

IOM Quarterly Report

Integrity Monitor Firm Name:

K2 Integrity

Engagement:

New Jersey Economic Development Authority's Integrity Oversight Monitorship

Quarter Ending:

December 30th, 2020

No.	Recipient Data Elements	Response	Comments																								
A. General Info																											
1.	Recovery Program Participant	The New Jersey Economic Development Authority (NJEDA or Authority)																									
2.	Federal Funding Agency (e.g., Section 5001 of CARES Act)	Section 5001 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act COVID-19																									
3.	State Funding (if applicable)	N/A																									
4.	Award Type	Sub-recipient grants from New Jersey Department of Treasury ("Treasury") and counties that received direct allocations of CRF funds																									
5.	Award Amount	<p>As of December 4, 2020, from the CRF funds received by the State of New Jersey, Treasury allocated \$219,300,000 to NJEDA as follows (collectively referred to as "Grant Programs"):</p> <ul style="list-style-type: none"> - \$5 million reimbursement of the Small Business Emergency Assistance ("SBEA") Phase One - \$50 million SBEA Phase Two (\$10 million for eligible businesses located in the 12 counties in New Jersey that did not receive CRF funding directly from the U.S. Department of the Treasury) - \$150 million SBEA Phase Three (not to exceed amount) - \$4.8 million SBEA Administrative cost - \$8.4 million for Phase 2 of the NJ Small and Micro Business PPE Access Program ("PPE Program") - \$1.1 million for administrative costs related to the PPE Program <p>Additionally, NJEDA has utilized its own funds and will receive reimbursement from Treasury of \$13,555,731 as follows:</p> <ul style="list-style-type: none"> - \$5 million for the second tranche of SBEA Phase 1 - \$1.25 million for Community Development Finance Institution Emergency Grant Program ("CDFI") - \$3,831,075 in Administrative costs for implementing COVID-19 Programs - \$3,474,656 in NJEDA staff time <p>NJEDA also received funding from other sources to support its COVID-19 programs, including \$30 million from counties that received direct allocations of CRF funds. Of the \$30 million, NJEDA disbursed \$7.66 million and returned \$20.415 million to the counties.</p>																									
6.	Accountability Officer	Christine Baker, SVP, Strategic Initiatives & Operations																									
7.	Brief Description, Purpose and Rationale of Integrity Monitor Project/Program	K2 Integrity ("K2") was engaged by NJEDA pursuant to the terms of Governor Murphy's July 17, 2020 Executive Order No. 166 (EO-166) and per the requirements of the August 2020 Integrity Oversight Monitor Guidelines issued by the State of New Jersey COVID-19 Compliance and Oversight Taskforce (IOM Guidelines), in accordance with the procedures established by the Request for Quotation issued by the Division of Administration, Department of the Treasury for Integrity Oversight Monitoring: Program and Performance Monitoring, Financial Monitoring and Grant Management and Anti-Fraud Monitoring for Coronavirus Relief Funds pursuant to Section 5001 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act COVID-19 Recovery Funds and Programs (IOM RFQ).																									
8.	Contract/Program Location (if applicable)	NJEDA 36 West State Street P.O. Box 990 Trenton, New Jersey 08625-0990																									
9.	Amount Expended by Recovery Program Participant to Date	<table border="1"> <thead> <tr> <th>Program</th> <th>Funds Expended as of 12/4/2020</th> </tr> </thead> <tbody> <tr> <td>SBEA Phase 1</td> <td>\$ 5,000,000</td> </tr> <tr> <td>SBEA Phase 2</td> <td>\$ 45,603,000</td> </tr> <tr> <td>SBEA Phase 3</td> <td>\$ 122,862,000</td> </tr> <tr> <td>SBEA Administrative Expenses</td> <td>\$ 692,866</td> </tr> <tr> <td>PPE Program Phase 2</td> <td>\$ 0</td> </tr> <tr> <td>PPE Program Administrative Expenses</td> <td>\$ 224,622</td> </tr> <tr> <td>CDFI Program</td> <td>\$ 1,250,000</td> </tr> <tr> <td>SBEA Phase 1 (second tranche reimbursement)</td> <td>\$ 5,000,000</td> </tr> <tr> <td>Administrative Expenses Reimbursement</td> <td>\$ 4,881,041</td> </tr> <tr> <td>SBEA Phase 2 (County Funds)</td> <td>\$ 7,660,000</td> </tr> <tr> <td>Total Expended</td> <td>\$ 193,173,529</td> </tr> </tbody> </table>	Program	Funds Expended as of 12/4/2020	SBEA Phase 1	\$ 5,000,000	SBEA Phase 2	\$ 45,603,000	SBEA Phase 3	\$ 122,862,000	SBEA Administrative Expenses	\$ 692,866	PPE Program Phase 2	\$ 0	PPE Program Administrative Expenses	\$ 224,622	CDFI Program	\$ 1,250,000	SBEA Phase 1 (second tranche reimbursement)	\$ 5,000,000	Administrative Expenses Reimbursement	\$ 4,881,041	SBEA Phase 2 (County Funds)	\$ 7,660,000	Total Expended	\$ 193,173,529	
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10.	Amount Provided to other State or Local Entities	No amounts were provided to other State or Local Entities																									
11.	Completion Status of Contract or	December 30th 2020																									
12.	Expected Contract End Date/Time	December 30th 2020																									
B. Monitoring Activities																											
13.	If FEMA funded, brief description of the status of the project worksheet	N/A - The Grant Programs are not FEMA funded.																									
No.	Recipient Data Elements	Response	Comments																								

