

Brown and Company - Housing and Mortgage Finance Agency

State of New Jersey
 Department of Treasury
 Integrity Monitoring Reporting Model
 Engagement: EQ2014-009-P1-HMFA
 For Quarter Ending: 12/31/2014

Reports required under A-60 will be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief

Appropriations Act.

No.	Recipient Data Elements	Response	Comments
A. General Info			
1.	Recipient of funding	NJ Housing Mortgage and Finance Agency	
2.	Federal Funding Agency? (e.g. HUD, FEMA)	HUD	
3.	State Funding (if applicable)	NA	
4.	Award Type	HUD Community Development Block Grant- Disaster Recovery	
5.	Award Amount	98,189,210	
6.	Contract/Program Person/Title	John Murray - Director, NJHMFA Division of Credit & Business Development	
7.	Brief Description, Purpose and Rationale of Project/Program	<p>The Department of Treasury (Treasury), on behalf of the New Jersey Housing and Mortgage Finance Agency (NJHMFA) engaged Brown & Company CPAs, PLLC (Brown & Company) pursuant to the "Program and Process Management Auditing, Financial Auditing and Grant Management, and Integrity Monitoring/Anti-Fraud Services for Disaster Recovery Assistance" contract (G9004), and the "Prequalification Pools: Auditing and Other Related Services in Support of Disaster Recovery" contract (T2939) from prequalified contractors. The State retained the services of Brown & Company to provide a Program and Process Management Auditor to NJHMFA to audit the Fund for Restoration of Multi-Family Rental Housing (FRM) and associated contracts, and the Sandy Special Needs Housing Fund (SSNHF) programs (if any SSNHF loan exceeds \$5 million), for the purpose of minimizing the risk preventing or rectifying the duplication of benefits, process and payment errors, waste, fraud, abuse, malfeasance and mismanagement of funds.</p> <p>NJHMFA FRM program assists in the creation of rental projects in the nine most impacted New Jersey counties and provides the funding for forgivable subordinated mortgages. Those counties have been identified as Atlantic, Bergen, Cape May, Essex, Hudson, Middlesex, Monmouth, Ocean and Union. The program awards subsidies in the form of loans to both not-for-profit and for-profit developers; owners capable of managing large multifamily housing developments; and low- and moderate-income households.</p> <p>As of this report, NJHMFA has approved 16 loan contracts (Attachment A), each valued at \$5 million or more. These projects are located in the nine most impacted counties in the State, identified as Atlantic, Bergen, Cape May, Essex, Hudson, Middlesex, Monmouth, Ocean and Union.</p>	
8.	Contract/Program Location	Various counties in New Jersey	
9.	Amount Expended to Date	\$32,593,732	
10.	Amount Provided to other State or Local Entities	NA	
11.	Completion Status of Contract or Program	33% of funds expended	
12.	Expected Contract End Date/Time Period	April 29, 2015 date funds should be expended	
B. Monitoring Activities			
13.	If FEMA funded, brief description of the status of the project worksheet and its support.	NA-No FEMA Funds	

