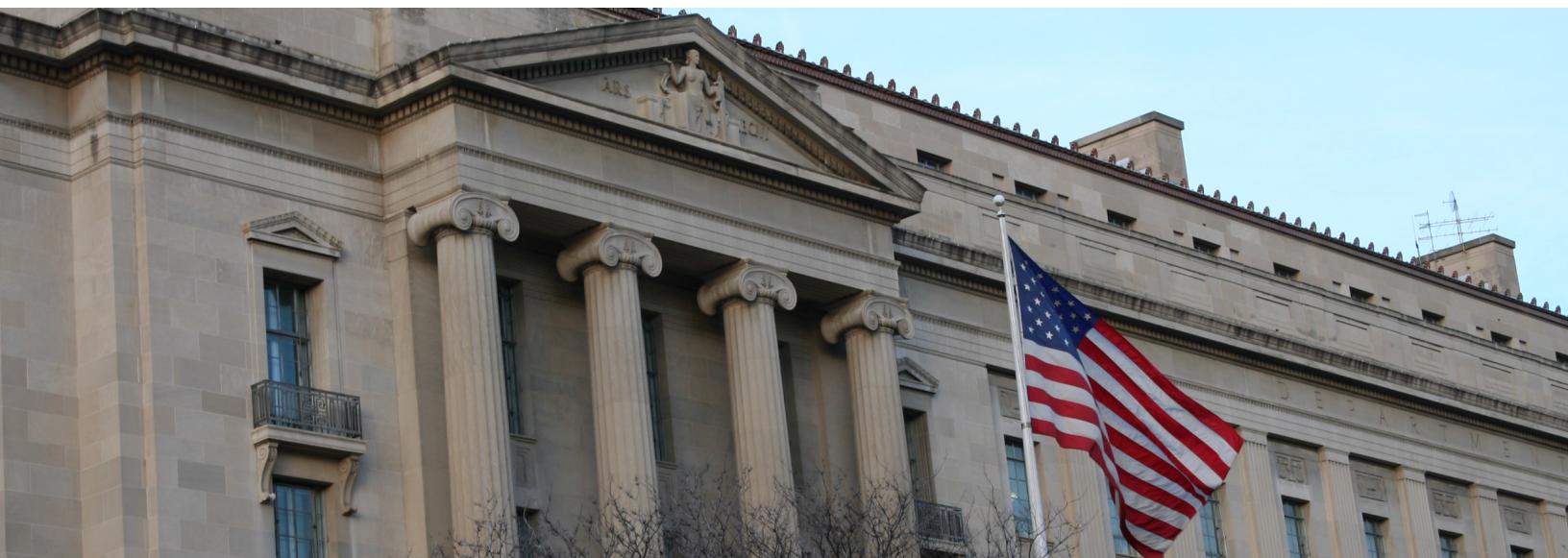




Office of the Inspector General

U.S. Department of Justice

OVERTSIGHT ★ INTEGRITY ★ GUIDANCE



Audit of the Office of Justice Programs Second Chance Act Adult Offender Reentry Demonstration Program Grant Awarded to Hudson County, New Jersey



Executive Summary

Audit of the Office of Justice Programs Second Chance Act Adult Offender Reentry Demonstration Program Grant Awarded to Hudson County, New Jersey

Objectives

The Office of Justice Programs (OJP) awarded Hudson County, New Jersey (Hudson) a grant for the Second Chance Act Adult Offender Reentry Demonstration Program which, when combined with a local match by Hudson, totaled \$5,397,335. The objectives of this audit were to determine whether costs claimed under the grants were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the award; and to determine whether the grantee demonstrated adequate progress towards achieving program goals and objectives.

Results in Brief

As a result of our audit, we concluded that Hudson did not adequately administer the grant or demonstrate its progress towards achieving the award goal of reducing recidivism or enhancing public safety. We found Hudson: (1) did not implement adequate internal controls over grant administration, (2) did not demonstrate it met the grant award goals and objectives, (3) submitted inaccurate progress reports, (4) did not ensure grant-funded expenditures were supported, (5) did not submit required grant adjustment notices, (6) did not manage its budget on a "total project cost" basis, (7) made \$258,798 in unsupported drawdowns, and (8) submitted inaccurate Federal Financial Reports.

As a result, we questioned \$3,469,733, the majority of which were for the local match, which is the recipient's share of the total project costs. The questioned costs also included personnel and contract expenditures that Hudson could not adequately support.

Recommendations

Our report contains 13 recommendations to OJP. We requested a response to our draft audit report from Hudson and OJP, which can be found in Appendices 3 and 4, respectively. Our analysis of those responses is included in Appendix 5.

Audit Results

The purpose of the OJP Bureau of Justice Assistance grant was to reduce recidivism and enhance public safety by reducing crime. The project period for the grant was from October 2011 to August 2016. Hudson drew down the entire federal grant award of \$2,687,500.

Program Goals and Accomplishments – Hudson was not able to demonstrate progress towards achieving its award goal. In particular, it could not verify the number of participants who successfully completed the program and did not effectively track whether these individuals were rearrested, reconvicted, or re-incarcerated in the 36 month period following their release from the Hudson County Correctional Center, as was intended. We also found Hudson progress reports were not accurate or adequately supported.

Grant Financial Management – We found Hudson did not design or implement adequate or effective internal controls for grant administration. It did not use its accounting system to manage the grant, charged expenditures after the award period, did not maintain adequate documentation to support financial administration of the grant, and did not have adequate policies and procedures related to grant administration.

Expenditures – We identified a total of \$3,210,935 in unsupported questioned costs that included \$269,516 in personnel expenditures, \$231,584 in unsupported contract expenditures, and \$2,709,835 in unsupported match expenditures that were not supported by required records.

Budget Management and Control – Hudson did not request a budget modification for budget transfers greater than 10 percent of the total award amount, and did not manage its budget to account for total program cost from all sources, as required by OJP.

Drawdowns – Hudson drew down \$258,798 in federal grant funds that exceeded its actual expenditures.

Federal Financial Reports – Hudson submitted financial reports that were inaccurate and late.

**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
SECOND CHANCE ACT ADULT OFFENDER REENTRY
DEMONSTRATION PROGRAM GRANT
AWARDED TO HUDSON COUNTY, NEW JERSEY**

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**AUDIT OF THE OFFICE OF JUSTICE PROGRAMS
SECOND CHANCE ACT ADULT OFFENDER REENTRY
DEMONSTRATION PROGRAM GRANT
AWARDED TO HUDSON COUNTY, NEW JERSEY**

INTRODUCTION

The U.S. Department of Justice (DOJ) Office of the Inspector General completed an audit of a grant awarded by the Office of Justice Programs, Bureau of Justice Assistance (BJA) to Hudson County, New Jersey (Hudson). As shown in Table 1, Hudson was awarded \$5,397,335, including funds that Hudson was to provide to fulfill a local match requirement. The grant was awarded under the 2011 BJA Second Chance Act Adult Offender Reentry Demonstration Program to support Hudson's Community Reintegration Program (CRP). The primary goal of the award was to reduce recidivism and enhance public safety by reducing crime. Hudson had drawn down the entire \$2,687,500 in federal funds awarded prior to the start of this audit. Hudson was required to match the federal share of the award with a 50 percent match, of which 25 percent was required to be a cash match. The amount appearing in Table 1 is higher than 50 percent because the required amount was based on the amount of funds Hudson agreed to contribute towards the match.

