

**Integrity Monitor Report
Category 3**

Integrity Monitor Firm Name: K2 Integrity
Quarter Ending: 06/30/2021
Expected Engagement End Date: 06/30/2021

A. General Info

1. Recovery Program Participant:

The New Jersey Economic Development Authority (NJEDA or Authority)

2. Federal Funding Source (e.g. CARES, HUD, FEMA, ARPA):

Section 5001 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act COVID-19

3. State Funding Source (if applicable):

[N/A]

4. Deadline for Use of State or Federal Funding by Recovery Program Participant:

Sustain and Serve NJ (SSNJ) – September 30, 2021
Small Business Emergency Assistance (SBEA) Grant Phase 4 – December 1, 2021

5. Accountability Officer:

Christine Baker, Chief Legal and Strategic Affairs Officer

6. Program(s) under Review/Subject to Engagement:

For the purposes of the June 30, 2021, IOM Report, K2 reviewed and conducted transaction testing on the following programs (collectively, Grant Programs):

1. Sustain and Serve NJ (SSNJ)
2. Small Business Emergency Assistance (SBEA) Grant Phase 4

K2 previously reviewed the following programs for the December 30, 2020 IOM Report. While K2 did not perform transaction testing for these

**Integrity Monitor Report
Category 3**

programs in the current period, given budget constraints, K2 did in fact perform follow-up inquiries and documentation review to assess NJEDA's Management progress in implementing the IOM's prior recommendations.

1. SBEA Grant Phase 1
2. SBEA Grant Phase 2
3. SBEA Grant Phase 3
4. NJ Small and Micro Business PPE Access Program
5. Community Development Finance Institution Emergency Grant Phase (CDFI)

7. Brief Description, Purpose, and Rationale of Integrity Monitor Project/Program:

K2 Integrity (K2) was engaged by NJEDA pursuant to the terms of Governor Murphy's July 17, 2020 Executive Order No. 166 (EO_166) and per the requirements of the August 2020 Integrity Oversight Monitor Guidelines issued by the State of New Jersey COVID-19 Compliance and Oversight Taskforce (IOM Guidelines), in accordance with the procedures established by the Request for Quotation issued by the Division of Administration, Department of the Treasury for Integrity Oversight Monitoring: Program and Performance Monitoring, Financial Monitoring and Grant Management and Anti-Fraud Monitoring for Coronavirus Relief Funds pursuant to Section 5001 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act COVID-19 Recovery Funds and Programs (IOM RFQ).

After K2 completed its monitoring activities in 2020, NJEDA received additional federal funding for SSNJ and SBEA Grant Phase 4. K2 was asked to utilize the remaining budget from the December 2020 IOM agreement for the purpose of monitoring the two new programs as well as follow-up on NJEDA's implementation of the IOM's prior recommendations from the December 2020 report.

8. Amount Allocated to Program(s) under Review:

As of June 11, 2021, the following amounts were allocated to each of the CRF funded programs:

| Program | MOU Amount | Admin Costs | Re-Allocated Amounts | Total Amounts Allocated |
|--------------------|--------------|-------------|----------------------|-------------------------|
| SBEA Grant Phase 1 | \$ 5,000,000 | \$ - | \$ - | \$ 5,000,000 |

**Integrity Monitor Report
Category 3**

| | | | | |
|---------------------|----------------------|--------------------|----------------|-----------------------|
| SBEA Grant Phase 2 | \$ 60,000,000 | \$ 1,300,000 | \$(10,000,000) | \$ 51,300,000 |
| SBEA Grant Phase 2c | \$ 30,000,000 | \$ - | \$ - | \$ 30,000,000 |
| SBEA Grant Phase 3 | \$120,500,000 | \$ 3,500,000 | \$ 25,500,000 | \$ 149,500,000 |
| SBEA Grant Phase 4 | \$ 81,000,000 | \$ 4,000,000 | \$ - | \$ 85,000,000 |
| PPE Access Program | \$ 23,900,000 | \$ 1,100,000 | \$(19,500,000) | \$ 5,500,000 |
| CDFI Program | \$ 6,250,000 | \$ 7,307,731 | \$ - | \$ 13,557,731 |
| Sustain and Serve | \$ 2,000,000 | \$ 400,000 | \$ 4,000,000 | \$ 6,400,000 |
| Total | \$328,650,000 | \$7,607,731 | \$ - | \$ 346,257,731 |

The Admin Costs includes NJEDA program administration costs such as, personnel time, temporary staff time, and Grant Program related marketing expenses. The re-allocated amount represents transfer of funds from one CRF program to another. In addition to the \$6.4M currently allocated to SSNJ, NJEDA plans to re-allocate approximately \$6.4M of potential unused funding under Existing MOUs.