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No.	Recipient Data Elements	Response	Comments
14.	<p>Quarterly Activities/Project Description (include number of visits to meet with recipient and sub recipient, including who you met with, and any site visits warranted to where work was completed)</p>	<p>Brown & Company's integrity oversight monitoring activity for the first full Quarter (September 26, 2014 to December 31, 2014) of the contract focused on Task A and Task B. Task A involved two (2) kick off meetings. The first meeting with Treasury was held September 26, 2014. The attendees included David Ridolfino, Associate Deputy State Treasurer; Roseann Koval, Integrity Oversight Monitor Program Liaison; and Jeffrey D. Burns, Emergency Operations Coordinator. Representatives from Brown & Company included: Gail Jenifer, Kimberly Penn, Justin Nguyen, I. Toni Thomas, and Andrea Wright-Banks. Treasury provided an overview of the Engagement, timeframes and reporting requirements. Gail Jenifer discussed Brown & Company's key deliverables and the projected timelines. The second kick off meeting was also held on September 26, 2014, with the NJHMFA. Meeting attendees included: Roseann Koval, Integrity Oversight Monitor Program Liaison and Jeffrey D. Burns, Emergency Operations Coordinator, both with the Treasury, and the Brown & Company team named above. Meeting attendees from the NJHMFA were: Anthony L. Marchetta, Executive Director; Claudia Lovas, Deputy Executive Director and Program Chief; John Murray Chief of Credit and Business Development; Colleen Drewes; Deb Urban, Senior Director of Programs; and Teresa White, Portfolio Control Supervisor. The meeting opened with Roseann Koval, introducing herself and Jeffrey D. Burns as the key staff managing this contract. Staff of NJHMFA introduced themselves and provided a brief overview of their responsibilities related to the project. Brown & Company team members introduced themselves Gail Jenifer presented the agenda for the kick-off meeting and the overview of Brown & Company's approach to carrying out the provisions of the Contract, executed on September 25, 2014. Following the overview, Anthony Marchetta, discussed NJHMFA's history of implementing local and Federal housing and community developments and the commitment to managing the Sandy Funds for restoration of Multifamily Rental Housing. To date, no special needs projects have been funded. However, if any special needs projects are funded, Mr. Marchetta does not expect them to exceed the \$5 million threshold for Integrity Oversight monitoring. Mr. Marchetta also discussed the timeframes for bringing projects on line. We were provided a chart that listed the projects approved for the CDBG-DR funds and the status of each project as of September 26, 2014. John Murray will act as Brown & Company's liaison with NJHMFA. Mr. Murray agreed to provide Brown & Company with the preliminary documentation during the week of September 30th. Brown & Company provided the minutes of the kick-off meetings, which is a Task A requirement. Task B involved Brown & Company reviewing and evaluating policies and procedures, internal system of controls, and risk assessments. In completing Task B, we conducted four site visits (15 days), reviewed numerous documents and reports created by NJHMFA, and CohnReznick's evaluation of the NJHMFA Sandy Homebuyer Assistance Program (SHAP). Attachment B provides a list of site visits dates and documents and reports reviewed. Interviews with NJHMFA staff were held regarding policies and procedures, internal controls and risk assessments created for the FRM. There are no SHAP contracts that exceed \$5 million at this time.</p> <p>Attachment C lists NJHMFA staff interviewed during the above referenced site visits. Other activities performed by Brown & Company included conducting walkthroughs; conducting research; performing data analysis; reviewing policies and procedures and other relevant reports and documents; and meetings with the Director and designated staff of the Credit & Business Development department. We reviewed schedules that reported activity for the 16 loan contracts. We noted that, of the 16 contracts only 5 contracts had any financial drawdown activity. Brown & Company met with staff and discussed procedures and controls for the five projects that had drawdowns, which were Conifer Village at Rittenberg; Carolina Crescent and Connecticut Crescent; Wesmont Station; Heritage Village at Bloomfield; and Willows at Waretown. The discussion focused on the following areas: overall management systems and conformance to method of distribution; timely distribution of FRM funds; administrative financial management requirements; written agreements with recipients; and program progress and expenditure of FRM funds. We also identified financial management systems (SIROMS) used by DCA and NJHMFA; reviewed the process by which the CDBG-DR funds are requested, approved and expended; reviewed and analyzed the data included in NJHMFA's FRM-PHA tracking spreadsheet; and reviewed 2012 and 2013 annual financial statement audits and noted there were no findings non-compliance with applicable laws and regulations or internal control weaknesses over financial reporting. After completing our review of the internal control environment surrounding the FRM program, we noted that NJHMFA's control systems are adequate and being applied as designed to minimize the risk of inefficiency, waste, fraud, abuse, malfeasance and mismanagement of funds. However, Brown & Company noted some observations, comments, and recommendations for NJHMFA's consideration, which are detailed in Number 19 below.</p>	