Table 1
BJA Grants Awarded to Hudson County

Award Number	Award Date	Project Period Start Date	Project Period End Date	Federal Award	Local Match	Total Project Costs
2011-CZ-BX-0032	9/15/2011	10/1/2011	8/31/2016	\$750,000	\$759,210	\$1,509,210
Supplement 1	6/17/2013	10/1/2011	8/31/2016	437,500	447,558	885,058
Supplement 2	9/9/2013	10/1/2011	8/31/2016	1,500,000	1,503,067	3,003,067
			Total:	\$2,687,500	\$2,709,835	\$5,397,335

Source: Office of Justice Programs

Funding through the DOJ Second Chance Act Adult Offender Reentry Demonstration Program grant (Second Chance Act grant) is intended to support state, local, and tribal governments to develop and implement comprehensive and collaborative strategies that address the challenges posed by prisoner reentry and to reduce recidivism.

The Grantee

Hudson County is located in northern New Jersey along the Hudson River, with an estimated population of 677,983 people. The Second Chance Act grant funded Hudson's Community Reintegration Program (CRP), which was initiated in October 2009 and managed by Hudson County's Departments of Corrections and Family Services. CRP's goal was to address high recidivism rates among individuals with diagnosed mental health and/or substance abuse disorders. The program was

intended to provide mental health and substance abuse treatment, intensive outpatient care, transitional housing, vocational training, and education services to program participants that were either incarcerated at the Hudson County Correctional Center, serving sentences on supervised release, or reentering the community after serving a complete jail sentence.

OIG Audit Approach

The objectives of this audit were to determine whether costs claimed under the grant were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grant; and to determine whether Hudson demonstrated adequate progress towards achieving the program goals and objectives. To accomplish these objectives, we assessed performance in the following areas of grant management: financial management, program performance, expenditures, budget management and control, drawdowns, and federal financial reports.

We tested compliance with what we consider to be the most important conditions of the grant. The OJP Financial Guide and the award documents contain the primary criteria we applied during the audit.¹

The results of our analysis are discussed in detail, later in this report. Appendix 1 contains additional information on this audit's objectives, scope, and methodology. The Schedule of Dollar-Related Findings appears in Appendix 2.

¹ The OJP Financial Guide was replaced by the DOJ Grants Financial Guide for grant awards made after December 26, 2014.

AUDIT RESULTS

Grant Financial Management

According to the OJP Financial Guide, grant recipients are required to establish and maintain adequate accounting systems and financial records, and to accurately account for funds awarded to them. To assess Hudson's internal controls over its financial management of the grant, we reviewed Hudson's Single Audit Report for calendar year 2015 to identify any internal control weaknesses and significant issues of non-compliance related to federal awards. We also interviewed officials responsible for financial and program management of the grant and evaluated Hudson's accounting system for the grant. Finally, we performed testing in the areas that were relevant for the management of this grant, as discussed throughout this report.

Single Audit

Non-federal entities that receive federal financial assistance are required to comply with the *Single Audit Act of 1984*, as amended. The Single Audit Act provides for recipients of federal funding above a certain threshold to receive an annual audit of their financial statements and federal expenditures. Under 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), such entities that expend \$750,000 or more in federal funds within the entity's fiscal year must have a "single audit" performed annually covering all federal funds expended that year.² We reviewed Hudson's Single Audit Report for calendar year 2015 and determined it was in compliance with the Single Audit Report requirements.

Internal Controls over Grant Administration

Based on our assessment, we determined Hudson did not design and implement adequate or effective internal controls for grant administration that would ensure compliance with applicable laws, regulations, and award terms and conditions. Specifically, Hudson did not use its accounting system to manage the grant, charged expenditures after the award period, did not maintain adequate documentation to support financial administration of the grant, and did not have adequate policies and procedures related to grant administration.

Accounting System

The Hudson County Department of Family Services (DFS) was responsible for the financial administration of the grant we audited. Although grant-related financial activity was being managed through Hudson's automated accounting system, DFS officials told us they used commercially available accounting system software to manage the financial activities of the grant. We compared the DFS

² On December 26, 2014, the Uniform Guidance superseded OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization. Under OMB Circular A-133, which affected all audits of fiscal years beginning before December 26, 2014, the audit threshold was \$500,000.

accounting records to Hudson's and determined DFS's accounting records were incomplete and did not include all grant-related transactions and adjusting entries that were recorded in Hudson's official accounting system. Because DFS did not use Hudson's official accounting system, submitted federal financial reports were inaccurate and drawdown requests were not supported, as discussed in the later sections of this report.

Post-Award Expenditures

In the 6 months following the end of the grant period, Hudson continued to charge \$73,817 in personnel expenditures to the grant within its accounting system. Because a recipient is not allowed to claim costs against an award after the award period has ended, we notified Hudson officials of this issue. In April 2017, Hudson adjusted the account to remove the post-award expenditures from its accounting records, and thereby remedied the unallowable expenditures. As a result of this correction, we no longer take issue with the matter, but include this discussion to document the accounting of funds that had been claimed against the award.

Recordkeeping

We determined that Hudson did not implement adequate recordkeeping procedures to manage the grant we audited. Specifically, DFS officials could not provide documentation to support its grant administration, which included managing the award budget, as well as preparing Federal Financial Reports and drawdowns. According to DFS officials, grant administration was conducted primarily by one DFS employee who was responsible for preparing and maintaining documentation to support financial administration activities, and this employee was no longer employed by DFS. DFS officials told us documentation to support its grant administration was no longer available because these records, managed by the one employee, were not preserved after the person's employment ended.

Policies and Procedures

In addition to reviewing Hudson's *Purchasing Procedures Manual* (1991), we also reviewed Hudson's current policies and procedures related to accounting, payroll, reporting, drawdown, budget management, and performance monitoring. We determined Hudson did not have adequate policies and procedures for grant administration, including policies and procedures necessary to prevent and detect non-compliance with the award requirements. As discussed in the Contract Expenditures section, Hudson used competitive contracting to procure project services funded by the grant. We determined Hudson had not updated its purchasing procedures to include competitive contracting policies and procedures

despite significant changes to the State of New Jersey Local Public Contracts Law in 2000.³

Internal controls over grant administration are essential to ensure compliance with award requirements, and we determined Hudson's lack of adequate policies and procedures contributed to the internal control deficiencies discussed throughout this report. As a result, we recommend OJP ensure Hudson implement and adhere to written policies and procedures for grant administration, including accounting and recordkeeping, to ensure compliance with the applicable laws, regulations, and award terms and conditions.

Program Goals and Accomplishments

We reviewed the grant application, program data, and interviewed program officials to determine whether Hudson demonstrated adequate progress toward the program goals and objectives. We also reviewed Hudson's semi-annual reports to determine if the required reports were accurate.

Program Goals and Objectives

The primary objectives of the Hudson County Community Reintegration Program (CRP) were to reduce recidivism in the target population by 50 percent and enhance public safety by reducing crime. The CRP's target population included Hudson residents that had been incarcerated at the Hudson County Correctional Center (HCCC) more than once, and were also diagnosed with a mental health or substance abuse disorder. Based on our review of grant expenditures, we determined Hudson used the grant to primarily fund post-release services, which included intensive outpatient care, mental health and substance abuse treatment, day reporting services, and transitional housing services. Although we determined Hudson provided program services throughout the grant award period, Hudson was not able to verify the number of participants that successfully completed the program and did not effectively track whether these individuals were rearrested, reconvicted, or re-incarcerated in the 36 month period following their release from the HCCC, as was intended as a part of the grant-funded program.