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14.	Quarterly Activities/Project Description (include with specificity activities conducted, such as meetings, document review, staff training, etc.)	<p>K2 performed the following tasks as part of its quarterly monitoring activities:</p> <ul style="list-style-type: none"> - Commenced work on November 20, 2020 with a kickoff meeting. In attendance were, Raymond Dookhie, Scott Millman, Yashvi Roy, and Paul Ryan of K2, and Christine Baker, along with several members of the NJEDA grants management team. - Issued an information request and finalized a detailed workplan for discussion with the COVID Accountability Officer and NJEDA management team. - Conducted interviews with key NJEDA personnel to obtain an understanding of NJEDA's grants, related grants management processes, controls, and risks. Specifically, interviewed members of the Finance team, members of the Grants Operations/Management Team, and Internal Audit. K2 also conducted a walkthrough of the EnAble system. There were ongoing discussions and updates with the COVID Accountability Officer and delegates throughout the quarterly review. - Reviewed relevant grant program documentation including, but not limited to, grant agreements, MOUs, policies and procedures, and board memorandums outlining program eligibility. - Based on the interviews conducted and documents reviewed, K2-FIN developed a detailed risk and control matrix identifying the key processes, risks, and controls to mitigate such risks. This information was then used to prepare the draft risk matrix deliverable. We also used this information to assess the residual risk associated with NJEDA's grant management operations. - As part of the risk assessment, several aspect of the grants management processes received a moderate risk rating and were selected for transaction testing / monitoring activities (Refer to Section 19 below for areas selected for testing). For each of these areas, K2 prepared a detailed testing sheet, including the relevant control attributes subject to testing. - Reviewed the most recent grant report and related transaction details and performed completeness check against source data evidencing grant disbursements. From the transaction details for each program, K2 selected a risk-based sample of transactions for testing (i.e., based on the value, transaction description, or other fraud risk factors such as potential duplicate names, addresses, and EIN numbers) - Conducted transaction testing through inquiry, observation, re-performance, and review of documentation supporting grant awards, expenditures, procurement, and financial reporting and assessed whether there were any potential exceptions - Conducted follow-up interviews with NJEDA's Accountability Officer and Grant's Management personnel to understand whether there were explanations for potential exceptions 	
15.	Brief description to confirm appropriate data/information has been provided by recipient and what activities have been taken to review in relation to the project/contract/program.	<p>As part of the transaction testing and monitoring activities, K2 reviewed information obtained BY NJEDA from third-party sources to validate information provided by Grant Recipients (e.g., Employer W2-data from DOL, and Recipient Bank Account information from Wells Fargo). NJEDA required all applicants to self-certify that the information being provided is accurate.</p> <p>K2 reviewed the third-party validation and certifications as part of the transaction testing. Please see sections 18 and 19 below to review the specific activities completed in conjunction with the testing of the Grant Programs.</p>	
16.	Description of quarterly auditing activities that have been conducted to ensure procurement compliance with terms and conditions of the contracts and agreements.	<p>NJEDA's procurement polices are aligned with Executive Order 166 and related COVID procurement guidelines. The following is summary of the key aspect of NJEDA's procurement guidelines:</p> <ul style="list-style-type: none"> - Approval from the Office of State Comptroller is required for COVID-related contracts over \$150K The threshold for OSC's review of non-COVID contracts is \$2.5m. - A full competitive bid process is required for purchase greater than or equal to \$44k - Three potential respondents for all contracts between \$17,500 and \$44K - Three quotes are required for contract between \$1K and \$17,500 - A Contract Manager is assigned to monitor and oversee the performance and invoicing of the contract <p>Please see sections 18 and 19 below to review the specific activities completed in conjunction with the testing of the Grant Programs.</p>	
17.	Has payment documentation in connection with the contract/program been reviewed? Please describe	<p>K2 reviewed documentation supporting the expenditure of grant funds for administrative expenditures as well as documentation supporting grant applications, and related funding. This included, but was not limited to, grant applications, grant payment, payroll reports, vendor invoices and agreements.</p> <p>Please see sections 18 and 19 below to review the specific activities completed in conjunction with the testing of the Grant Programs.</p>	

