funds could be put to better use. The City is proud of how we have used our funds dedicated to affordable housing development. It is not within the auditor's authority to comment on how the City utilizes City funds. Although the City uses a large share of its Affordable Housing Trust Funds (AHTF) for HOME eligible affordable housing projects, these funds are not limited to HOME eligible projects. The City's local statute that authorizes these funds, allows for a broader use. The local statute is not governed by HUD. It is unfair, unreasonable and excessive for the auditor to assert that these funds could be put to better use. The City's funds have been used to create hundreds of affordable housing units. While HOME funds are vital to Jersey City, much of the affordable housing developed in Jersey City, during the past ten (10) years would not have been developed without the contribution of City funds.

As a result of the City's commitment to affordable housing and the City's investment in affordable housing, approximately 1,200 Jersey City households have an affordable place to call home. The auditor's assertion and inclusion of City match funds in Appendix A (Funds Put to Better Use) poorly represents Jersey City. This is unacceptable, unfounded, and misleading.

We vehemently object to this assertion and we strongly urge you to remove these items from this chart as it is a misrepresentation of the facts and it puts forth erroneous, subjective and unsupported information to the public. (See Attachment 3A-3D for Updated HOME Match Report that was sent to HUD on November 6, 2013.)

Ref to OIG Evaluation	Auditee Comments

Recommendation No.	$ Amount	IG Classification
4B	$513,852	Better Use of Funds

Comment 22

RESPONSE: The $513,852 in Program Income (PI) has been recorded in IDIS as required. See Attachment 4B for the IDIS Receipt Audit Trail by Fiscal Year and Program Sheet. The City acknowledges that PI must be utilized prior to drawing down funds from LOCCS.

It is an inaccurate statement to say that these funds could be put to better use as they are being utilized for HOME eligible activities.

Recommendation No.	$ Amount	IG Classification
4D	$289,858	Better Use of Funds

Comment 23

RESPONSE: See 1I. This is a double entry.

OIG Evaluation of Auditee Comments

Comment 1 City officials stated that, while the initial focus of the audit was for the period of 2010 to 2012, the audit was expanded to include projects dating back to 2003 and included projects that were funded in 2013. The audit period was expanded because some of the 16 HOME activities, while having disbursements in the early years, also had disbursements or were still recorded as active during the period 2010 to 2012.

Comment 2 City officials acknowledged that the delay in deobligating funds resulted in a commitment shortfall. However, the City noted that several circumstances, including technical difficulties with IDIS and Superstorm Sandy led to this. However, City officials did not deobligate HOME funds of $1.95 million committed for the cancelled activity until December 2013 after we brought it to their attention. 24 CFR part 92.500 (d)(1)(b) provide that any amount not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of HOME agreement, will be recaptured. Therefore, HUD still needs to recapture the $464,663 in uncommitted HOME funds, as of July 31, 2013, from the City's HOME funds.

Comment 3 City officials acknowledged that HOME funds were not expended in a timely manner, which they attribute to delays in closing on three HOME eligible affordable housing projects. City officials also stated that it is an inaccurate representation to classify the activities as ineligible. However, the audit report is not referring to the activities, but rather, to the expenditures, which are deemed ineligible because the funds were not expended before the City's annual expenditure deadlines. Specifically, the audit disclosed that the closing on three projects occurred between 110 and 283 days after the City's expenditure deadline, April 30, 2011. 24 CFR part 92.500(d)(1)(c) provide that any amount not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of a HOME agreement, will be recaptured. Therefore, HUD still needs to recapture the $598,015 that was unexpended as of April 30, 2011, related to the three affordable housing projects.

Comment 4 City officials claimed that closing on a fourth housing project was delayed approximately five weeks, which is not unusual for a real estate transaction. However, the audit disclosed that for this project, City officials drew down $773,000 in HOME funds from LOCCS on May 23, 2012, eight days before the City's HOME program expenditure deadline. These funds were used to acquire an assisted property on July 23, 2012. Therefore, $773,000 in HOME funds was not expended until 53 days after the expenditure deadline, May 31, 2012. Consequently, even if the project closing had not been delayed, the funds would not have been expended in a timely manner. However, since the City's expenditures, as of May 31, 2012, exceeded its requirements by $469,045, only $303,955 ($773,000- 469,045) is questioned (see chart on p.5). Therefore, HUD still needs to recapture $303,955 in unexpended HOME funds, as of May 31, 2012, to comply with 24 CFR part 92.500 (d)(1)(c).