9. Amount Expended by Recovery Program Participant to Date on Program(s) under Review:

As of June 11, 2021, the following amounts were allocated, expensed, and remaining on each CRF funded programs:

| Program | Total Amount Allocated | Amounts Committed | Amounts Expensed | Amount Remaining |
|---------------------|-------------------------------|--------------------------|-------------------------|-------------------------|
| SBEA Grant Phase 1 | \$ 5,000,000 | \$ 5,000,000 | \$ 5,000,000 | \$ - |
| SBEA Grant Phase 2 | \$ 51,300,000 | \$ 50,068,935 | \$ 48,880,935 | \$ 2,419,065 |
| SBEA Grant Phase 2c | \$ 30,000,000 | \$ 8,118,000 | \$ 7,890,000 | \$ 1,695,000 |
| SBEA Grant Phase 3 | \$149,500,000 | \$146,697,032 | \$145,216,032 | \$ 4,283,968 |
| SBEA Grant Phase 4 | \$ 85,000,000 | \$ 69,574,878 | \$ 62,507,878 | \$ 22,492,122 |
| PPE Access Program | \$ 5,500,000 | \$ 11,697,103 | \$ 3,014,887 | \$ 2,485,113 |
| CDFI Program | \$ 13,557,731 | \$ 13,324,226 | \$ 13,082,226 | \$ 475,505 |
| Sustain and Serve | \$ 6,400,000 | \$ 13,817,721 | \$ 6,133,469 | \$ 266,531 |
| Total | \$346,257,731 | \$318,297,895 | \$291,725,427 | \$34,117,303 |

10. Amount Provided to Other State or Local Entities:

No amounts were provided to other State or Local Entities.

11. Completion Status of Program (e.g. planning phase, application review, post-payment):

**Integrity Monitor Report
Category 3**

The Grant Programs, SSNJ and SBEA Grant Phase 4, are in the Implementation Stage (applications have been closed and the grant funding is in process.)

12. Completion Status of Integrity Monitor Engagement:

To be completed by June 30, 2021.

B. Monitoring Activities

13. If FEMA funded, brief description of the status of the project worksheet and its support:

a) IM Response

N/A. The Grant Programs are not FEMA funded.

b) Recovery Program Participant Comments

[Type Here]

14. Description of the services provided to the Recovery Program Participant during the quarter (i.e. activities conducted, such as meetings, document review, staff training, etc.):

a) IM Response

K2 performed the following tasks as part of its quarterly monitoring activities:

1. Commenced work on April 30, 2021, with an introduction meeting for the SSNJ program. In attendance were, Raymond Dookhie and Yashvi Roy of K2, and Christine Baker, Dima Dajani, Tara Colton, and Emily Apple of NJEDA.
2. Issued an information request and finalized a detailed workplan for discussion with NJEDA.
3. Conducted interviews with key NJEDA personnel to obtain an understanding of NJEDA's grants. Specifically, interviewed Richard LoCascio and Dawn Boszak from the Finance team, Bruce Ciallella from the Grants Operations team, Tara Colton, Emily Apple, and Maciek Bury regarding the SSNJ program. Additionally, there were

**Integrity Monitor Report
Category 3**

ongoing discussions and updates with Christine Baker throughout the quarterly review.

