



The City of Camden, NJ

Community Development Block Grant Program



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

From: //signed//
David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA

Subject: The City of Camden, NJ, Did Not Ensure That Activities Always Complied With National Objective, Procurement, and Environmental Review Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Camden's Community Development Block Grant 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 215-430-6734.



Audit Report Number: 2016-PH-1003

Date: May 24, 2016

The City of Camden, NJ, Did Not Ensure That Activities Always Complied With National Objective, Procurement, and Environmental Review Requirements

Highlights

What We Audited and Why

We audited the City of Camden, NJ's administration of its Community Development Block Grant program. We conducted the audit because the City was authorized \$6.6 million in Block Grant funds for fiscal years 2013 through 2015 and we had not audited its program since 1996. Our audit objective was to determine whether the City ensured that its program activities met national objectives and complied with applicable U.S. Department of Housing and Urban Development (HUD) procurement and environmental review requirements.

What We Found

The City did not ensure that its activities always complied with national objective, procurement, and environmental review requirements. Of 10 activities reviewed, 7 did not comply with requirements. One activity did not meet a national objective, and the related costs were incurred and paid after the subrecipient agreement had expired. For this and six other activities, the City did not (1) prepare independent cost estimates before making purchases, prepare cost analyses before modifying the contracts, or show evidence of competition; and (2) conduct environmental reviews or properly document that projects were exempt from environmental review requirements. As a result, the City made ineligible disbursements totaling \$317,803, and it could not show that disbursements totaling \$2.8 million complied with applicable requirements.

The City began taking corrective actions at the end of the audit and began providing some documentation to resolve the deficiencies regarding environmental reviews. HUD needs to assess the documentation to determine whether it was adequate to show that projects were exempt from environmental review requirements.

What We Recommend

We recommend that HUD require the City to (1) repay its program \$317,803 for the disbursements made after the subrecipient agreement expired; (2) provide documentation for the six activities that did not comply with procurement requirements to show that costs paid for products and services were fair and reasonable or repay its program from non-Federal funds any amount that it cannot support; and (3) provide documentation for seven activities, with draws totaling \$2.8 million, to show that either it conducted an environmental review or the activity was exempt from an environmental review or repay its program from non-Federal funds any amount that it cannot support.

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Background and Objective

The Community Development Block Grant program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Established in 1974, the program is one of the U.S. Department of Housing and Urban Development's (HUD) longest continuously running programs. The program provides annual grants on a formula basis to 1,209 general units of local government and States. The City of Camden receives its Block Grant funds as an entitlement grantee. To be eligible for funding, every activity, except program administration and planning, must meet one of the following three national objectives:

- Benefit low- and moderate-income persons,
- Prevent or eliminate slums or blight, or
- Address certain urgent needs in a community because conditions pose an immediate threat to the health and welfare of the community.

The City of Camden operates under a mayor-council form of government, which consists of four elected council members serving each of the City's four districts. The City's director of community and planning development administers its Block Grant program.

The City obtains and draws program funds for activities through HUD's Integrated Disbursement and Information System (IDIS). This system is the drawdown and reporting system for HUD's formula grant programs, which include the Block Grant program.

Our audit objective was to determine whether the City ensured that its program activities met national objectives and complied with applicable HUD procurement and environmental review requirements.

Results of Audit

Finding: The City's Activities Did Not Always Comply With National Objective, Procurement, and Environmental Review Requirements

The City did not ensure that its activities always complied with national objective, procurement, and environmental review requirements. Of 10 activities reviewed, 7 did not comply with requirements.¹ Specifically, one activity, with draws totaling \$317,803, did not meet a national objective, and the related costs were incurred and paid after the subrecipient agreement had expired. For this and five other activities, with draws totaling more than \$2.1 million, the City did not prepare independent cost estimates before making purchases, prepare cost analyses before modifying the contracts, or show evidence of competition. Additionally, for these six activities and one additional activity, with draws totaling \$3.1 million, the City did not conduct environmental reviews or properly document that projects were exempt from environmental review requirements. This occurred because the City did not properly monitor one activity. Additionally, the City was unfamiliar with HUD procurement and environmental review requirements, and lacked controls to ensure that activities complied with program requirements before making payments. As a result, the City made ineligible disbursements totaling \$317,803, and it could not show that disbursements totaling more than \$2.8 million complied with applicable program requirements.