In order to assess program goals and objectives, we reviewed reported accomplishments, as well as a database that CRP officials told us was used to track participant progress in completing post-release services. Of the 3,694 participants included in the database, only 2,834 were released during the grant period and eligible to have been considered grant-funded participants. We then determined that only 405 of the 2,834 participants, or 14 percent, successfully completed the

³ The New Jersey Local Public Contracts Law is promulgated by the New Jersey Division of Local Government Services (DLGS) for the purpose of establishing a common set of standards for procurement in the State of New Jersey. The law was amended in 2000 to include competitive contracting, which is to "... be used in lieu of public bidding for the procurement of an itemized list of specialized goods and services which were exempt from the receipt of formal bids [competitive/sealed bid], or were identified as impractical to specify, yet suitable for competition."

program. We discussed the results of our analysis with the CRP Director and were told that the program database was not an accurate reflection of program participation because it included participants of other CRP program activities that were not funded by the grant. As a result, we were not able to verify that the 405 participants that successfully completed the CRP were in fact a part of the grant-funded program.⁴

We requested documentation to support that participants who successfully completed the program were tracked for 36 months after release from HCCC. According to Hudson officials, there was data available that would allow it to track whether or not participants had been rearrested, reconvicted, or re-incarcerated. However, Hudson did not collect and compile the information and was therefore not able to determine whether or not CRP participants recidivated during the 36 months following release from HCCC. We discussed the issue with grant officials and were told that during the course of the grant, they realized that the goal of tracking participants for 36 months was too ambitious, but Hudson did not submit a grant adjustment notice to the DOJ to revise its project plan.

We recommend OJP ensure Hudson implements and adheres to policies and procedures that ensure program performance is monitored and records are maintained that demonstrate accomplishments towards achieving award goals and objectives.

Required Performance Reports

According to the OJP Financial Guide, recipients should ensure that valid and auditable source documentation is available to support all data collected for each performance measure specified in the program solicitation. In order to verify the accuracy of Hudson's semi-annual progress reports, we compared figures reported in its three most recent reports to supporting documentation.

Based on our assessment, we determined Hudson's progress reports were not completely accurate, and Hudson did not maintain supporting documentation to support cumulative award data reported in its final progress report. According to the final progress report submitted by Hudson, 265 of 789 post-release program participants, or 34 percent, admitted during the grant award period successfully completed the program. However, based on our review, only 14 percent of the individuals listed in the database successfully completed the program, and those that had completed the program were not necessarily grant-funded participants.

We discussed our results with the CRP Program Director who agreed the reports were not accurate. We also determined that Hudson did not have adequate policies and procedures in place to ensure its progress reports were accurate and that supporting documentation was maintained. According to the Program Director, CRP staff were required to prepare monthly reports that were compiled and

⁴ Figures drawn from the database were used for information purposes only. We did not assess the validity and reliability of the data since Hudson could not demonstrate it met its primary goals and objectives.

reviewed for accuracy before the reports were submitted to OJP. However, the Director agreed its procedures were not adequate to ensure accurate information was reported to BJA.

The lack of accurate progress reports hinders OJP's ability to monitor grant activity and increases the risk for grant funds to be wasted or used for unallowable purposes. Therefore, we recommend OJP ensure Hudson implement and adhere to written policies and procedures to ensure progress reports are accurate and reported data is valid and reliable.

Expenditures

Hudson's approved budget included personnel, fringe, travel, supplies, contracts, and other expenditures. Hudson was required to contribute \$2,709,835 in local funds to the award, which included cash and in-kind expenditures.

To determine whether costs charged to the grant were allowable, supported, and necessary, we tested a sample of transactions from the account used by Hudson to record grant-funded expenditures. We selected a judgmental sample of 32 expenditures, totaling \$252,130, or 9 percent of the federal share of the grant. We reviewed documentation, accounting records, and performed verification testing related to grant expenditures. Based on our testing, we identified a total of \$3,210,935 in unsupported questioned costs that included \$269,516 in personnel expenditures, \$231,584 in contract expenditures, and \$2,709,835 in matching costs. The following sections describe the results of that testing.

Personnel and Fringe Benefit Expenditures

According to the OJP Financial Guide, employees who work solely on a single federal award must be supported by periodic certification, to be prepared at least every 6 months, and signed by both the employee and a supervisory official having firsthand knowledge of the employee's work. Additionally, where employees work on multiple grant programs or costs activities, a reasonable allocation of costs to each activity must be made based on time and effort reports (e.g., timesheets).

As of August 31, 2016, Hudson charged the grant \$269,516 in gross wage expenditures. We sampled two, non-consecutive pay periods, totaling \$12,467, to determine whether payroll expenditures were supported and calculated correctly. According to Hudson officials, all personnel-related expenditures were for employees working fulltime on grant-funded activities. We determined Hudson did not require employees to complete timesheets or periodic certifications. Additionally, we identified at least one employee whose duties included coordinating DFS benefits for program participants, as well as conducting community outreach to inform county residents about the Division's services. As a result, the employee's time was not entirely allocable to grant-funded activities. Because Hudson did not perform periodic certifications or maintain timesheets, we were not able to verify that employee time was allocable and accurately charged to the grant. As a result, we question the entire \$269,516, charged to the grant, as unsupported.

We recommend OJP remedy these questioned costs and require Hudson to implement and adhere to written policies and procedures to ensure personnel expenditures are supported by timesheets or periodic certifications.

Contract Expenditures

Hudson allocated \$3,655,123, or 68 percent, of the total grant to contract expenditures.⁵ We sampled 27 contract expenditures, totaling \$231,584 charged to the federal share of the grant. However, Hudson was not able to provide documentation to support the expenditures in our sample. As described earlier in this report, we also determined Hudson's *Purchasing Procedures Manual* (1991) was not updated to include competitive contracting policies and procedures.

Procurement of CRP Services

In order to assess whether Hudson's procurement methods were in compliance with the OJP Financial Guide, we reviewed Hudson's policies and procedures, interviewed responsible officials, and sampled 27 contract expenditures for review. We determined Hudson's written policies and procedures were inadequate and did not reflect its current procurement methods, which included competitive contracting. Additionally, Hudson could not provide the requested procurement records for the sampled contract expenditures.

According to the OJP Financial Guide, recipients are required to conduct all procurement transactions through open, free, and fair competition unless recipients can document services are only available from a single source, a true public exigency or emergency exists, or competition is deemed inadequate after unsuccessful competitive bidding. Recipients are permitted to use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and 28 C.F.R. §66.36.⁶

According to grant officials, Hudson is required to follow guidance set forth in the State of New Jersey Local Public Contracts Law. However, we determined Hudson did not have any written policies and procedures in place for its current methods of procurement. We determined Hudson had not revised its Purchasing Procedures Manual since 1991, and had not incorporated amendments that were made to New Jersey contracts law in 2000.

Officials told us that two different procurement processes were used to obtain mental health/substance abuse treatment, intensive outpatient care, and

⁵ Hudson budgeted post-release housing services as other project costs. After the award was made, Hudson effectively revised its budget to spend additional funds on transitional housing services. Therefore, we reviewed these housing expenditures as Contract Expenditures.

⁶ The OJP Financial Guide refers to the DOJ Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments for procurement standards (28 C.F.R. §66.36).

transitional housing services. At the beginning of the grant, Hudson signed memorandums of understanding (MOUs) with select vendors that were contracted by the State of New Jersey Department of Health and Human Services, to provide these services. We were told that, beginning in 2013, Hudson required departments to use competitive contracting through which local governments could solicit proposals and select the most advantageous vendor, based on selection criteria included in the request for proposals.

Throughout our audit, we requested procurement records to complete our assessment of the 27 contract expenditures, including: any and all county resolutions, description of the type of contract used, requests for proposals (RFPs), vendor/contractor proposals submitted to the County, scoring results, signed memorandum of understanding (MOUs) or contracts, cost/price information, and other documents or information considered in the procurement of these grant funded services. However, we were not able to complete our assessment of whether Hudson complied with the OJP Financial Guide and federal procurement standards because Hudson did not provide the requested procurement records. Although Hudson provided documentation in response to our request, we determined these records did not correspond to our audit sample. Specifically, we attributed only two documents, one award letter and an incomplete scoring result, to our audit sample.⁷ Also, as discussed above, Hudson's policies and procedures were outdated and did not reflect current state and laws and regulations.