4. Reviewed relevant grant program documentation including, but not limited to, grant agreements, MOUs, policies and procedures, and board memorandums outlining program eligibility.
5. Selected transactions for testing/monitoring activities (Refer to Section 19 below for areas selected for testing) for SBEA Grant Phase 4 and SSNJ programs. For each of the programs, K2 prepared a detailed testing sheet, including the relevant control attributes subject to testing.
6. Reviewed the most recent grant report and related transaction details and performed completeness check against source data evidencing grant disbursements. From the transaction details for each program, K2 selected a risk-based sample of transactions for testing (i.e., based on the value, transaction description, or other fraud risk factors such as potential duplicate names, addresses, and EIN numbers.)
7. Conducted transaction testing through inquiry, observation, re-performance, and review of documentation supporting grant awards, expenditures, procurement, and financial reporting and assessed whether there were any potential exceptions.
8. Conducted follow-up interviews with NJEDA personnel to understand where there were explanations for any exceptions.

b) Recovery Program Participant Comments

[Type Here]

15. Description to confirm appropriate data/information has been provided by the Recovery Program Participant and description of activities taken to review the project/program:

a) IM Response

The IOM was provided with adequate information to conduct its analysis. This included information from NJEDA's financial reporting systems as well as information obtained by NJEDA from third-party sources to validate information provided by the Grant recipients (ex. Data from DOL, Department of Taxation information.) NJEDA required all applicants to self-certify that the information being provided is accurate.

**Integrity Monitor Report
Category 3**

K2 reviewed the third-party validation and certifications as part of the transaction testing. Please see sections 18 and 19 below to review the specific activities completed in conjunction with the testing of the Grant Programs.

b) Recovery Program Participant Comments

[Type Here]

16. Description of quarterly auditing activities conducted to ensure procurement compliance with terms and conditions of contracts and agreements:

a) IM Response

NJEDA did not procure any new contracts as part of the SBEA Grant Phase 4 and SSNJ programs. Thus, K2 did not conduct any testing around procurement during this quarter.

b) Recovery Program Participant Comments

[Type Here]

17. If payment documentation in connection with the contract/program has been reviewed, provide description.

a) IM Response

K2 reviewed documentation supporting the expenditure of grant funds for administrative expenditures as well as documentation supporting grant applications, and related funding. This included, but was not limited to, grant applications, grant payment, payroll reports, vendor invoices and agreements.

Please see sections 18 and 19 below to review the specific activities completed in conjunction with the testing of the Grant Programs.

b) Recovery Program Participant Comments

[Type Here]

Integrity Monitor Report
Category 3

18. Description of quarterly activity to prevent and detect waste, fraud, and/or abuse:

a) IM Response

K2 reviewed the Grant Programs and performed risk-based transaction testing to identify potential program compliance issues, potential fraud, waste, and abuse. K2's testing in conjunction with the Grant Programs are outlined below:

1. For Sustain and Serve NJ Program, K2 selected a risk-based sample of 5 transactions for testing (three approved applications, one denied application, and one rejected application.) In addition, K2 selected a sample of six restaurants for testing the restaurants eligibility. Specifically, the following attributes were tested, verification of the applicant's business registration, validity of tax information and status (no flags), duplicate applicants, duplication of benefits, standing with DOL, submission of the legal questionnaire and political questionnaire, listing of eligible restaurants, and submission of invoices demonstrating purchasing power. For testing of the restaurants, the following attributes were tested, physical location in NJ (i.e., K2 confirmed the physical location through a google maps search), verification of the applicant's business registration, validity of tax information and status (no flags), standing with DOL, standing with Alcohol Beverage Control, validity of the government inspection certificate, invoices, proof of payment, and validity of reimbursements and purchases being in line with the grant guidelines.
2. For the Small Business Emergency Assistance Grant Program Phase 4, K2 selected a risk-based sample of five transactions for testing (four approved applications and one denied application.) Specifically, the following attributes were tested, verification of applicant EIN, validity of tax information and status (no flags), duplicate applicants, duplication of benefits, validity of employee counts, need, registration, standing with DOL, rationale for approval/denial decision, confirmation of award, and disbursement to intended beneficiary.
3. For administrative expenses, K2 made a risk-based selection of three administrative costs (two funded from the SBEA Grant Phase 4 Program and one funded from SSNJ,) for detail testing.

**Integrity Monitor Report
Category 3**

Specifically, K2 tested whether costs were supported, approved, and allowable.

