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SEP 30 2009

Mr. Ronald Van Rensalier, Director  
Department of Community Development  
City of Passaic  
330 Passaic St  
Passaic, New Jersey

Dear Mr. Van Rensalier:

SUBJECT: HOME Investment Partnerships (HOME) Program  
Compliance Monitoring Visit  
City of Passaic - Grant No. M-07-MC-34-0207

On August 27, 2009, Mr. George S. Dietz, Senior Financial Analyst, conducted a monitoring of the City's HOME Investment Partnerships (HOME) Program. The monitoring review focused on the City's Financial Management, Cost Allowability and Procurement processes. We also reviewed the City's record keeping and reporting systems, with respect to these areas, in order to determine the accuracy of the City's data collection, analysis and reporting of financial expenditures in its HOME Program. It is important to note that part of this process was also a corrective action verification of issues resolved in the OIG HOME audit 2007-NY-1012.

To accomplish this review, we performed a review of project files and other program and administrative records; assessed data in the Integrated Disbursement and Information System (IDIS); interviewed staff and examined supporting documentation, including remittance advice, for the program year.

The City's internal financial management systems and procurement processes were reviewed to determine compliance with the applicable sections of 24 CFR Part 92 and 24 CFR Part 85. The Passaic HOME program has undergone changes recently, following an OIG audit and subsequent corrective actions requested by this Office and instituted by the City. Specifically, the City focused on rehabilitation activities while revamping its capabilities and first time home buyer program.

As a result of non-compliance issues outlined in the OIG audit, the City focused resources on rehabilitation projects while attempting to re-institute activities which focus on affordable housing. This effort included contracting with a Community Development

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Home Organization using a procurement process that complied with 24 CFR Part 85.

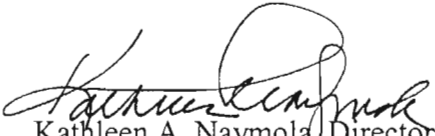
In addition to this, our review verified that the Finance Department and Community Development Office has adopted new measures and procedures to ensure internal controls are in place that ensure HOME funds are expended for eligible activities. Some of these measures included internal controls that track expenditures not only by program year, grant but by specific IDIS activity. The level of detail adopted by the City in these new controls is to be commended.

An exit conference was conducted on August 27, 2009, at which time the results of the monitoring were discussed. The final results of the monitoring can be found in the enclosure to this letter.

Also, if you have additional information relative to our monitoring conclusions or wish to propose alternative actions for correcting the issues that were identified, please contact us within fifteen (15) days of the date of this letter.

I would like to thank you and your staff for the courtesy and cooperation extended to Mr. Dietz during the visit. Should you or your staff have any questions relative to the monitoring visit, please feel free to contact me or Mr. George S. Dietz of my staff at (973) 776-7296.

Sincerely,



Kathleen A. Naymola, Director  
Community Planning and  
Development Division

Enclosure

cc: Honorable Alex D. Blanco, Mayor

**Enclosure**  
**City of Passaic**  
**HOME Program Monitoring**

This summarizes the results of the HOME program monitoring conducted on August 27, 2009 and the exit conference held that same day.

**I. Financial Management**

**A. Systems**

The City, through its Department of Community Development and Finance Department, is responsible for ensuring that its financial management systems are complaint with 24 CFR 85.20 and 24 CFR 92.505. To comply with these regulations the City's internal financial management systems must: clearly reconcile with data in HUD's Integrated Disbursement Information System (IDIS); provide a mechanism to ensure that expenditures do not exceed budgeted amounts; internal financial systems track budgeted amounts by grant, year and activity; and expenditures are supported by documentation and remittance advice.

The City's internal financial reporting system separates funding by program, year and IDIS activity. A review of the chart of accounts and City ledger supported the conclusion that the City had appropriate controls in place to ensure that HOME funds were expended for eligible costs/activities. Specifically, the City's Finance Department uses a system for its chart of accounts that identifies the program, year and IDIS activity. For example, account H-24-31-HP7-564-826 is for the HOME program (HP), year (7), and IDIS activity number (564).