One Activity Did Not Meet a National Objective and Funds Were Spent After the Subrecipient Agreement Expired

Regulations at 24 CFR (Code of Federal Regulations) 570.200(a)(2) required assisted activities to meet one of three national objectives. For activity 3061, related to the construction by a subrecipient of a commercial building, the City planned to meet the objective of benefit to low- and moderate-income persons by creating 20 jobs. The project was scheduled to be completed June 30, 2012. However, the project had not been completed, and the national objective had not been achieved. The project was estimated to cost \$8.4 million, and the City's Block Grant contribution toward the project was \$350,000. The project experienced delays for reasons such as zoning issues and litigation. As time passed, the other sources of funding pulled their funding from the project. The City said that the subrecipient was trying to gather funding to complete the project. The subrecipient reported that it had \$2.9 million for the project and planned to complete the project in June 2017. Although the activity had not met a national objective, the City's disbursement of \$317,803 to the project was ineligible because the subrecipient agreement had expired.

Program regulations at 24 CFR 570.503(a) required the City to execute a written agreement with its subrecipient and for the agreement to remain in effect while the subrecipient had control over

¹ See appendix D for details.

program funds. The City entered into an agreement with the subrecipient on April 16, 2012, for construction and site improvement for a new commercial building. The City amended the agreement, and it expired on June 30, 2013. However, although the subrecipient agreement had expired, the subrecipient hired contractors to perform site improvements to the property between June and December 2014 and incurred costs totaling \$317,803. The subrecipient submitted documentation to the City for payment, and the City paid the subrecipient \$317,803.² Because the City disbursed the funds to the subrecipient without an agreement in place, the disbursements totaling \$317,803 were ineligible. This condition occurred because the City did not properly monitor the project and lacked controls to ensure that activities complied with all requirements before making payments. Program regulations at 24 CFR 570.501(b) made the City responsible for determining the adequacy of performance under subrecipient agreements and taking appropriate action when performance problems arose. Additionally, regulations at 24 CFR 85.40(a) required the City to monitor grant activities to ensure compliance with applicable Federal requirements and that performance goals were met.

Six Activities Did Not Comply With Procurement Requirements

The City did not comply with applicable procurement requirements for six activities with draws totaling \$2.1 million. For five of the six activities,³ the City did not prepare an independent cost estimate or conduct a price or cost analysis. For the remaining activity,⁴ the City prepared independent cost estimates for two contracts before receiving bids, but did not prepare a cost analysis before modifying each contract. In addition, for three of the six activities, the City lacked documentation to show that it made purchases competitively.⁵ Regulations at 24 CFR 85.36 required the City to prepare an independent cost estimate and price or cost analysis for all procurement actions, conduct all procurement transactions in a manner providing full and open competition, and maintain sufficient records to detail the significant history of a procurement. Contrary to these requirements, the City did not prepare cost estimates, perform price or cost analyses, and maintain documentation to show that it made purchases competitively. By not complying with requirements, the City had no assurance that the \$2.1 million it paid for products and services was fair and reasonable. This condition occurred because the City was unfamiliar with HUD's procurement requirements. At the time the City made the \$2.1 million in disbursements, its procedures did not comply with HUD's procurement requirements.

Seven Activities Did Not Comply With Environmental Review Requirements

The City did not comply with environmental review requirements for seven activities with draws totaling \$3.1 million.⁶ For two activities,⁷ with draws totaling \$332,703, the City did not complete an environmental review. Regulations at 24 CFR 58.38 required the City to maintain a written record of the environmental review undertaken for each project. The environmental review record must contain all required environmental review documents, public notices, and written determinations or environmental findings as evidence of review, decision making, and

² The City made a payment of \$186,132 in October 2014 and a payment of \$131,671 in December 2014.

³ Activities 2827, 2982, 3061, 3357, and 3359

⁴ Activity 3097

⁵ See appendix D for details.

⁶ See appendix D for details.

