Department of Community Affairs
Selected Programs

July 1, 1995 to July 16, 1997

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the Department of Community Affairs, Selected Programs for the period July 1, 1995 to July 16, 1997.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
August 6, 1997
# Table of Contents

<table>
<thead>
<tr>
<th>Findings and Recommendations</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Annual Report</td>
<td>3</td>
</tr>
<tr>
<td>State Aid</td>
<td>4</td>
</tr>
<tr>
<td>Grants-in-Aid</td>
<td>6</td>
</tr>
</tbody>
</table>
Department of Community Affairs  
Selected Programs

**Scope**

We have completed an audit of the Department of Community Affairs, Selected Programs for the period July 1, 1995 to July 16, 1997. The selected programs included those administered by the Divisions of Administration, Local Government Services, Housing and Community Resources, and Women, and the Office of Neighborhood Empowerment. Federal funds in these organizations were excluded from the scope of this audit. Our audit included financial activities accounted for in the state's General Fund, Property Tax Relief Fund, Mortgage Assistance Fund, and Housing Assistance Fund.

Total expenditures of the selected programs during the audit period were $2 billion. The prime responsibility of the Department of Community Affairs, Selected Programs is to respond to the needs of and advocate solutions to the problems of local governments and select community groups. Revenues of the selected programs totaled $5 million during our audit period and the major components of revenue were principal and interest received by the Mortgage Assistance Fund.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**
Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were stratified and large dollar transactions were examined. Other transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to grant monitoring. This issue has been updated and restated in our current report.
The Division of Local Government Services should prepare its annual report in a timely manner.

**Recommendation**

We recommend that the Division of Local Government Services make the publication of its annual report in a timely manner a priority in future years. Current efforts to increase resources devoted to the preparation of this report and to automate the report process should be encouraged. It is projected by division management that the 1993 report will be published in August 1997.

**Auditee’s Response**

We agree with this recommendation. Our 1996 Internal Control report noted the same problems with the delay in publication of this report. As a result of the internal control report, additional staff was assigned to the unit and the current level of effort will be maintained. We are in the final stages of producing the 1993 report, data entry for the 1994 report has been completed and work on 1995 has begun.

**State Aid**
The state should ensure that municipal allocations of Consolidated Municipal Property Tax Relief Aid (CMPTRA) are adequately documented in all cases and that all payments of CMPTRA are for the proper amount.

The state combined 15 programs of municipal aid into the Consolidated Municipal Property Tax Relief Aid (CMPTRA) Program in fiscal year 1996. The municipal CMPTRA allocations are determined by the Division of Local Government Services (DLGS) in the Department of Community Affairs. Payments of CMPTRA are made in mandated installments by the Department of the Treasury, Office of Management and Budget (OMB) in combination with several other Treasury programs. Total CMPTRA payments were $755 million each in fiscal years 1996 and 1997.

The division could not provide documentation to support 14 of their calculations of municipal CMPTRA allocations of 96 municipalities tested. The amount of CMPTRA that should be distributed to each municipality is the total amount of aid received in fiscal year 1995 from all 15 component programs. We found that the amounts scheduled by the division to determine CMPTRA in fiscal year 1996 did not agree to the actual amounts paid in fiscal year 1995 to these 14 municipalities; the differences totaled $800,000. Division officials stated that all municipalities received correct payments, but they have not yet provided us with adequate documentation to explain the questioned allocations.

Our tests of payments made by OMB showed that 11 municipalities of 58 tested received a total of 18 incorrect payments. In other words, the actual payment of CMPTRA did not equal the scheduled allocation amount. Fourteen of these incorrect payments, which were to 10 of the municipalities, were due to keypunch errors that were not detected by the state’s financial system edits. There were six overpayments and eight underpayments, each totaling $2,096,646. These incorrect payments were eventually discovered and the municipalities received corrected payments. The other municipality was underpaid in four different installments, totaling $95,621, due to improper withholding of CMPTRA funds.
Three of these errors, for $92,621, were not corrected until discovered by this audit.