No.	Recipient Data Elements	Response	Comments
18.	Description of quarterly activity to prevent and detect waste, fraud and abuse.	<p>K2 conducted an initial risk assessment as well as detailed transaction testing to identify potential program compliance issues, potential fraud, waste, and abuse. K2's testing in conjunction with the Grant Programs are outlined below:</p> <p>For the Small Business Emergency Assistance Grant Program ("SBEA"), K2 selected a risk-based sample of 30 transactions for testing (22 approved applications, seven denied applications, and one incomplete application). K2 selected five transactions from Phase 1, 11 transactions from Phase 2, and 14 transactions from Phase 3. Specifically, the following attributes were tested, verification of applicant EIN, validity of tax information and status (no flags), duplicate applicants, duplication of benefits, validity of employee counts, need, registration, standing with DOL, rationale for approval/denial decision, confirmation of award, and disbursement to intended beneficiary.</p> <p>For the NJ Small and Micro Business PPE Access Program Phase 1 ("PPE Phase 1"), K2 selected one of the two approved Designated Vendors for testing. Specifically, the following attributes were tested, experience in sourcing Covid-19 PPE, revenue of \$5 million or greater, registration in New Jersey, maintenance of at least one commercial facility in New Jersey, no debarment, Legal Affairs approval, tax clearance, good standing with NJ DOL, working PPE Access site, sale of required PPE categories, PPE meets Federal and NJ's health guidelines, at least 10% discount, payment options, agreement to provide additional subsidy, signed PPE Access Participation and Subsidy Agreement, subsidy only for approved PPE, PPE purchased from wholesaler with fewer than 25 Full-Time Equivalent employees, PPE purchased from company located in historically underserved community, and weekly report on key performance.</p> <p>For the Community Development Financial Institution ("CDFI") Emergency Assistance Grant Program ("CDFI Program"), K2 selected a risk-based sample of two approved CDFI for testing. Specifically, the following attributes were tested, existence for ten years, Legal Affairs questionnaire and approval, currently a CDFI, Tax Clearance, good standing with DOL, plan for use of funds, meets minimum of 80 points in selection criteria, financial metrics disclosed, and quarterly reports provided.</p> <p>For NJ Small and Micro Business PPE Access Program Phase 2 ("PPE Phase 2"), K2 selected a risk-based selection of five SER transactions for testing. Specifically, the following attributes were reviewed, EIN verification, third party verification of applicant FTE counts, self-certification, registration in New Jersey or self-certification, applicant location in an Opportunity Zone Eligible Census Tract, good standing with DOL, and applicant's certification regarding the need and use of funds.</p> <p>For administrative expenses, K2 made a risk-based selection of seven administrative costs (four funded from the CDFI Program, two funded from PPE Phase 1, and one funded from PPE Phase 2) for detail testing. Specifically, K2 tested whether costs were supported, approved, and allowable.</p> <p>For the NJEDA personnel time expenses, K2 selected a risk-based sample of seven individuals for detail testing. Specifically, the following attributes were reviewed, validation of hours billed to each program, supporting time details for hours charged to each program, reasonableness of time charged to each program.</p> <p>With respect to financial reporting, K2 completed the following testing:</p> <ol style="list-style-type: none"> 1. The beginning balances of the funding source accounts set up by NJEDA agree to the amounts allocated by Treasury. 2. Verify the disbursements of the funds are tracked against the appropriate funding source accounts. 3. Verify NJEDA's CRF weekly reports agree to NJEDA's funding source accounts, disbursement reports, and listing of administrative expenses. 	