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No.	Recipient Data Elements	Response	Comments
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>Activities performed by Brown & Company included conducting walkthroughs; conducting research; performing data analysis; reviewing policies and procedures and other relevant reports and documents; and meetings with the Director and designated staff of the Credit & Business Development department. We reviewed schedules that reported activity for the 16 loan contracts. We noted that, of the 16 contracts, only 5 contracts had any financial drawdown activity. Brown & Company met with staff and discussed procedures and controls for the five projects that had drawdowns, which were Conifer Village at Rittenberg; Carolina Crescent and Connecticut Crescent; Wesmont Station; Heritage Village at Bloomfield; and Willows at Waretown. The discussion focused on the following areas: overall management systems and conformance to method of distribution; timely distribution of FRM funds; administrative financial management requirements; written agreements with recipients; and program progress and expenditure of FRM funds. We also identified financial management systems (SIROMS) used by DCA and NJHMFA; reviewed the process by which the CDBG-DR funds are requested, approved and expended; reviewed and analyzed the data included in NJHMFA's FRM-PHA tracking spreadsheet; and reviewed 2012 and 2013 annual financial statement audits and noted there were no findings non-compliance with applicable laws and regulations or internal control weaknesses over financial reporting. After completing our review of the internal control environment surrounding the FMR program, we noted that NJHMFA's control systems are adequate and being applied as designed to minimize the risk of inefficiency, waste, fraud, abuse, malfeasance and mismanagement of funds.</p> <p>However, Brown & Company noted some observations, comments, and recommendations for NJHMFA's consideration, which are detailed in Number 19 below.</p>	
16.	Description of quarterly auditing activities that have been conducted to ensure procurement compliance with terms and conditions of the contracts and agreements.	As explained in Numbers 14 and 15 above, Brown & Company reviewed, analyzed and evaluated the policies and procedures, system of internal controls, and risk assessments devised and implemented by NJHMFA. We reviewed the controls and systems in place at NJHMFA to ensure compliance with HUD regulations and DCA's CDBG-DR Action Plan. Next quarter we will begin Task C, Integrity Oversight Monitoring. Brown & Company will track, test and review the invoices submitted by the Contractors to NJHMFA. Also, based on the assessment of the NJHMFA's control environment, and the findings and recommendations from CohnReznick's evaluation, we will develop an integrity monitor process for the 16 loan contracts that adequately addresses any weaknesses in the oversight already in place.	
17.	Have payment requisitions in connection with the contract/program been reviewed? Please describe	Next quarter we will begin Task C, Integrity Oversight Monitoring. Brown & Company will track, test and review the invoices submitted by the Contractors to NJHMFA. Also, based on the assessment of the NJHMFA's control environment, and the findings and recommendations from CohnReznick's evaluation, we will develop an integrity monitor process for the 16 loan contracts that adequately addresses any weaknesses of the oversight already in place.	
18.	Description of quarterly activity to prevent and detect waste, fraud and abuse.	<p>The first essential step in preventing and detecting waste, fraud and abuse in government programs is to review and evaluate the comprehensiveness and effectiveness of existing policies, procedures and controls in place to manage and mitigate the risks inherent in those programs. As explained in Numbers 14-16, Brown & Company's monitoring activities this quarter focused on program review and evaluation crucial task.</p> <p>Next quarter, Brown & Company will track, test and review the Contractor invoices submitted to NJHMFA.</p>	


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No.	Recipient Data Elements	Response	Comments
19.	Provide details of any integrity issues/findings	<p>Brown & Company made the following observations and is providing the following comments for NJHMFA's consideration:</p> <p>Contract Management:</p> <p>1. In assessing the timeliness of expenditures in accordance with NJHMFA's contract with DCA, we found that Sandy FRM funds may not be expended by the April 29, 2015 deadline (six months from our October 26th site visit). Total expenditures of the 16 FRM contracts, as of October 26, 2014 was \$9,585,890 or 22% of the funds authorized. We observed the following: 5 out of 16 contracts were closed; 1 contract was completely drawn down; 2 contracts had drawdowns of approximately 26%; and 2 contracts had only 7 to 10% expended.</p> <p>2. In determining the completeness of the contract files, we noted the following:</p> <ul style="list-style-type: none"> • Different Document Checklist forms were used for the same type of NJHMFA finance packages (i.e., Conduits, FRM, Tax Credit and/or SSNF projects). • Completion of the Document Checklist forms were inconsistent, incomplete and lacked uniformity. <p>3. In determining the accuracy of information in the contract files, we noted the following:</p> <ul style="list-style-type: none"> • Expenditure requests and/or the total development cost that were not the same as recorded on the FRM-PHA Summary spreadsheet used for tracking the project's progress on a weekly basis. • Instances where applications were signed and the name printed, but no date was recorded. • Instances where Certifications were signed, but no space left for the printed name of the developer/owner. There were also instances where the witness section was incomplete on the Certification. • Fair Housing Plans, submitted by the developer/owner, but no indication that the plans were ever approved. <p>Controls:</p> <p>1. NJHMFA's FRM-PHA Tracking Spreadsheet did not accurately project Total Development Cost and/or FRM grant amount.</p> <p>2. NJHMFA 2012 and 2013 audits were reviewed for management comments.</p>	
20.	Provide details of any work quality or safety/environmental/historical preservation issue(s).	None	
21.	Provide details on any other items of note that have occurred in the past quarter	None	
22.	Provide details of any actions taken to remediate waste, fraud and abuse noted in past quarters	Not applicable.	
C. Miscellaneous			
23.	Attach a list of hours and expenses incurred to perform your quarterly integrity monitoring review	See Attachment D	
24.	Add any item, issue or comment not covered in previous sections but deemed pertinent to monitoring program.	None	

Name of Integrity Monitor: Brown & Company CPAs, PLLC
 Name of Report Preparer: Gail Jenifer

Signature: 

Date: April 1, 2015

ATTACHMENT A

The 16 loan contracts listed in the table below make up the Brown & Company's Task C Scope of Work.