To test the City's financial management system we reviewed a random sample of six vouchers—June, 2008, August 2008, September 2008, October 2008, February 2009, May 2009. The vouchers requested payment for \$9693.43, \$74,067.16, \$2,761.47, \$39807.64, \$53020.82, \$4616.48. A review of the sample indicated all vouchers contained at a minimum—a purchase order or invoice. Further review indicated that these expenditures were traceable, through the City's internal financial reporting system, to specific HOME activities by program, grant year and IDIS activity.

Finally, our review of the six randomly sampled vouchers, including support documentation, indicated that expenditures in the amount of \$183,964 were used for approved locations. Furthermore, that these expenditures were eligible in accordance with 24 CFR 92.206 through 24 CFR 209 and 24 CFR 85.20(b)(5)

### **B. Cash Management**

24 CFR 92.502(c)(2) requires that a PJ has procedures to ensure that any HOME funds drawn down from its U.S. Treasury account are expended for eligible costs within 15 days. During an interview with the City's Finance Director, Jose Agosto, he indicated that the City runs on a reimbursable basis. Subsequent review of the City's internal financial reporting systems and six randomly sampled vouchers supported this statement. Our review concluded that the City initiates draw-downs after expenses have been incurred and that said payments are reimbursements to the City.

Consequently, the City is reimbursing itself for expenses already incurred and therefore is compliant with 24 CFR 92.502(c)(2). Because the City runs on a reimbursable basis, its cash management procedures were found to be consistent with HOME program regulations—24 CFR 92.502(c)(2)--and Financial Management regulations—24 CFR Part 85.

### **C. Internal Controls**

The City is required to have effective internal controls, in accordance with 24 CFR Part 85, in order to ensure that HOME funds are expended for eligible activities. 24 CFR, Part 85.20 of the regulations state that accounting records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

As provided for in 24 CFR 85.20(b)(3), HUD's monitoring included an assessment of the City's management of funds made available under programs administered by HUD. We specifically reviewed whether the City's controls allow it to maintain effective control and accountability for all grant and subgrant funding.

The review indicated that the City has multiple checks and balances to ensure HOME funds are safeguarded. Within the Community Development Office internal controls safeguarding funding is a three step process. The program finance person validates expenditures for the Home Program then enters a drawdown request in IDIS. This an internal voucher request with supporting documentation which is in then forwarded for review by a program representative who verifies eligibility of the request. Finally the Community Development Director reviews the request for payment and then forwards the request to the Finance Department.

Within the Finance Department there is a two step process which ensures that HOME funds are properly safeguarded. When the Department receives a request for payment it

reviews the voucher and underlying support. The Department verifies by program, grant number and activity that the amount requested is an eligible, budgeted expense.

If the review indicates the expense is eligible and recorded under the correct IDIS activity number the Finance person forwards the payment request to the Finance Director. The Finance Director reviews the request and supporting documentation to confirm eligibility of the expenses and either rejects the request or approves it depending on eligibility, budget allocation and proper support documentation.

Based upon the aforementioned process and a review of the City's internal controls within the Program area and Finance Department, we concluded that the City has effective internal controls in place to ensure the safeguarding of HOME funds. Furthermore, that said controls are consistent with the requirements provided under the Standards for Financial Management—24 CFR Part 85.

#### **D. Accuracy of Reporting**

During our review, we also examined the City's reporting systems to ensure that the City's efforts were consistent with 24 CFR 85.20 and 24 CFR 92.505. The focus of this review was to confirm that the City's systems and/or procedures ensure that accurate information is collected and reported in accordance with the aforementioned regulations and that the City reconciles its internal financial systems with IDIS for accuracy.

24 CFR, Part 85.20 of the regulations state that to be compliant the City's accounting records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities; outlays or expenditures, and income. Our review of the City's internal financial systems confirmed that such information was recorded. This conclusion was made after reviewing the chart of accounts and internal ledger which clearly demonstrated such information was collected.

Finally, a review of expenditures, as recorded in the City's internal financial system, for the HOME Program year 2008 was compared against the information in IDIS. For the period in question IDIS recorded approximately \$928,000 in HOME program expenditures. The City's internal financial records indicated approximately \$990,000 in expenditures of HOME funds for the same period.

The \$62,000 difference between IDIS and internal records represented outstanding expenses incurred by the City that had yet to be drawn from the Line of Credit. Since the internal financial reporting system and IDIS were generally consistent, absent this outstanding accrued expense, we concluded that the City was in compliance with the requirements of 24 CFR 85.20 and 24 CFR 92.505.