Comment 5 City officials stated that the OIG recommendation to recapture $158,559 for a cancelled housing project is unreasonable because the City had previously reimbursed the HOME account for this cancelled activity. OIG acknowledges that the disbursements for the cancelled activity were reimbursed to the City's HOME bank account on August 10, 2009. However, the City's HOME program line of credit was not reimbursed until January 18, 2011. Therefore, the City would have had a shortfall of $158,559 as of the expenditure deadline, July 31, 2010 (see chart on page 5). HUD still needs to recapture the $158,559 in expended HOME funds, as of July 31, 2010, to comply with 24 CFR part 92.500 (d)(1)(c).

Comment 6 City officials stated that this single case of double billing was an anomaly. They also stated that reimbursement of $23,549 was received and processed back to the appropriate account, and they provided a copy of the reimbursement check and an inter-office memorandum as part of their written comments. However, these documents are not sufficient to support that the City's HOME program line of credit was properly credited for the $23,549. Therefore, City officials still need to provide additional documents to be verified by HUD during the audit resolution process. Further, City officials stated that the $23,549 is inaccurately classified as ineligible HOME costs. However, the disbursement questioned is deemed ineligible because it was a duplicate payment.

Comment 7 City officials initially stated that funds were wired back to HUD, as required. However, they subsequently stated that the funds were not wired back to HUD in a timely manner (see page 30 & 34). Since no documents were attached to the City's written comments to support that the $190,000 was wired back to HUD or the City's HOME program line of credit, City officials still need to provide HUD with documents to support that the City's HOME program line of credit was reimbursed for the $190,000.

Comment 8 City officials acknowledged that the two homebuyers were deemed ineligible; one due to deviation from the City's normal procedures, and the other due to an oversight. However, the officials stated that given the number of certifications done annually by the City, the two certifications over several years did not represent a weakness in the City's administrative controls. While OIG did not review a statistical sample of homebuyers certified by the City during the audit period, and therefore is not projecting results, OIG testing did disclose errors in 2 of 14 cases sampled. Given the causes cited by City officials for the two errors, we believe that City officials need to address the causes by providing HOME program employees with HOME program training to ensure that they certify HOME assisted home buyers in compliance with program requirements.

Comment 9 Regarding a lack of documentation, City officials stated that they funded these projects over ten years ago and performed the required due diligence. They also stated in Appendix A in their response to recommendation 2C that the City funded two-2 bedroom units and one-1bedroom unit in the project. However, a review of project documents provided during the audit disclosed that the project included six HOME-assisted units and did not have evidence of environmental documentation. Therefore, the City still needs to provide the missing documentation to support compliance with the maximum HOME subsidy limits and environmental clearance to HUD during the audit resolution process.

Comment 10 City officials stated that deed restrictions for 2 activities questioned were attached and that 1 deed restriction will be recorded upon conveyance of a City-owned property to a new entity. However, the deed restrictions provided were not for the questioned properties. In addition, OIG recognizes that deed restrictions need to be imposed when the City-owned property is sold or transferred. Therefore, we added, at Recommendation 2J, "…when they are sold or transferred to an eligible homebuyer and a subgrantee…", City officials will need to provide documentation to HUD for review during the audit resolution process.

Comment 11 City officials acknowledged that the HOME match report was not updated to reflect activities that were cancelled during the audit period and also did not include HOME match credit for eligible activities. The City stated that, during the audit, they provided an updated HOME match report to both HUD and the OIG. However, the updated HOME match report was dated November 6, 2013, which was after the audit period, and receipt of the updated report by HUD could not be verified. Therefore, the updated report, and any supporting documentation, still needs to be reviewed by HUD during the audit resolution process to determine the eligibility of the additional HOME match credits claimed and to reduce HOME match claimed for cancelled projects, which were not reviewed by OIG. City officials also stated that they removed $4,772,494 in HOME match associated with cancelled projects from the City's HOME match report as recommended. However, City officials still need to provide documentation to HUD during the audit resolution process so that this action can be verified.

Comment 12 The City officials' actions to strengthen fiscal controls related to the HOME program are responsive to our recommendations.

Comment 13 City officials acknowledged that the commitment or expenses associated with these activities were ineligible and therefore, the funds must be repaid during the audit resolution process. Regarding the $23,549 for water and sewer connection fees, this amount is not inaccurately classified because it is ineligible according to 24 CFR 92.214(a) (9). Also, the organization (page 36) did not qualify as a CHDO; therefore, the CHDO will need to be reclassified and funds recouped.

Comment 14 City officials stated that they are continuing to analyze the data used to classify the $9,371 as unsupported; their analysis will have to be provided to HUD during the audit resolution process.