**Recommendation**

We recommend that the Division of Local Government Services maintain adequate documentation for its CMPTRA allocations and review CMPTRA payments in conjunction with OMB. One solution would be the implementation of an edit in the state’s Comprehensive Financial System that would compare vendor codes with vendor names.

**Auditee’s Response**

Although CMPTRA is a component of the DCA budget, the responsibility for determining each municipality's entitlement was shared by the Division of Local Government Services and the Department of the Treasury, Office of Management and Budget. We can document 1996 CMPTRA payments were correct based on the formula. Changes were made to the FY 95 SMPTR formula by OMB that we do not have documentation for. The errors noted by the report took place during a time of intense effort and changes in the system, and the majority of them were corrected shortly after they took place. As with any new system, when problems are discovered, changes are made to prevent their recurrence. This has been the case with CMPTRA payments as Division and OMB staff have improved coordination and built in error correction mechanisms. These mechanisms ensure that we take steps to prevent payment errors from occurring, that detection mechanisms are in place, shown to work, and result in prompt corrections. We will continue to coordinate with OMB to ensure that both agencies maintain documentation to support CMPTRA payments.

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**Grants-in-Aid**

The Department of Community Affairs administered grants to municipalities and non-profit organizations totaling $9.5 million in fiscal year 1996 and $10.4
The department should standardize its policies regarding payments to and monitoring of recipients of grants-in-aid.

The Department of Housing and Community Resources, which gave out $2.1 million in line-item grants for the 21 month period ending March 31, 1997, does not adequately monitor these grants. The letter agreement that it requires grantees to sign does not require the submission of expenditure reports or supporting documentation for expenditures and the division does not perform regular field visits of the grantees. As a result, the division is unable to determine whether the grantees have spent the grant money as intended. Our field visits of selected line item grantees revealed one grantee that had no records available to support any expenditures from its fiscal year 1996 grant of $25,000. However, this grantee received a subsequent grant.

Several units within the department make an excessive number of payments to disburse grant funds for regular grants. The Center for Hispanic Policy and Training, the Office of Recreation, and the Division on Women normally disburse grant funds in four to five payments a year. We found that there were 57 contracts in fiscal year 1996 that required at least three payments. The average payment amount was $11,473 and the average number of payments was 4.2. A standardized policy that reduces the number of payments to a maximum of two would lead to a more efficient utilization of agency assets. There is no departmental policy that requires this many payments; this practice is one of several payment options that may be selected. Other divisions in the department disburse their grant funds in one or two payments. The current practice results in over 100 million in fiscal year 1997. These grantees can be specifically named by the legislature (line item grants) or can be awarded by the department through a competitive process (regular grants). All grantees must sign a contract with the department prior to the receipt of grant funds. The contracts used by the department are either Grant/Loan Agreements or Letter Agreements. These grants are administered by various divisions within the department.
unnecessary payments and wastes staff time that could be used more effectively.

**Recommendation**

We recommend that the Division of Housing and Community Resources adopt monitoring procedures, such as field visits and required expenditure reports, that will allow it to determine whether grant funds are being spent as intended. In addition, we recommend that the department disburse grant funds in no more than two installments, for those three units noted above.

**Auditee’s Response**

We agree that the Division of Housing and Community Resources should adopt monitoring procedures, and this recommendation has already been implemented. The letter agreements used always required a final report to be submitted. These final reports include both programmatic and fiscal data. In February 1997 an additional policy was implemented that requires a minimum of one annual field visit to each agency.

We agree in most cases, two installment payments would be preferred. Those divisions reviewed have been informed of this preferred payment method. Grant monitoring rests with the Division Director since they are familiar with their grantees. A Director may have reason to require more payments to certain agencies. The department recommends this procedure be followed when appropriate.