No.	Recipient Data Elements	Response	Comments
19.	Provide details of any integrity issues/findings	<p>Based on the procedures performed, as outlined in section 18 above, K2 has made the following observations:</p> <p>With respect to the SBEA Grants, K2 identified a duplication of benefit in the amount of \$5,000 to an applicant with the same EIN. According to NJEDA, the error was identified during Phase 2 after program controls were enhanced to include automated review of duplicate EINS. NJEDA contacted the applicant in April 2020 explaining the duplication of benefits and requested a return of funds. As of December 15, 2020, these funds have not been returned to NJEDA. According to the Accountability Officer, Phase 1 was established prior to the publishing of the CARES Act guidance and the program controls were subsequently enhanced as part of Phase II. No exceptions were identified with respect to the SBEA Grants Phase 2 and SBEA Grants Phase 3.</p> <p>No exceptions were identified with respect to the PPE Phase 1 and PPE Phase 2 programs and no exceptions were identified with respect to the CDFI Program.</p> <p>For the administrative expenditures (i.e., NJEDA personnel time), K2 identified three instances where the hours billed exceeded the hours reported on NJEDA personnel timesheet as follows:</p> <ul style="list-style-type: none"> - Employee A - For week ending 11/27/2020, 20 hours were billed, but 18 hours were reported on the timesheet - Employee B - For week ending 8/21/2020, 38.75 hours were billed, but 35 hours were reported on the timesheet - Employee C - For week ending 4/3/2020, 25 hours were billed, but 2.5 hours were reported on the timesheet <p>In response to the IOM's comment that there were three instances where the hours billed exceeded the hours reported on NJEDA personnel timesheet: Those specific instances were corrected. NJEDA has also modified the permissions to prevent staff from billing more than 7 hours per day/35 hours per week.</p> <p>With respect to financial reporting, K2 identified certain differences between the NJEDA's weekly CRF report dated December 4, 2020 and the disbursement report dated December 4, 2020:</p> <ul style="list-style-type: none"> - For SBEA Phase 1, the disbursement report was \$650K higher than the weekly CRF report. According to NJEDA, the disbursement reports included grant monies totaling \$1.09M which were not funded from CRF funds. In addition, there was an error in the weekly CRF report which resulted in an overstatement of grant expenditures by \$440K. K2 was informed that this error has been corrected. - For SBEA Phase 2, the disbursement report was \$50K less than the amount reported on the weekly CRF report. According to NJEDA, the difference was due to rejections in ACH transfers. There is a timing issue between when the ACH rejections are reflected in EnAble and when they are reflected in the weekly CRF reports. - For SBEA Phase 3, the disbursement report was \$35K less than the amount reported on the weekly CRF report. According to NJEDA, the difference was due to rejections in ACH transfers. There is a timing issue between when the ACH rejections are reflected in EnAble and when they are reflected in the weekly CRF reports. <p>NJEDA acknowledged that there was a delay in closing the monthly books and that the books have not been reconciled since June 30, 2020. NJEDA is transitioning from a Loan Management System to CRM EnAble, which has caused the delay. NJEDA is currently working to rectify this issue.</p> <p>K2 noted the following potential opportunities for program enhancements:</p> <ul style="list-style-type: none"> - In addition to requiring that applicant provide certification of use of funds, NJEDA should require that recipient provide information supporting the use of funds (e.g., payroll reports, cancelled checks, vendor invoices). - NJEDA should monitor the recipients' use of funds to assess compliance with the grant agreements. - In addition to requiring NJEDA personnel to allocate time worked on each program, NJEDA should require individuals to enter time descriptions supporting the hours allocated to administrative costs. <p>In response to the IOM's suggestion that "NJEDA should require individuals to enter time descriptions supporting the hours allocated to administrative costs," NJEDA sent a clarifying email to all employees. Additionally, NJEDA is currently building a process to conduct spot check reviews based on a risk rating of grant applicants, and requesting receipts and other support for the use of funds.</p>	
20.	Provide details on any other items of note that have occurred in the past	N/A - This is the IOM's first quarterly report	
21.	Provide details of any actions taken to remediate waste, fraud and abuse	N/A - This is the IOM's first quarterly report	
No.	Recipient Data Elements	Response	Comments
C. Miscellaneous			
22.	Attach a list of hours (by employee) and expenses incurred to perform your		
23.	Add any item, issue or comment not covered in previous sections but deemed pertinent to monitoring program.		

Name of Integrity Monitor: Raymond Dookhie

Name of Report Preparer: Raymond Dookhie

Signature:



Date: December 30, 2020