Because we did not expand our sample to the entire \$1,938,693 in contract expenditures for post-release services, we limited our questioned costs to \$231,584 in contract expenditures as unsupported costs, and recommend OJP remedy these costs. We also recommend OJP ensure Hudson revise its purchasing procedures to ensure grant-funded expenditures are made in compliance with applicable laws, regulations, and the DOJ Grants Financial Guide.

Unsupported Payments

Due to the lack of contract documentation, we were not able to verify whether the contract expenditures we sampled were billed correctly. We examined 27 sampled expenditures to determine whether Hudson maintained documentation to support the amount of each vendor invoice. According to Hudson's Department of Finance and Administration (Finance) officials, Hudson did not have written policies and procedures for processing payments. Instead, payments were approved based on an invoice and written certifications that an invoice was accurate, made by the director of the department submitting the request, as well as the vendor. We were also told that departmental directors were required to maintain detailed records of the approval process.

⁷ In response to our request for procurement records, Hudson's most complete submission was for the vendor that provided pre-release services to the Hudson County Correctional Center. Although this contractor was included in our initial audit sample, this vendor was excluded from our audit results because we limited the scope of our audit to post-release services, or 92 percent of the contract expenditures charged to the award.

Based on our review of invoices, we determined Hudson did not have adequate documentation to support the invoice amount for six expenditures, totaling \$63,989. We requested additional documentation to support these expenditures and were provided monthly participant status reports. However, these reports were programmatic records that did not specify services rendered or applicable contract rates used to calculate the invoice amount. We determined Hudson should have maintained adequate documentation to support the invoice amount before payment was approved.

As a result, we question \$63,989 in contract expenditures as unsupported and include these questioned costs as a part of the \$231,584 in unsupported contract procurements.

Matching Costs

Matching costs are the non-federal recipient's share of the total project costs. Hudson was required to match the federal share of the award with a 50 percent match, of which 25 percent was required to be a cash match. We found that Hudson did not maintain required documentation to support the costs it claimed to meet the match requirement. The OJP Financial Guide requires that matching contributions "...must be in addition to (and therefore supplement) funds that would otherwise be made available for the stated program purpose." Hudson planned to meet its 50 percent match requirement with \$1,366,085 in personnel and fringe benefit (as an in-kind match) expenditures and \$1,343,750 in post-release services (as a cash match), for a total of \$2,709,835.

Hudson was not able to demonstrate that it met its match requirement because it did not maintain records that clearly indicated the source, amount, and timing for its match contributions. According to Hudson officials, the planned match contributions were pre-approved by the Hudson County Board of Chosen Freeholders and were subsequently recorded in Department of Corrections operating fund. We requested detailed accounting records to substantiate that Hudson met the match requirements. However, Hudson did not provide the requested documentation. According to Hudson officials, the accounting system was not used to identify specific expenditures contributed towards the match requirement. As a result, expenditures made to meet the match requirement were commingled with other Department of Corrections' expenditures, and Hudson could not identify specifically the matching costs. Therefore, we could not verify that Hudson met its match requirement.

Because Hudson could not demonstrate that it met its match requirement, we question \$2,709,835 as unsupported. We recommend OJP remedy the questioned cost and work with Hudson to implement and adhere to written grant administration policies and procedures to ensure records clearly show the source and timing for all match contributions, as required by the DOJ Grants Financial Guide.

Supplies and Other Expenditures

We also performed testing on expenditures for supplies and other items. We reviewed supporting documentation for the three expenditures, and determined they were allowable and supported.

Budget Management and Control

According to the OJP Financial Guide, the recipient is responsible for establishing and maintaining an adequate accounting system, which includes the ability to compare actual expenditures or outlays with budgeted amounts for each award. Additionally, grant recipients must submit a grant adjustment notice (GAN) if: (1) proposed cumulative changes are greater than 10 percent of the total award; (2) there is a dollar increase or decrease to an indirect cost category; (3) the budget modification changes the scope of a project; or (4) an adjustment affects a cost category that was not included in the approved budget.

We determined Hudson did not adhere to the approved budget and exceeded the 10 percent threshold by \$148,541 without submitting a GAN, as required. We determined this was caused in part when Hudson allocated \$1,074,366 to housing costs rather than the \$316,943 that was approved in its award budget as Other expenditures. According to a Hudson official, the Patient Protection and Affordable Care Act of 2010 affected the award budget because it expanded the Medicaid program to include individuals that were previously prohibited from receiving benefits. As a result of this change, Hudson was able to reallocate budgeted program costs for treatment services to housing costs.

Finally, we determined Hudson did not maintain documentation demonstrating it managed its grant using the "total program cost" basis to ensure adequate fiscal administration, accounting, and auditability of all Federal funds received. The OJP Financial Guide requires recipients to establish records using the "total program cost" basis, which requires costs to be budgeted and administered according to the following types of funding: federal, state, match, program income, and any other funds received for the program. We requested documentation to support its budget management and control for the grant, but Hudson was not able to provide such documentation. We determined these records were necessary because the grant had a match requirement and grant funded activities were also allocated to state grants and Hudson's 2010 Second Chance Act grant.

When grantees do not adhere to the approved budget, effective grant management is potentially undermined and the ability to adequately safeguard grant funds is compromised. We recommend that OJP ensure Hudson implement and adhere to written budget management and control policies and procedures to ensure required grant adjustment notices are submitted and, when applicable, awards are managed using the total program cost basis.

Drawdowns

According to the OJP Financial Guide, an adequate accounting system should be established to maintain documentation to support all receipts of federal funds. If, at the end of the award, recipients have drawn down funds in excess of federal expenditures, unused funds must be returned to the awarding agency. During our audit, we found that Hudson was not able to adequately describe its policies and procedures for calculating drawdowns and did not have required written policies and procedures to ensure cash on hand was the minimum needed for expenditures to be made immediately, or within 10 days of the request.

According to Hudson officials, drawdowns were made on a reimbursement basis, however, officials could not provide documentation to support drawdown procedures. As a result, we compared cumulative drawdowns and the expenditures claimed against the award in Hudson's accounting system. In our review, we determined that Hudson's cumulative drawdowns exceeded its claimed grant expenditures by \$221,618.

Additionally, as discussed in the Grant Financial Management section of this report, Hudson incurred \$73,817 in post-award expenditures. While the accounting of these expenditures was removed from the grant account during our audit, \$37,180 of those expenditures were charged to the grant prior to Hudson's final drawdown in November 2016. Consequently, the total amount of unsupported drawdowns is increased from \$221,618 to \$258,798.

During our review, we also determined Hudson's final drawdown of grant funds was unsupported, in part, due to a refund in the amount of \$287,230 that Hudson made to the grant account in March 2016. Hudson refunded an entire year of gross wages that was erroneously charged to the grant, however, Hudson did not exclude the refund amount when it calculated its final drawdown.⁸

We recommend OJP ensures Hudson develops and implements written policies and procedures for drawdown requests to ensure federal cash on hand is kept at or near zero. We also recommend OJP remedy \$258,798 in unsupported drawdowns.

Federal Financial Reports

According to the OJP Financial Guide, recipients shall report the actual expenditures and unliquidated obligations incurred for the reporting period on each Federal Financial Report (FFR), as well as cumulative expenditures. To determine whether Hudson submitted accurate FFRs, we reviewed the five most recent reports

⁸ After we notified officials that the refund was miscalculated based on actual expenditures charged to the grant, Hudson adjusted its grant account in July 2017 to reduce the amount of the refund to \$189,273. We did not factor this adjustment into our analysis because the change was made after the award was closed out by OJP, Hudson was reimbursed based on the initial refund amount, and Hudson did not provide documentation indicating the revision resulted in a return of funds to the Department of Justice.

to the accounting records. We found the five FFRs did not match Hudson's accounting records. We discussed this issue with Hudson, but officials were not able to provide documentation or an explanation for how FFRs were prepared. Hudson also lacked grant administration policies and procedures for preparing FFRs for federal awards.