⁷ Activities 3061 and 2982

action pertaining to a particular project. This condition occurred because the City was unfamiliar with environmental review requirements and lacked environmental review procedures. For five activities,⁸ with draws totaling \$2.8 million, the City did not document their exempt status in its environmental review record. For exempt activities, regulations at 24 CFR 58.34(b) state that the City must document a written determination that each activity or project is exempt and that it meets the conditions specified for the exemption. This condition occurred because the City was unfamiliar with environmental review requirements, specifically the requirement to document the exempt status of activities in its environmental review record, and it lacked environmental review procedures.

The City Had Begun To Take Action To Resolve Deficiencies Regarding Environmental Reviews
After we notified the City of this problem, it prepared written determinations, dated in April 2016, that it believed demonstrated that the five activities discussed above were exempt from environmental review requirements. HUD needs to assess whether the written determinations provided and any documentation the City provides after the audit for the seven activities are adequate to show that it conducted an environmental review or that the activity was exempt from an environmental review.

HUD's Recent Monitoring Review Identified Similar Issues

In June 2013, HUD's Newark, NJ, Office of Community Planning and Development conducted an onsite monitoring of the City's Block Grant program and identified issues similar to those identified here. The purpose of HUD's monitoring review was to determine the City's compliance with applicable laws and regulations and identify deficiencies or weaknesses in program management. The review resulted in five findings and two concerns. HUD found that the City did not follow procurement regulations when it did not perform cost estimates and conduct environmental reviews for activities that it considered to be emergencies. In March 2015, HUD accepted the last of the City's corrective actions, including updates to its procedural manuals, to address the monitoring findings.

Conclusion

The City did not ensure that its activities always complied with national objective, procurement, and environmental review requirements. Of 10 activities reviewed, 7 did not comply with requirements. This occurred because the City did not properly monitor one activity. Additionally, the City was unfamiliar with HUD procurement and environmental review requirements, and lacked controls to ensure that activities complied with all requirements before making payments. As a result, the City made ineligible disbursements totaling \$317,803 and unsupported disbursements totaling more than \$2.8 million.

Although the City had begun taking corrective action at the end of the audit to resolve some of the deficiencies, HUD needs to assess the documentation to determine whether it was adequate to show that projects were exempt from environmental review requirements.

⁸ Activities 2818, 2827, 3097, 3357, and 3359

Recommendations

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

- 1A. Require the City to repay its program \$317,803 for the disbursements it made for activity 3061 after the subrecipient agreement expired.
- 1B. Require the City to provide documentation for the six activities that did not comply with procurement requirements to show that costs paid for products and services were fair and reasonable or repay its program from non-Federal funds any amount that it cannot support (excluding any amount repaid as a result of recommendations 1C and 1D).
- 1C. Require the City to provide documentation for two activities, with draws totaling \$14,900,⁹ to show that it conducted an environmental review or repay its program from non-Federal funds any amount that it cannot support.
- 1D. Determine whether the documentation the City provided for five activities, with draws totaling \$2,816,545, is adequate to show that the activities were exempt from an environmental review and if not, require the City to repay its program from non-Federal funds any amount that it cannot support.
- 1E. Require the City to develop and implement controls to ensure that it properly monitors subrecipient activities.
- 1F. Require the City to develop and implement controls to ensure that subrecipient activities comply with all requirements before making disbursements.
- 1G. Require the City to provide training to its staff on HUD procurement and environmental review requirements.
- 1H. Require the City to develop and implement controls to ensure that it complies with HUD procurement and environmental review requirements.

⁹ To avoid double-counting unsupported costs in our recommendations, we reported costs related to more than one deficiency only once. For this recommendation, we did not report the \$317,803 related to activity 3061 because those costs were addressed in recommendation 1A.

Scope and Methodology

We conducted the audit from September 2015 through March 2016 at the City's office located at 520 Market Street, Camden, NJ, and our offices located in Baltimore, MD, and Philadelphia, PA. The audit covered the period July 1, 2013, to August 31, 2015, but was expanded when necessary.

To accomplish our objective, we reviewed

- Applicable laws, regulations, the City's annual plan, HUD's program requirements at 24 CFR Parts 58, 85 and 570, and other guidance.
- The City's program files, procurement files, environmental reviews, annual audited financial statements for fiscal years 2013 and 2014, policies and procedures, and organizational chart.
- IDIS data reports, grant agreements, subrecipient grant agreements, and documents supporting the City's and its subrecipient's fund draws for program activities.