	Contract	Loan #	Intended Use of Funds	Amount	Date/Status of Award
1	Heritage Village at Oakhurst	HMFA #2874	New	\$ 11,020,000	10/03/2013
2	Franklin Manor	HMFA #2885	New	10,200,000	12/3/2013
3	Willows at Waretown	HMFA #2599	New	9,097,970	10/3/2013
4	Booker T. Washington	HMFA #2927	Rehab	6,000,000	1/27/2014
5	The Beachview Residence	HMFA #2683	Rehab	5,642,518	11/14/2013
6	Heritage Village at Bloomfield	HMFA #2844	New	5,453,332	1/27/2014
7	Conifer Village at Rittenberg	HMFA #2704	New	5,440,700	1/27/2014
8	Carolina Crescent & Connecticut Crescent	HMFA #2859	New	5,145,721	1/27/2014
9	Railroad Avenue	HMFA #2508	New	5,102,748	1/27/2014
10	Rio Grande	HMFA #2837	New	5,086,221	1/27/2014
11	Egg Harbor Hotel Conversion	HMFA #2861	Rehab	5,000,000	5/25/2013
12	Westmont Station	HMFA #2869	New	5,000,000	5/15/2013
13	Catherine Todd Senior Living Center	HMFA #2553	Rehab	5,000,000	5/15/2013
14	Delaney Homes	HMFA #2878	New	5,000,000	5/15/2013
15	Atlantic City HOPE IV	HMFA #2772	New	5,000,000	8/29/2013
16	Keyport Legion Apartments	Unknown	Unknown	5,000,000	Unknown
Total				\$ 98,189,210	

ATTACHMENT B

Site Visits

Brown & Company conducted site visits to NJHMFA

- September 26, 2014 (1 day)
- October 5-8, 2014 (4 days)
- October 28-31, 2014 (4 days)
- November 12-15, 2014 (4 days)

Documents and Reports

Policies

Sub recipient Agreement(s) with NJ-DCA and FRM recipients
State of New Jersey: Notice of Award Method of Operation
HUD-CDBG Disaster Recovery Program News and Announcements
NJ-DCA CDBG Disaster Recovery Action Plan (complete as of September 30, 2013, incorporating Amendments 1 through 3 within text)
New Jersey Department of Community Affairs, *Implementing Grants under CDBG-DR*
NJHMFA Kick Off Meeting – Power Point Presentation on FRM

Procedures

New Jersey Housing and Mortgage Finance Agency Multifamily Fund for Restoration – CDBG-DR Procedures Manual
Indexed Binder of 15 Funded Projects
Schedule 10-A: Project Description (Multi-Family)
New Jersey Department of Community Affairs, Sandy Recovery Unit Application and Certification for Payment Form
Organizational Charts:
 Credit and Business Development
 Multifamily Programs and Lending
 Technical Services
 Affirmative Fair Housing Marketing Plan (AFHMP) Multifamily Housing

Controls

NJHMFA 2012 and 2013 Financial Statement Audits
Project Tracking Spreadsheet - FRM-PHA as of 10-27-2014

ATTACHMENT C

Staff Interviewed

1. John Murray, Chief of Department of Credit & Business Development
2. Teresa White, Portfolio Control Supervisor, Department of Credit & Business Development
3. Shanisha Mack, Program Assistant (CDBG), Department of Credit & Business Development
4. William Jackson, Labor Compliance Analyst, Department of Credit & Business Development
5. Nick Amendola, Multifamily Program Coordinator, Department of Credit & Business Development
6. Y. Woldy, Director of Supported Housing and Special Needs, Special Needs Housing, Department of Programs

ATTACHMENT D

HOURS INCURRED FOR QUARTERLY ACTIVITIES

Member	47
Manager	8
Supervisor	8
Seniors (3)	<u>751</u>
Total Hours	814

EXPENSES INCURRED FOR QUARTERLY ACTIVITIES

Travel	\$ 9,335.78
Other Direct Costs	62.56