We recommend that OJP ensure Hudson implement and adhere to written policies and procedures to ensure FFRs are prepared accurately and timely.

Compliance with Award Special Conditions

Special conditions are additional terms and conditions that are included within a grant award to provide additional oversight or reporting. We evaluated the special conditions for the grant, and selected a judgmental sample of the requirements that are significant to the performance of the grant and are not addressed in another section of this report. We evaluated Hudson's compliance with the following special conditions:

- Maintain accurate point of contact information for County officials by submitting grant adjustment notices (GANs) as needed.
- Any written, visual, or audio publications, with the exception of press releases, whether published at the grantee's or government's expense, shall contain the following statements: "This project was supported by Grant No. 2011-CZ-BX-0032, awarded by the Bureau of Justice Assistance. The Bureau of Justice Assistance is a component of the Office of Justice Programs...Points of view or opinions in this document are those of the author and do not necessarily represent the official position or policies of the U.S. Department of Justice."

Based on our review, we determined Hudson was in compliance with these special conditions.

CONCLUSIONS AND RECOMMENDATIONS

As a result of our audit, we concluded that Hudson did not adequately administer the grant or demonstrate its progress towards achieving the award objectives of reducing recidivism or enhancing public safety. We found Hudson: (1) did not implement adequate internal controls over grant administration; (2) did not demonstrate it met the grant award goals and objectives; (3) submitted inaccurate progress reports; (4) did not ensure grant funded expenditures were supported; (5) did not submit required grant adjustment notices; (6) did not manage its budget on a “total project cost” basis; (7) made \$258,798 in unsupported drawdowns; and (8) submitted inaccurate FFRs. As a result, we questioned \$3,469,733, the majority of which was for match and contract expenditures that Hudson could not provide adequate supporting documentation.

We recommend that OJP:

1. Ensure Hudson implement and adhere to written policies and procedures for grant administration, including accounting and recordkeeping, to ensure compliance with applicable laws, regulations, and award terms and conditions.
2. Ensure Hudson implement and adhere to policies and procedures to ensure program performance is monitored and records are maintained to demonstrate accomplishments towards achieving award goals and objectives.
3. Ensure Hudson implement and adhere to written policies and procedures to ensure progress reports are accurate and reported data is valid and reliable.
4. Remedy \$269,516 in unsupported gross wages.
5. Ensure Hudson implement and adhere to written payroll policies and procedures to ensure personnel expenditures are supported by timesheets or periodic certifications.
6. Remedy \$231,584 in unsupported contract expenditures.
7. Ensure Hudson revise its written purchasing procedures to ensure grant funded expenditures are made in compliance with applicable laws, regulations, and the DOJ Grants Financial Guide.
8. Remedy \$2,709,835 in unsupported match expenditures.
9. Ensure Hudson implement and adhere to written grant administration policies and procedures to ensure records clearly show the source and timing of all match contributions, as required by the DOJ Grants Financial Guide.

10. Ensure Hudson implement and adhere to written budget management and control policies and procedures to ensure required grant adjustment notices are submitted and, when applicable, awards are managed on a total program cost basis.
11. Ensure Hudson develops and implements written policies and procedures for drawdown requests to ensure federal cash on hand is kept at or near zero.
12. Remedy \$258,798 in unsupported drawdowns.
13. Ensure Hudson implement and adhere to written policies and procedure to ensure FFRs are prepared accurately and time.

APPENDIX 1

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this audit were to determine whether costs claimed under the grants were allowable, supported, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant; and to determine whether the grantee demonstrated adequate progress towards achieving the program goals and objectives. To accomplish these objectives, we assessed performance in the following areas of grant management: financial management, program performance, expenditures, budget management and control, drawdowns, and federal financial reports.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This was an audit of an Office of Justice Programs (OJP) grant awarded to Hudson County, New Jersey (Hudson) under the Second Chance Act Adult Offender Reentry Demonstration Program, award number 2011-CZ-BX-0032, in the amount of \$5,397,335, and, as of November 2016, the entire Federal Share of the award, or \$2,687,500, had been drawn down. Our audit concentrated on, but was not limited to, October 1, 2011, the award date, through August 2017.

To accomplish our objectives, we tested compliance with what we consider to be the most important conditions of Hudson's activities related to the audited grant. We performed sample-based audit testing for grant expenditures, including payroll and fringe benefit charges, and financial and progress reports. In this effort, we employed a judgmental sampling design to obtain broad exposure to numerous facets of the grant reviewed. This non-statistical sample design did not allow projection of the test results to the universe from which the samples were selected. The OJP Financial Guide and the award documents contain the primary criteria we applied during the audit.

During our audit, we obtained information from OJP's Grants Management System and Hudson's accounting system and records specific to the management of DOJ funds during the audit period. We did not test the reliability of those systems as a whole, therefore any findings identified involving information from those systems was verified with documentation from other sources.

APPENDIX 2

SCHEDULE OF DOLLAR-RELATED FINDINGS

QUESTIONED COSTS ¹	AMOUNT	PAGE
Personnel Expenditures	\$ 269,516	7
Contract Expenditures	231,584	9
Matching Costs	2,709,835	10
Drawdowns	<u>258,798</u>	12
Total Unsupported Expenditures	\$3,469,733	
TOTAL QUESTIONED COSTS	<u>\$3,469,733</u>	

¹ **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements; are not supported by adequate documentation at the time of the audit; or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

APPENDIX 3

THE COUNTY OF HUDSON'S RESPONSE TO THE DRAFT AUDIT REPORT¹⁰



COUNTY OF HUDSON
DEPARTMENT OF FINANCE AND ADMINISTRATION
ADMINISTRATION ANNEX
567 PAVONIA AVENUE
JERSEY CITY, NEW JERSEY 07306

THOMAS A. DeGISE
COUNTY EXECUTIVE

PHONE: (201) 795-6077
FAX: (201) 369-3413

CHERYL G. FULLER
DIRECTOR

By Email and FedEx

December 5, 2017

Ms. Nicola Whitehead
Assistant Regional Audit Manager
DOJ/Office of the Inspector General
701 Market Street, Suite 2300
Philadelphia, PA 19106

Re: Hudson County Second Chance Act Draft Audit Report

Dear Ms. Whitehead,

The County of Hudson has reviewed the draft audit issued by the DOJ/ Office of the Inspector General. The County takes strong exceptions to the findings contained therein.

The County has received accolades on this program and in fact, was the model for the State of New Jersey in developing its own program. While I understand that this has little to do with internal controls and underlying documents to support expenditures, I only point this out to demonstrate the pride and attention that the Hudson County staff devoted to this program. In fact, a BJA Enhanced Programmatic Desk Review conducted in April of 2014 stated “There [were] no findings for corrective action” and highlighted the program’s strengths in a three page letter to Frank Mazza (copy attached).

The County Department of Family Services, which was responsible for the day to day oversight of the grant is where your audit commenced. During that period of field work and testing I understand that your audit staff had many comments and findings that were not satisfactorily addressed. However, once the audit reached the level of my office where the official County records reside, we provided that information to a degree that would not result in disallowance of the entire grant match. Moreover, we feel that your audit staff was deficient in not replying to our responses to his inquiries, all of which are supported in numerous emails that were sent to address the follow up to the findings. A copy of those emails is attached to this letter.