Overall, our review of the City's Financial Systems found the City to be in compliance with the requirements of 24 CFR 85.20 and 24 CFR 92. Specifically, the

City's procedures and financial management systems indicated a clear and consistent effort to reconcile its own financial system with IDIS. Also, the City has the necessary internal controls in place to ensure that HOME funds are used for eligible expenses.

## **II. Cost Allowability**

Consistent with the general principles of OMB Circular A-87 Attachment A(C), and 24 CFR 85.22 and 24 CFR 92.505, costs charged to federal awards must be necessary and reasonable for proper and efficient performance and administration of Federal awards, allocable to Federal awards and adequately documented.

HUD reviewed a random sample of vouchers selected from the HOME program. We reviewed these vouchers to determine cost allowability and reasonableness under the HOME program with respect to OMB Circular A-87, and 24 CFR 85.22 and 24 CFR 92.505. The sample included six vouchers totaling \$183,964 in expenditures selected from the 2008 program year.

As part of the financial review and allowable cost analysis, we conducted an independent reconciliation of gross draw downs between HUD's Integrated Disbursement Information System and the City's internal financial system. We were able to successfully reconcile both reports for the period of July 1, 2008 to August 1, 2009.

Overall, our review of the files consistently demonstrated that all vouchers, supporting documentation, purchase orders and backup documentation for a random sample selection were present. The documentation present was more than sufficient to substantiate and track vouchers from submission to payment which supported the conclusion that, as required in OMB Circular A-87, Attachment A, Paragraph C. Subpart 1.j, costs appeared allowable and were adequately documented.

## **III. Procurement**

The City's procedures were reviewed for consistency with Federal regulation 24 CFR Part 85.36 –Procurement. This review included examining the City's 2008 Procurement Procedures manual and the sole procurement for the 2008 Program Year.

A RFP (Requests for Proposals) for housing rehabilitation services was reviewed during the monitoring visit. The Contract award for this particular RFP was \$161,690. Our review found this procurement to be consistent with Federal regulation 24 CFR Part 85.36 –Procurement. Procurement procedures were well documented, had open and free competition, and contracts included the necessary clauses and documentation required by Federal statutes, executive orders and the Regulations.

The City's procurement process, in practice and execution during the period reviewed were consistent with the spirit of competition noted throughout 24 CFR 85.36.

In addition, the grantee extensively documents the procurement process from RFP, receipt of vendor application, pre-award selection, and City resolution. Furthermore, the processes the grantee has in place after pre-award selection are designed to ensure that contracts go to eligible vendors.

Finally, a review of the procurement process indicated that the grantee is in compliance with the federal procurement standards. Our review of its procurement of housing rehabilitation services for the period from May 2009 through April 2010 revealed no compliance issues. The City's procurement practices, in this instance, are an example of the spirit of the competitive procurement process outlined in 24 CFR Part 85.

#### **IV. Conclusion**

Our review disclosed that the City has implemented significant changes to procedures and systems used in the administration of the HOME program. We note that the City has established a number of new internal procedures designed to ensure it is compliant with the HOME regulations and applicable portions of the 24 CFR Part 85. Ultimately, our review of the City's new procedures supports our conclusion that the City has effectively addressed areas of concern in its Financial Management Systems and Procurement processes.

We noted significant improvement in the internal controls and reporting of activity information, with respect to financial management, that dramatically improved the quality and accuracy of the data being reported. We encourage the City to continue to improving this process so that accurate assessments of performance will continue to be available. The City demonstrated during our monitoring that it had the appropriate financial management controls in place to ensure compliance with the HOME program.

The City is to be commended for instituting effective changes in its program, systems, and processes. These changes ensure that the City's internal controls, financial management processes, and procurement are consistent with Federal Regulations. Finally, our review also served as corrective action verification of issues identified in HUD OIG audit 2007-NY-1012. The areas of concern identified during the audit resolution process were also the same areas of concern—Financial Management, Cost Allowability, Procurement—that were identified during the FY 2009 risk analysis process. Therefore, during the monitoring process we verified that all of the corrective actions required during the audit resolution process were in fact taken by the City.