Comment 15 City officials stated that the $102,369 was charged to the wrong activity and that they corrected this error when it was brought to their attention; therefore, it is a misrepresentation of facts to state that these funds could be put to better use in the audit report. However, City officials took corrective action in response to our recommendation. Therefore, the $102,369 is properly classified and now considered as funds put to better use.

Comment 16 City officials stated that $10,325 of the $16,192 was drawn down for 268 Fairmount Ave and the remaining balance of $5,867 was unrecorded program income that was utilized to cover cost associated with activity#1352. However, City officials did not address how the discrepancy between the City's records and IDIS will be reconciled. The City still needs to provide HUD with their corrective action during the audit resolution process.

Comment 17 City officials stated that the $175,000 in HOME funds deemed an ineligible use of HOME funds in recommendation 2A, was already deemed ineligible in recommendation 1B, and therefore recommendation 2A suggesting that they reimburse the City's line of credit for $175,000 is duplicative. OIG acknowledges that $61,515 of the $175,000 was included in 1B, and therefore, the questioned amount included in recommendation 2A is reduced to $250,410 ($311,925 less $61,515).

Comment 18 City officials stated that the questioned project was deemed infeasible because delays in the project impeded the City's ability to fund other shovel-ready projects, and that waiver of a CHDO loan repayment is allowed in such circumstances. However, 24 CFR 92.301 provides that a waiver is warranted when impediments to the project development are beyond the control of the CHDO. Since the City did not demonstrate that executing the project in a timely manner was due to circumstance beyond the control of the CHDO, City officials still need to reimburse the HOME program line of credit for the ineligible pre-development loan waived.

Comment 19 City officials stated that it is unfair to state that the questioned costs could be put to better use because a deed restriction was not provided. Although City officials later attached one to their response the deed provided was not for the questioned property (336-348 Bergen Ave). In addition, the amount questioned is classified as funds to be put to better use because there is no assurance that HOME program affordability requirements will be enforced without having a deed restriction to enforce the requirements. Therefore, City officials still need to impose a deed restriction on the questionable property, and provide a copy of the deed restriction to HUD for review during the audit resolution process.

Comment 20 City officials attached a copy of the certificate of occupancy, dated July 18, 2014, as recommended for the 2003 project, but stated that a subgrantee agreement could not be located. Therefore, classifying this issue as unsupported is correct. City officials still need to provide the subgrantee agreement for the activity, or a substitute document, to HUD for review during the audit resolution process to ensure that HOME program requirements are enforced during the affordability period.

Comment 21 City officials stated that it is an inaccurate representation to state that $8.8 million, in City funds could be put to better use. OIG believes that this is an accurate representation because the $8.8 million represents questioned or ineligible reported match contributions that could be used to drawdown future HOME entitlement funds if the City does not strengthen its accounting and reporting controls over its HOME match contributions. The $8.8 million consists of recommendations 3A, that $4.4 million in HOME match for cancelled HOME activities need to be removed from the City's HOME match report, 3B that $2.8 million in next year's HOME entitlement funds could be drawn down if the City does not strengthen its accounting and reporting controls over its HOME match contribution, 3C that $58,824 was overstated HOME match liabilities reported to HUD in fiscal year 2010 through 2012, 3D that $1.3 million in HOME match was claimed for projects without having HOME rent limits included in the affordable housing agreements to ensure units are rented in compliance with HOME rent limits, and 2K that $299,744 in HOME match was claimed for a property without having a deed restriction or lien to enforce HOME program requirements.

Comment 22 City officials attached documents to support that they recorded the unreported program income in IDIS. However, City officials did not provide documentation to support that the recorded program income was used before entitlement drawdowns. Therefore, City officials need to provide documentation to HUD for verification during the audit resolution process that the recorded program income was expended for eligible HOME costs and before making HOME entitlement drawdowns. Moreover, City officials stated that it is an inaccurate statement to say that these funds could be put to better use since they are being utilized for HOME eligible activities. However, the audit disclosed that the $513,852 has never been recorded in IDIS or used before making HOME entitlement drawdowns from LOCCS. Therefore, if the recommendation is implemented, the $513,852 will represent funds to be put to better use because it will be recorded in the City's accounting records and IDIS, and will be used for future eligible HOME activities.

Comment 23 City officials stated that the $289,858 in recommendation 4D is a double entry. However, the $289,858 in City HOME program income was received before April 2010 and had not been recorded in IDIS. It needs to be recorded in IDIS to be traceable to the City's accounting records and enable monitoring of the City's compliance with HOME program requirements.