Additionally, it is my opinion that your auditor lacked the understanding of the accounting system we established to track all vendor related grant match expenditures. My staff tutored him on the program and gave him full access to the system. At any time if he were unsure of what he was viewing we were at his full disposal to answer any questions. I know this to be the case because we established line items in our accounting system to which ONLY matching expenditures for the Second Chance Grant were charged. As part of this response, I am providing the budget documents which are a matter of record that show the segregation of the

¹⁰ Attachments and e-mails referenced in this response were not included in this final report.

December 5, 2017
Ms. Nicola Whitehead
Page - 2

budgeted match expenditures and a schedule of all expenditures charged to those budget line items. My staff spoke at length to your field auditor about the structure of the chart of accounts to demonstrate how this worked.

A schedule is attached showing \$1,218, 264 of payments to vendors for the grant and all supporting documents are being provided in a package that will be delivered to your office via FedEx. A summary is also attached showing salaries and wages, including fringe, in the amount of \$2,203,492 that are documented by timesheets and payroll journals in the package being sent to accompany this letter. We have copied and provided all of the underlying documentation for these expenditures. Where staff is no longer employed by the County, we have provided sworn affidavits from their supervisors attesting to the accuracy of the time sheets included. Most of the staff were hired solely for the purpose of working on the Second Chance program and some existing County staff was transferred to the grant and then worked solely on the program until its end. The County continues to operate the Second Chance program irrespective of the fact that the grant has ended. In fact, during the active period, the County overmatched the required grant by more than \$500,000 dollars, a fact that seems to have been lost on the auditor.

Included in the packages accompanying this letter are copies of all grant related documents documenting our trail of internal controls including procurement documents, routing forms evidencing required approvals at all levels of authority as evidenced in the Purchasing procedures manual (departmental, purchasing, finance, administrator and legal) which preceded the approval of contracts by the governing body and, copies of the contracts. Hudson County was subject to a single audit each year of the contract and has never been cited for lack of controls nor have any of the grant expenditures been questioned.

In summary, the County is providing you with information to demonstrate that costs claimed under the grant were allowable, supported and in accordance with applicable laws and regulations. We certainly demonstrated adequate progress towards achieving the program goals and objectives as stated by your own sister Federal agency, the Bureau of Justice Assistance. We did establish and maintain adequate accounting systems and financial records, all of which are being provided to you in the documents accompanying this letter. The County has very strong internal controls which are documented by our routing forms and levels of review and authorization prior to a contract being awarded or an expenditure being made.

I cannot argue with your finding on the FFRs that were submitted, but in the final analysis only authorized and permissible expenditures were charged to the grant. With respect to competitive contracting, the County is required to follow the law as prescribed by New Jersey Statutes and each instance must be reviewed and approved at each level of authority including the County Counsel who reviews and signs off on every procurement process that goes before the governing body. The County, while presently undergoing the update of its purchasing manual, cannot deviate from State law as New Jersey local jurisdictions are heavily regulated by the State. There may be compliance issues with regard to how participants were tracked upon leaving the program, but all funds were expended in accordance with the guidelines and in a lawful manner.

In the interest of brevity and in light of the voluminous documentation that is being sent as an appendage to this letter via FedEx, let me end by saying that given the time, effort and dedication devoted to the administration of this program, it is a travesty that the OIG would seek to have the County reimburse the DOJ the full amount of the match in the amount of \$2,709,835 as unsupported for such a successful and model program and for all the effort that was expended by the Hudson County staff that made it so.

HUDSON COUNTY IS AN EQUAL OPPORTUNITY EMPLOYER

December 5, 2017
Ms. Nicola Whitehead
Page - 3

I appreciate the extension of time to respond to the draft report and my staff and I remain available to answer any questions you may have once you are able to review the documents being forwarded to your office. I will forward the requested management representation letter to Mr. Puerzer, Regional Audit Manager, under separate cover.

Sincerely,



Cheryl G. Fuller, CPA
Director of Finance/CFO

Attachments

Cc: Thomas O. Puerzer, OIG, Regional Audit Manager
Thomas A. DeGise, County Executive
Abraham Antun, County Administrator
Donato Battista, County Counsel
Benjamin Lopez, Director Department of Family Services
Oscar Aviles, Assistant County Administrator
Ricardo Marin, Fiscal Officer, Department of Family Services
Frank Mazza, Program Director, Community Reintegration Program
John Inagaki, Budget Officer

APPENDIX 4

THE OFFICE OF JUSTICE PROGRAMS' RESPONSE TO THE DRAFT AUDIT REPORT



U.S. Department of Justice

Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

DEC 13 2017

MEMORANDUM TO: Thomas O. Puerzer
Regional Audit Manager
Philadelphia Regional Audit Office
Office of the Inspector General

FROM: *Bo* Ralph E. Martin *Ralph E. Martin*
Director

SUBJECT: Response to the Draft Audit Report, *Audit of the Office of Justice Programs, Bureau of Justice Assistance, Second Change Act Demonstration Program Grant Awarded to Hudson County, New Jersey*

This memorandum is in reference to your correspondence, dated November 1, 2017, transmitting the above-referenced draft audit report for Hudson County (Hudson). We consider the subject report resolved and request written acceptance of this action from your office.

The draft report contains **13** recommendations and **\$3,469,733** in questioned costs. The following is the Office of Justice Programs' (OJP) analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

- 1. We recommend that OJP ensure Hudson implement and adhere to written policies and procedures for grant administration, including accounting and recordkeeping, to ensure compliance with applicable laws, regulations, and award terms and conditions.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written grant administration, accounting, and recordkeeping policies and procedures, which ensure compliance with applicable laws, regulations, and award terms and conditions.

- 2. We recommend that OJP ensure Hudson implement and adhere to policies and procedures to ensure program performance is monitored and records are maintained to demonstrate accomplishments towards achieving award goals and objectives.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written policies and procedures, for ensuring that program performance is monitored, and records are maintained, to demonstrate accomplishments towards achieving award goals and objectives.

- 3. We recommend that OJP ensure Hudson implement and adhere to written policies and procedures to ensure progress reports are accurate and reported data is valid and reliable.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written policies and procedures, for ensuring that semi-annual progress reports are accurate, and the data reported is valid and reliable; and the supporting documentation is maintained for future auditing purposes.

- 4. We recommend that OJP remedy \$269,516 in unsupported gross wages.**

OJP agrees with this recommendation. We will coordinate with Hudson to remedy the \$269,516 in unsupported gross wages that were charged to Grant Number 2011-CZ-BX-0032.

- 5. We recommend that OJP ensure Hudson implement and adhere to written payroll policies and procedures to ensure personnel expenditures are supported by timesheets or periodic certifications.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written payroll policies and procedures, which ensure their personnel expenditures are supported by timesheets or periodic certifications.

- 6. We recommend that OJP remedy \$231,584 in unsupported contract expenditures.**

OJP agrees with this recommendation. We will coordinate with Hudson to remedy the \$231,584 in unsupported contract expenditures that were charged to Grant Number 2011-CZ-BX-0032.

- 7. We recommend that OJP ensure Hudson revise its written purchasing procedures to ensure grant funded expenditures are made in compliance with applicable laws, regulations, and the DOJ Grants Financial Guide.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written purchasing policies and procedures, which ensure compliance with applicable laws, regulations, and the U.S. Department of Justice (DOJ) Grants Financial Guide for grant funded expenditures.

- 8. We recommend that OJP remedy \$2,709,835 in unsupported match expenditures.**

OJP agrees with this recommendation. We will coordinate with Hudson to remedy the \$2,709,835 in unsupported match expenditures that were charged to Grant Number 2011-CZ-BX-0032.