We also interviewed City employees and HUD staff.

To achieve our audit objective, we relied in part on computer-processed data from the City's computer system. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We obtained information from IDIS for the City's activities as of September 2015. The universe included 72 open, 892 completed, and 329 canceled activities that the City created between 1993 and 2014. We segregated the open activities from the completed activities and sorted the activities in descending dollar order based on the amount of funds allocated to the activity. We nonstatistically selected 10 activities for review using a risk-based sampling method to determine whether the activities met national objective, procurement, and environmental review requirements. Although this approach did not allow us to make a projection to the population, it was sufficient to meet the audit objective. The City allocated more than \$4.4 million to the 10 activities and had drawn nearly \$4.0 million from them as of September 8, 2015 (appendix C). For open activities, we selected the five activities with the largest amount of allocated funds. For completed activities, we selected the four activities with the largest amount of allocated funds and a last draw within 3 years of the beginning our audit period (July 1, 2013). We selected the only canceled activity that had funds drawn against it. However, during our review, we found that this activity had not been canceled. Rather, the City had incorrectly identified the activity in the system. The activity was completed.

Activities 3306 and 3407 were property improvement programs that the City established in 2013 and 2014 to assist low-income homeowners by giving them grants of up to \$5,000 to make

repairs on their homes. We nonstatistically selected 25 grants for review using a risk-based sampling method to determine whether they met national objective, procurement, and environmental review requirements. Although this approach did not allow us to make a projection to the population, it was sufficient to meet the audit objective. The City made 92 draws against these activities. For activity 3306, we selected the five draws with the largest amounts totaling \$133,891. For activity 3407, we selected the five vouchers with the largest amounts totaling \$109,408. The City provided grants to 66 homeowners with these 10 draws (36 from activity 3306 and 30 from activity 3407). Of the 66 grants, we reviewed the 25 with the largest amounts totaling \$112,884 (14 valued at \$62,650 from activity 3306 and 11 valued at \$50,234 from activity 3407). We reviewed the other eight activities entirely.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program participants comply with program laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

The City

- Was unfamiliar with procurement and environmental review requirements.
- Lacked controls to ensure that it complied with HUD procurement and environmental review requirements.

- Lacked controls to ensure that it properly monitored subrecipient activities.
- Lacked controls to ensure that subrecipient activities complied with all requirements before making disbursements.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$317,803	
1C		\$14,900
1D		2,816,545
Totals	317,803	2,831,445

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3



CITY OF CAMDEN
DEPARTMENT OF FINANCE
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GLYNN E. JONES
DIRECTOR OF FINANCE

DANA L. REDD
MAYOR

April 28, 2016

David Kasperowicz, Regional Inspector General for Audit
U. S. Department of HUD
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380

Dear Mr. Kasperowicz:

SUBJECT: CITY OF CAMDEN CDBG PROGRAM

The City is in receipt the Audit report. The audit report was reviewed by and discussed with the staff of the various city departments and divisions responsible for the administration and implementation of the Community Development Block Grant Program.

If possible, the City of Camden would like it noted that the activities reviewed that resulted in the findings covered fiscal years 2009 through 2014. The City also believes it should be noted that all of the findings were for activities from fiscal years 2009 through 2013. It should also be noted that the City incorporated recommendations based on the findings from the 2013 HUD monitoring into the City's procedural manuals.

We strongly believe that the issues raised during the course of this audit have been or shortly will be completely eradicated thanks to the diligence of the OIG and cooperation with the city's various departments.

The audit presented a finding and recommendations- - - In summary, the City recognizes the finding and acknowledges the recommendations of OIG and accepts them as presented in the audit report. All final recommendations set forth in the audit report will be incorporated into the City's Purchasing Manual as well as the Grants Management manual. Specifically:

- All activities must be consistent with a national objective. The national objective will be confirmed in IDIS prior to final payment and monitored throughout the construction period, where applicable, until to the end user to ensure compliance.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

Page 2

- Independent cost estimates will be performed prior to the issuance of all RFPs. Any requests for funds for projects that are capital in nature will be verified by independent cost estimates prior to further consideration. Independent cost estimates and RFP results will be confirmed prior to entry into IDIS. It is acknowledged that licensed professional engineers within the city's Division of Capital Improvement and Project Management can perform cost estimates for capital projects.

