April 30, 2013

David J. Rosen  
Legislative Budget and Finance Officer  
Office of Legislative Services  
State House Annex  
PO Box 068  
Trenton, NJ 08625-0068

Dear Mr. Rosen:

The purpose of this letter is to provide written responses to questions raised by members of the Senate Budget and Appropriations Committee during the department’s April 15, 2013 budget hearing.

Senator Pou

- What level of funding, and from what sources, will be available in Fiscal Year 2013 and Fiscal Year 2014 for the State Rental Assistance Program?

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<thead>
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<th>Fiscal Year</th>
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<td>Fiscal 2013</td>
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<td>Grant-in-Aid Appropriation</td>
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<td>Affordable Housing Trust Fund</td>
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<td>SRAP Reappropriation</td>
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<table>
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Senator Pou

- Please describe the processes and structures the department will put in place to ensure the effective monitoring of Community Development Block Grant Disaster Recovery (CDBG-DR) Funds awarded to New Jersey.

The department’s CDBG-DR Monitoring and Compliance Plan is attached.

Senator Cunningham

- Are businesses in urban enterprise zones eligible to apply for assistance from the Downtown Business Improvement Zone Loan Program?

Eligible applicants may be any New Jersey municipality with one or more established Improvement Districts or the assigned District Management Corporation(s) established in accordance with P.L. 1972, c.134, N.J.S.A. 40:56-71, as amended. Eligible applicants must partner with their municipal governments and proof of this partnership through both municipal and DMC resolutions must be furnished to make a successful application. Municipalities and District Management Corporation(s) operating therein that have an established Urban Enterprise Zone are excluded by statute from participation in the Downtown Business Improvement Zone Loan Fund.

Sincerely,

[Signature]

Richard E. Constable, III
Commissioner

Attachment

C: Charlene Holzbaur, Office of Management and Budget
   Christopher Emigholz, Senate Republican Office
   George LeBlanc, Senate Democratic Office
   Scott A. Brodsky, Office of Legislative Services
New Jersey Department of Community Affairs

Community Development Block Grant – Disaster Relief (CDBG-DR)

Monitoring and Compliance Plan

I. New Jersey Legislative Oversight Requirements Concerning Disaster Relief Funding

On February 8, 2013, Governor Christie signed Executive Order (EO) No. 125 concerning the monitoring and oversight of federal construction funds. EO 125 directs all Executive Branch departments administering federal reconstruction resources to follow a framework that will provide comprehensive and stringent safeguards to make certain all federal resources are utilized through an ethical and transparent process. Among other things, such safeguards are to include:

- Each principal department of the State shall submit all potential State procurements involving expenditure of federal reconstruction resources to the New Jersey Office of the State Comptroller for review prior to commencement of the procurement process.

- Each principal department and agency of the State is directed to appoint an “Accountability Officer” to oversee the responsible disbursement and utilization of federal reconstruction resources allocated by or through that department or agency. Each Accountability Officer shall serve as a liaison to the Governor’s Office of Recovery and Rebuilding and the State Comptroller.

In addition to the requirements established by EO 125, P.L. 2013, c. 37 was enacted which authorizes the deployment of integrity monitors in the implementation of disaster relief recovery and rebuilding projects. Among other requirements, the law requires that the recipient of any State contract involving consideration of $5 million or more for recovery and rebuilding projects procure the services of an integrity monitor which will exercise additional oversight over such contracts. The contract recipient is to procure the integrity monitors from an established pool of qualified integrity monitors that were procured by the State Treasurer through a public procurement process.

Another important provision of P.L. 2013, c. 37 is the requirement for the integrity monitors to submit a quarterly report detailing the provision of services provided to the contract recipient and any recommendations for corrective action concerning findings of malfeasance or inefficiency. Such reports will be submitted to the Legislature and the Governor through the State Treasurer.

II. DCA Monitoring and Compliance Plan

DCA will oversee all activities and expenditures concerning the administration of the CDBG-DR funds awarded to the State of New Jersey. In several stages, DCA anticipates receiving nearly $6 billion from the federal Housing and Urban Development (HUD) through the CDBG-DR program. The first stage, approved in April, totals $1.8 billion. Consequently, it is critical that
DCA implement a comprehensive monitoring and compliance plan that comply with the New Jersey legislative framework, OMB cost principles and HUD regulations.

Accordingly, DCA has constructed a monitoring and compliance management structure which includes the following elements: 1) Planning; 2) Execution; 3) Follow-up; 4) Reporting; and, 5) Evaluation. Such a structure is primarily built to measure and monitor transactions to ensure accurate information about quality, service, and efficiency. Further, DCA’s monitoring and compliance management structure contains policies and procedures to prevent, detect, identify and remediate any instances of fraud, waste and abuse. The structure will emphasize and continually reinforce employee accountability at every level and provide a high level of transparency to ensure that system performance is adequate and that all compliance requirements are satisfied adequately.

To this end, DCA is in the process of establishing a Sandy Recovery Division (SRD) within DCA that will consist of approximately 100 temporary or contract employees. The SRD will be augmented by DCA’s existing staff and by the accounting and auditing firms and integrity monitors.

Upon qualification of the integrity monitoring pools, DCA will procure an integrity monitor to conduct an initial risk assessment which will test the internal controls associated with each control activity under the risk areas - Operational, Financial and Compliance – and determine risk level for each control activity as high, medium or low.

Prior to commencing operations, DCA will also provide staff and sub-recipients with training and technical assistance concerning: CDBG-DR processes, policies and procedures; compliance with regulations; identification and prevention of fraud, waste and abuse; CDBG-DR reporting requirements and other areas of concern.

Once all the CDBG-DR programs are operating, DCA will employ SRD staff and an integrity monitor to implement a quality assurance/quality control (QA/QC) function. DCA plans to embed QA/QC into its eligibility and payment verification processes to provide assurances prior to disbursing funds. In addition, seamlessly embedding the QA/QC into operations will assist DCA in assessing and determining proper staffing needs, achievement of goals and objectives, process deficiencies, instances of non-compliance, and performance deficiencies. The QA/QC will be required to report to management concerning the exception rates concerning client eligibility, allowable costs and other criteria.

DCA will conduct a comprehensive risk assessment of its CDBG-DR program operations every six months that will measure risks in the following areas: Financial, Operational, and Compliance. Further, analytical software will be used that will enable DCA management and compliance staff to predict and more readily detect high risks, anomalies, and irregularities.

Such risk assessments will also include the operations of DCA’s sub-recipients. DCA will procure an integrity monitor to conduct performance audits, monitoring and on-site inspections concerning high risk areas. DCA management will determine if a performance audit is necessary concerning risk areas identified as medium or low. Any potential or known instances
of fraud will be handled in accordance with HUD regulations and DCA’s policies and procedures and, if necessary, a forensic audit may be procured to determine the extent and root cause of the fraudulent activity and to provide litigation support.

Throughout the term of the grant award, DCA will periodically deliver refresher training and technical assistance to its staff and its sub-recipients as determined by the conclusions and results of the risk assessments, monitoring reviews, on-site inspections, and audits. Such training sessions will be designed to enhance employee consciousness concerning high risk areas and to create a proactive culture of compliance.

DCA will continuously follow-up on monitoring exceptions and/or audit findings to ensure that corrective actions were implemented properly to address exceptions and/or findings.