- 9. We recommend that OJP ensure Hudson implement and adhere to written grant administration policies and procedures to ensure records clearly show the source and timing of all match contributions, as required by the DOJ Grants Financial Guide.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written grant administration policies and procedures, which include provisions for ensuring that the source and timing of all match contributions is properly documented in the County's records, as required by the DOJ Grants Financial Guide.

- 10. We recommend that OJP ensure Hudson implement and adhere to written budget management and control policies and procedures to ensure required grant adjustment notices are submitted and, when applicable, awards are managed on a total program cost basis.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written budget management and controls policies and procedures, which include provisions for ensuring that: required grant adjustment notices are submitted; and, when applicable, awards are managed on a total program cost basis.

- 11. We recommend that OJP ensure Hudson develops and implements written policies and procedures for drawdown requests to ensure federal cash on hand is kept at or near zero.**

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written cash management policies and procedures, which ensure that Federal cash-on-hand is kept at a minimal balance, in accordance with the DOJ Grants Financial Guide.

12. We recommend that OJP remedy \$258,798 in unsupported drawdowns.

OJP agrees with this recommendation. We will coordinate with Hudson to remedy the \$258,798 in unsupported drawdowns that were charged to Grant Number 2011-CZ-BX-0032.

13. We recommend that OJP ensure Hudson implement and adhere to written policies and procedures to ensure FFRs are prepared accurately and timely.

OJP agrees with this recommendation. We will coordinate with Hudson to obtain their written policies and procedures, for ensuring that Federal Financial Reports are prepared accurately and timely.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Maureen A. Henneberg
Deputy Assistant Attorney General
for Operations and Management

LeToya A. Johnson
Senior Advisor
Office of the Assistant Attorney General

Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

Jon Adler
Director
Bureau of Justice Assistance

Tracey Trautman
Deputy Director
Bureau of Justice Assistance

Pamela Cammarata
Chief of Staff
Bureau of Justice Assistance

Michael Bottner
Budget Director
Bureau of Justice Assistance

cc: Amanda LoCicero
Budget Analyst
Bureau of Justice Assistance

Jonathan Faley
Associate Deputy Director
Bureau of Justice Assistance

Darius LoCicero
Acting Associate Deputy Director
Bureau of Justice Assistance

Linda Hill-Franklin
Grant Program Specialist
Bureau of Justice Assistance

Charles E. Moses
Deputy General Counsel

Silas V. Darden
Director
Office of Communications

Leigh Benda
Chief Financial Officer

Christal McNeil-Wright
Associate Chief Financial Officer
Grants Financial Management Division
Office of the Chief Financial Officer

Joanne M. Suttington
Associate Chief Financial Officer
Finance, Accounting, and Analysis Division
Office of the Chief Financial Officer

Jerry Conty
Assistant Chief Financial Officer
Grants Financial Management Division
Office of the Chief Financial Officer

Aida Brumme
Manager, Evaluation and Oversight Branch
Grants Financial Management Division
Office of the Chief Financial Officer

APPENDIX 5

OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The Department of Justice (Department) Office of the Inspector General (OIG) provided a draft of this audit report to the Office of Justice Programs (OJP) and the County of Hudson, New Jersey (Hudson). OJP's response is incorporated in Appendix 4 and Hudson's response is incorporated in Appendix 3 of this final report. In response to our draft audit report, OJP concurred with our recommendations and, as a result, the status of the audit report is resolved. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Analysis of Hudson's Response

In its response, Hudson took exception to the audit report findings but did not address each of the 13 recommendations individually. Hudson as an initial matter acknowledged that the OIG "audit staff had many comments and findings that were not satisfactorily addressed," but believed that when the requests were elevated to the office where the County records were held, Hudson provided adequate documentation to support its match expenditures. Hudson also stated that the OIG audit team was provided documentation to a degree that would not result in disallowance of the entire grant match. Further, Hudson said that, despite being tutored by staff and being given full access to the accounting system, the audit team lacked an understanding of the system that was established to track all vendor related grant match expenditures.

We disagree with Hudson's understanding of our audit work and assessment of the adequacy of the records it provided during the audit. We also do not agree with Hudson's claim that the OIG audit team did not understand its accounting of the match requirement and that it should have requested assistance before concluding its audit work. Throughout the audit, the OIG audit team worked closely with Hudson's staff to gain an understanding of Hudson's administration of the grant. This included documenting and confirming with Hudson officials that grant-related expenditures, made as a contribution to the local match, were in fact comingled within the Department of Corrections operating fund and not in a separate account, as claimed in Hudson's response.

Additionally, during the audit, as well as at the audit exit conference, the audit team explained to the County of Hudson Chief Financial Officer (CFO) and finance staff that Hudson had not provided adequate documentation to support that the match requirement was met. During the exit conference, the CFO, as well as other staff, acknowledged that match expenditures were not recorded in Hudson's accounting records in a way that clearly identified the source and timing of the county's contributions toward the match. While Hudson's CFO told us during the

exit conference that supplemental records demonstrating that the match requirement was met could be provided, Hudson did not provide such records.

Hudson's response to our draft report included select copies of e-mails between Hudson and the OIG audit team, meant to support its position that the OIG audit team was not responsive to the documentation Hudson provided to support contributions towards the match requirements. However, the documentation Hudson provided to the audit team did not identify the source and timing of contributions made for the local match requirement. The audit team discussed this with Hudson officials and made multiple requests for additional documentation during audit fieldwork, which Hudson did not provide.

Hudson also included with its response summary spreadsheets of vendor payments and personnel expenditures that had not been provided during the audit in order to support its claim that it met its match requirement. Hudson additionally provided with its response three boxes of records that had not been previously provided to the OIG to support its assertion that Hudson has adequate internal controls and to demonstrate that it met its match requirement. We carefully examined the spreadsheets and contents of the three boxes, and we found the records included voluminous amounts of information that were disorganized and not presented in a manner that readily enabled the audit team to determine whether they were sufficiently responsive to our recommendation. Nevertheless, we will work with OJP, throughout the resolution process, to address our findings.

The following sections include our analysis of Hudson's response. Although Hudson did not provide separate responses to each of the 13 recommendations, we analyzed its response and paired the contents of its response to the appropriate recommendation.

Recommendations for OJP:

- 1. Ensure Hudson implement and adhere to written policies and procedures for grant administration, including accounting and recordkeeping, to ensure compliance with applicable laws, regulations, and award terms and conditions.**

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its written grant administration, accounting, and recordkeeping policies and procedures, which ensure compliance with applicable laws, regulations, and award terms and conditions.

Hudson did not explicitly agree or disagree with our recommendation. In its response, Hudson stated that it has a "...trail of internal controls, including procurement documents and routing forms evidencing required approvals at all levels of authority...". Hudson also states it has never been cited for lack of controls, and has not had its expenditures questioned. Hudson did not

specifically address the four deficiencies we identified in its internal controls over grant administration, but referenced its *Purchasing Procedures Manual* as an example of its internal controls. However, as described in our audit report, this outdated manual had not been updated to include relevant policies and procedures to ensure compliance with grant requirements. Hudson did not have adequate grant administration policies and procedures, including policies and procedures necessary to prevent and detect non-compliance with the award requirements. Additionally, Hudson's response did not address its use of a separate set of financial records that were maintained outside of the official accounting system to manage the award, which resulted in Hudson submitting inaccurate financial reports and receiving \$258,798 in reimbursements that it was not able to support.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures for grant administration that are designed to ensure compliance with applicable laws, regulations, and award terms and conditions.

2. Ensure Hudson implement and adhere to policies and procedures to ensure program performance is monitored and records are maintained to demonstrate accomplishments towards achieving award goals and objectives.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its written policies and procedures to ensure program performance is monitored, and records are maintained, to demonstrate accomplishments towards achieving award goals and objectives.