4. For the NJEDA personnel time expenses, K2 selected a risk-based sample of five individuals for detail testing. Specifically, the following attributes were reviewed, validation of hours billed to each program, supporting time details for hours charged to each program, and reasonableness of time charged to each program.
5. With respect to financial reporting, K2 completed the following testing:
 - i. The beginning balances of the funding source accounts set up by NJEDA agree to the amounts allocated by Treasury.
 - ii. Verify the disbursements of the funds are tracked against the appropriate funding source accounts.
 - iii. Verify NJEDA's CRF weekly reports agree to NJEDA's funding source accounts, disbursement reports, and listing of administrative expenses.

b) Recovery Program Participant Comments

[Type Here]

19. Details of any integrity issues/findings, including findings of waste, fraud, and/or abuse:

a) IM Response

Based on the procedures performed, as outlined in section 18 above, K2 has made the following observations.

1. With respect to the SSNJ Program, K2 identified two instances where records were not updated in a timely manner. Specifically, certain information regarding restaurant eligibility was not updated in CRM.
 - i. A reimbursement of \$5,000 was made to an applicant for a potential "ineligible" restaurant. According to the findings documented by NJEDA during the restaurant review process, the restaurant was not cleared by the Division of Taxation, as they did not provide the Clearance Certificate. However, the restaurant had the opportunity to provide additional documents during the "Restaurant addition period." The

**Integrity Monitor Report
Category 3**

restaurant provided the Clearance Certificate and became an eligible restaurant on April 16, 2021. CRM was not updated with this additional information.

- ii. A reimbursement of \$22,490 was made to an applicant for a potential “ineligible” restaurant. According to the findings documented by NJEDA during the restaurant review process, NJEDA could not verify if the employer is active based on the information received by DOL. In addition, NJEDA could not determine the full-time equivalent employee count from the WR-30 data. However, the restaurant had the opportunity to provide additional documents during the “Restaurant addition period.” The restaurant became eligible on April 26, 2021. CRM was not updated with this additional information.

- 2. No exceptions were identified with respect to SBEA Grant Phase 4.
- 3. With respect to administrative expenses, K2 noted that NJEDA staff are not entering time descriptions to support the hours allocated to administrative costs. NJEDA sends periodic reminders to staff outlining that time billed to the grant programs must include a description of work completed.
- 4. With respect to financial reporting, K2 noted that there is a delay in closing the monthly books and the books have not been reconciled since January 31, 2021. NJEDA is diligently working to rectify this issue. K2 identified certain differences between NJEDA’s weekly CRF report and the disbursement reports:
 - i. For SSNJ Program, the disbursement report, as of June 8, 2021, was \$36,671 lower than the CRF weekly report dated June 11, 2021.
 - ii. For the SBEA Grant Phase 4, the disbursement report, as of June 11, 2021, is \$6.6M higher than the CRF weekly report dated June 11, 2021.

b) Recovery Program Participant Comments

- [1. CRM records have been updated.
- 2. No response required.

**Integrity Monitor Report
Category 3**

3. As noted, the NJEDA sends periodic reminders to staff outlining that time billed to the grant programs must include a description of work completed. Additionally, the NJEDA's internal auditor is now spot-checking employee timesheets on a bi-weekly basis.

4. The NJEDA books are now closed through January 31, 2021. Although the G/L for subsequent periods has not been closed, all sub-ledgers (i.e., cash control book, check register, cash receipts (loan and non-loan)) are all up to date. Accounting reconciles important areas like bank accounts (cash and investments), cash receipts, cash disbursements, loan receipts, disbursements, etc. on a running basis. Differences between the disbursement report and the Weekly CRF report are attributable to timing.]

20. Details of any other items of note that have occurred in the past quarter:

a) IM Response

In the December 30, 2020, IOM report, K2 noted the following issues/findings:

1. With respect to the SBEA Grants, K2 identified a duplication of benefit in the amount of \$5,000 to an applicant with the same EIN. According to NJEDA, the error was identified during Phase 2 after program controls were enhanced to include automated review of duplicate EINs. NJEDA contacted the applicant in April 2020 explaining the duplication of benefits and requested a return of funds.
2. NJEDA acknowledged that there was a delay in closing the monthly books and that the books have not been reconciled since June 30, 2020. NJEDA is transitioning from a Loan Management System to CRM EnAble, which has caused the delay. NJEDA is currently working to rectify this issue.
3. K2 suggested that NJEDA that recipient provide information supporting the use of funds (e.g., payroll reports, cancelled checks, vendor invoices). In addition, NJEDA should monitor the recipients' use of funds to assess compliance with the grant agreements.
4. K2 suggested that in addition to requiring NJEDA personnel to allocate time worked on each program, NJEDA should require individuals to enter time descriptions supporting the hours allocated to administrative costs.