- All requests for funding and RFPs for capital projects will have an environmental review completed prior to the requests for release of funds. Any funding to be reprogrammed for a new capital project will have an environmental review done prior to the amendment being advertised.

All of these changes will be memorialized in the City's manuals. In addition, all Directors and supervisory staff will be instructed in these procedures. If OIG has any other recommendations, we will gladly incorporate them as well. The City of Camden will continue to improve its internal policies and procedures toward ensuring the appropriate expenditures of Community Development Block Grant Funds.

Sincerely,



Glynn E. Jones, Director of Finance

cc: Dana L. Redd, Mayor
Robert Corrales, Business Administrator
Dr. Edward C. Williams, Dir. Of Planning & Development
Annemarie C. Uebbing, CPD Director
Kimberly Harrison, Asst. Reg. Insp.

OIG Evaluation of Auditee Comments

- Comment 1 The City noted that the activities reviewed covered years 2009 through 2014 and that the findings addressed activities from years 2009 through 2013. We added a column in appendix C to identify the plan years of the activities reviewed.
- Comment 2 The City commented that it incorporated recommendations from HUD's 2013 monitoring review into its procedural manuals. We added a statement in the finding regarding the City's actions to address HUD's monitoring findings.
- Comment 3 The City asserted that it will incorporate the recommendations contained in the audit report into its purchasing manual as well as its grants management manual. It also stated that it will continue to improve its internal policies and procedures and instruct all directors and supervisory staff in these procedures. These actions relate to recommendations 1E, 1F, 1G and 1H respectively. However, we did not verify the implementation of these actions. Therefore, as part of the audit resolution process, HUD will evaluate the corrective actions taken by the City to ensure that they satisfy the recommendations.

Appendix C

List of Activities Reviewed

#	IDIS activity ID	Plan year	Activity name	Amount allocated	Amount drawn	Status
1	2827	2009	Fire equipment	\$729,000	\$729,000	Completed
2	3359	2013	Fire equipment – 27 th & Federal St. Firehouse	612,500	612,500	Completed
3	2818	2009	Morris Delair Water Treatment II	607,850	607,850	Completed
4	3097	2010	Emergency sewer construction	529,296	529,296	Completed
5	3357	2012	Fire equipment – 27 th & Federal St. Firehouse	507,383	337,899	Open
6	3401	2014	Administration	444,574	281,426	Open
7	3061	2011	PBCIP Renew Building	350,000	317,803	Open
8	3407	2014	Property Improvement Program	335,000	277,152	Open
9	3306	2013	Property Improvement Program	285,565	266,540	Open
10	2982	2009	Demolition – 1183 Liberty St.	14,900	14,900	Completed
			Totals	4,416,068	3,974,366	

Appendix D

Activities That Did Not Meet Procurement and Environmental Review Requirements

#	Project name (IDIS ID)	Total drawn	Amount lacking a cost estimate or cost analysis	Amount lacking evidence of competition	Amount not supported by an environmental review or lacking proper documentation of exempt status	Total unsupported cost
1	Fire equipment (2827)	\$729,000	\$718,921	\$729,000	\$729,000	\$729,000
2	Fire equipment (3359)	612,500	612,500	612,500	612,500	612,500
3	Morris Delair Water Treatment Plant improvement (2818)	607,850	0	0	607,850	607,850
4	Sewer reconstruction (3097)	529,296	131,820	0	529,296	529,296
5	Fire equipment (3357)	337,899	337,899	0	337,899	337,899
6	PBCIP Renew Building (3061)	317,803	317,803	317,803	317,803	317,803 ¹⁰
7	Demolition (2982)	14,900	14,900	0	14,900	14,900
Totals		3,149,248	2,133,843	1,659,303	3,149,248	3,149,248

¹⁰ The funds for this activity are included here to show our complete audit results for the City's compliance with procurement and environmental review requirements. However, since these funds were also ineligible because the City disbursed the funds to the subrecipient without an agreement in place, we did not include them in the \$2,831,445 (\$3,149,248 - \$317,803 = \$2,831,445) in unsupported costs reported in recommendations 1C and 1D.