Hudson did not explicitly agree or disagree with our recommendation in its response. Hudson acknowledged potential compliance issues with the tracking of program participants, but stated that all grant funds were used in accordance with grant requirements and that it demonstrated adequate progress towards achieving stated goals and objectives. Hudson referenced an April 2014 Enhanced Programmatic Desk Review, in which BJA found Hudson demonstrated adequate progress towards achieving its program goals. However, the OIG is independent from the BJA and its audits are conducted in accordance with the generally accepted government auditing standards (GAGAS) to ensure sufficient, appropriate evidence is obtained to provide a reasonable basis for our findings and conclusions.

As discussed with Hudson officials throughout the audit, Hudson did not provide records to substantiate that it achieved its grant award goals and objectives. During the audit, Hudson officials also acknowledged that program participation was not tracked. Additionally, we were told by Hudson officials that it abandoned one of its primary objectives because officials

recognized early on that it was too ambitious. As discussed in the report, Hudson failed to submit a Grant Adjustment Notice (GAN) to revise its project plan. Because Hudson was awarded these grants on the premise that it was to accomplish its stated goals and objectives, it is important for Hudson to accomplish those goals, apprise OJP of any deviations from its plan, and track performance measures that demonstrate and ensure its achievements.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure program performance is monitored and records are maintained to demonstrate goals and objectives are met.

3. Ensure Hudson implement and adhere to written policies and procedures to ensure progress reports are accurate and reported data is valid and reliable.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its written policies and procedures for ensuring semi-annual progress reports are accurate, and the data reported is valid reliable; and the supporting documentation is maintained for auditing purposes.

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure progress reports are accurate and data is valid and reliable.

4. Remedy \$269,516 in unsupported gross wages.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to remedy the \$269,516 in unsupported gross wages that were charged to the award (2011-CZ-BX-0032).

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive and analyze evidence that the \$269,516 in gross wages are supported by records in accordance with the award requirements.

5. Ensure Hudson implement and adhere to written payroll policies and procedures to ensure personnel expenditures are supported by timesheets or periodic certifications.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its written payroll policies and procedures that ensure personnel expenditures are supported by timesheets or periodic certifications.

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure personnel expenditures are supported by timesheets and periodic certifications.

6. Remedy \$231,584 in unsupported contract expenditures.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to remedy the \$231,584 in unsupported contract expenditures that were charged to the award (2011-CZ-BX-0032).

Hudson did not explicitly agree or disagree with our recommendation. However, in its response, Hudson stated that it is providing information to demonstrate that costs claimed under the grant were allowable, supported, and in accordance with applicable laws and regulations. While Hudson asserted in its response that its expenditures complied with New Jersey statutes, no documentation was provided to substantiate this assertion. Further, without adequate documentation that we requested, as discussed in the body of our report (including requests for proposals, vendor/contractor proposals, scoring results, cost/price information, and other documents or information considered in the procurement of these grant funded services), we were not able to verify that it complied with applicable laws, regulations, and the terms and conditions of the grant. In addition to its written response, Hudson provided three boxes of records intended to support its response that had not been previously provided to the OIG. We examined the contents of the three boxes and found the records included voluminous amounts of information that were disorganized and not presented in a manner that readily enabled the audit team to determine whether they were sufficiently responsive to our recommendation. Nevertheless, we will work with OJP throughout the resolution process to address this recommendation.

This recommendation can be closed when we receive evidence demonstrating that the \$231,584 in unsupported contract expenditures were procured in compliance with applicable laws, regulations, and the terms and conditions of the grant.

7. Ensure Hudson revise its written purchasing procedures to ensure grant funded expenditures are made in compliance with applicable laws, regulations, and the DOJ Grants Financial Guide.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its written purchasing procedures policies and procedures that ensure compliance with applicable laws, regulations, and the DOJ Grants Financial Guide for grant funded expenditures.

Hudson did not explicitly agree or disagree with our recommendation. However, in its response, Hudson stated that its purchasing manual is presently being updated.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, its revised written policies and procedures that are designed to ensure grant-funded expenditures are made in compliance with applicable laws, regulations, and the DOJ Grants Financial Guide.

8. Remedy \$2,709,835 in unsupported match expenditures.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to remedy the \$2,709,835 in unsupported match expenditures that were charged to the award (2011-CZ-BX-0032).

In its response, Hudson asserted that it met the match requirement by actually exceeding the required match amount, with \$1,218,264 in vendor payments and \$2,203,492 in personnel and fringe benefit expenditures. According to the award requirements, Hudson was required to contribute \$1,343,750 as a cash match and \$1,366,085 for in-kind contributions. To further substantiate its claim that the match requirement was met, Hudson provided summary spreadsheets and documentation that it had not provided during our audit work. Hudson stated that it exceeded its match by \$500,000, however upon analyzing this information we determined that the support for this encompassed personnel and fringe benefit expenditures, which are not eligible to fulfill the cash match requirement. Such discrepancies further demonstrate that responsible officials did not understand the obligation for meeting the match requirement.

This recommendation can be closed when we receive and analyze evidence demonstrating that Hudson met its in-kind and cash match requirement.

9. Ensure Hudson implement and adhere to written grant administration policies and procedures to ensure records clearly show the source and timing of all match contributions, as required by the DOJ Grants Financial Guide.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its grant administration policies and procedures that include provisions for ensuring that the source and timing of all match contributions is properly documented in the County's records, as required by the DOJ Grants Financial Guide.

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure records clearly show the source and timing of all match contributions, as required by the DOJ Grants Financial Guide.

10. Ensure Hudson implement and adhere to written budget management and control policies and procedures to ensure required grant adjustment notices are submitted and, when applicable, awards are managed on a total program cost basis.

Resolved. OJP concurred with our recommendation. OJP stated in its response that it will coordinate with Hudson to obtain its budget management and controls policies and procedures that include provisions for ensuring that required grant adjustment notices are submitted; and, when applicable, awards are managed on a total program cost basis.

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure required grant adjustment notices are submitted and, when applicable, awards are managed on a total program cost basis.

11. Ensure Hudson develops and implements written policies and procedures for drawdown requests to ensure federal cash on hand is kept at or near zero.

Resolved. OJP concurred with our recommendation. In its response, OJP stated that it will coordinate with Hudson to obtain its written cash management policies and procedures, which should ensure federal cash-on-hand is kept at a minimal balance in accordance with the DOJ Grants Financial Guide.

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure federal cash-on-hand is kept at or near zero.

12. Remedy \$258,798 in unsupported drawdowns.

Resolved. OJP concurred with our recommendation. OJP stated it will coordinate with Hudson to remedy the \$258,798 in unsupported drawdowns that were charged to the award (2011-CZ-BX-0032).

Hudson did not respond to this recommendation.

This recommendation can be closed when we receive and analyze evidence that OJP remedied the \$258,798 in unsupported drawdowns.

13. Ensure Hudson implement and adhere to written policies and procedure to ensure FFRs are prepared accurately and time.

Resolved. OJP concurred with our recommendation. OJP stated that it will coordinate with Hudson to obtain its written policies and procedures for ensuring that Federal Financial Reports (FFRs) are prepared accurately and timely.

Hudson did not explicitly agree or disagree with our recommendation, but stated that it could not argue with the finding.

This recommendation can be closed when we receive evidence demonstrating Hudson implemented, and communicated to responsible officials, written policies and procedures that are designed to ensure Federal Financial Reports are prepared accurately and timely.



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U.S. DEPARTMENT OF JUSTICE OFFICE OF THE INSPECTOR GENERAL
950 Pennsylvania Avenue, Northwest
Suite 4760
Washington, DC 20530 0001

Website oig.justice.gov	Twitter @JusticeOIG	YouTube JusticeOIG
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