**Integrity Monitor Report
Category 3**

5. There were three instances where the hours billed exceeded the hours reported on NJEDA personnel timesheet.

b) Recovery Program Participant Comments

[The NJEDA took appropriate corrective actions as detailed below in #21(a).]

21. Details of any actions taken to remediate waste, fraud, and/or abuse noted in past quarters:

a) IM Response

NJEDA's corrective actions in regard to the issues noted in the December 30, 2020 IOM report, and outlined in 20 above are as follows:

1. NJEDA recouped the duplicate benefits of \$5,000 from the grantee on March 2, 2021. K2 reviewed the cancelled check.
2. NJEDA has closed their books through December 31, 2020 and is currently undergoing the 2020 independent financial audit. Additionally, NJEDA is in the process of closing their monthly books for 2021. However, as mentioned in 19 above, NJEDA is still behind in the monthly closing process but is diligently working to rectify the issue.
3. With respect to validation of Applicant's use of funds for intended purposes, NJEDA has not commenced its post-approval compliance reviews. According to NJEDA Management, during the grant application process, applicants were not required to submit receipts demonstrating how they use the funds as the program specifications required grant funding to be used for reimbursement of lost revenue. However, NJEDA Management intends to sample grant recipients and test compliance and will obtain documentation demonstrating use of funds, review Taxation data to validate a year-over-year revenue, utilize DOLWD data to ensure employment levels returned to pre-pandemic levels or ask for the business's plan to get back to pre-pandemic levels, sample and verify representations made by approved applicants, and verify duplication of benefits utilizing various methods, including cross-

Integrity Monitor Report Category 3

checking data posted by other State entities in the SharePoint Information Sharing page.

4. With respect to staff time descriptions, NJEDA sends periodic reminders to staff with instructions on how to use the timekeeping system. The recent reminders have outlined that time billed to the grant programs must include a description of work completed. In addition, NJEDA's internal auditor spot-checks timesheets bi-weekly for compliance. However, as mentioned in #19 above, the timesheets reviewed during this quarter did not include time descriptions.
5. NJEDA has modified permissions in the time keeping system to verify staff cannot bill more than 7 hours per day/35 hours per week. However, K2 noted one instance where an NJEDA employee billed more than 7 hours for SBEA Grant Phase 3. K2 communicated this issue to NJEDA.

b) Recovery Program Participant Comments

[1. No response required.

2. The NJEDA books are now closed through January 31, 2021. Although the G/L for subsequent periods has not been closed, all sub-ledgers (i.e., cash control book, check register, cash receipts (loan and non-loan)) are all up to date. Accounting reconciles important areas like bank accounts (cash and investments), cash receipts, cash disbursements, loan receipts, disbursements, etc. on a running basis. Differences between the disbursement report and the Weekly CRF report are attributable to timing.

3. No response required.

4. As noted, the NJEDA's internal auditor now spot-checks employee timesheets on a bi-weekly basis.

5. The NJEDA's IT department will test the timekeeping application to make sure the control is functioning properly.]

C. Miscellaneous

**Integrity Monitor Report
Category 3**

22. List of hours (by employee) and expenses incurred to perform quarterly integrity monitoring review:

a) IM Response

| Professionals | Hours/Fees |
|-------------------------|-------------------|
| Raymond Dookhie | 7 |
| Yashvi Roy | 49.75 |
| Aomi Wilson | 47.5 |
| Total Hours | 104.25 |
| Total Professional Fees | \$25,965 |

b) Recovery Program Participant Comments

[Type Here]

23. Add any item, issue, or comment not covered in previous sections but deemed pertinent to monitoring program:

a) IM Response

[Type Here]

b) Recovery Program Participant Comments

[Type Here]

Name of Integrity Monitor: K2 Integrity
Name of Report Preparer: Raymond Dookhie
Signature: Raymond Dookhie
Date: 06/30/2021