



Issue Date: September 6, 2006
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Audit Report Number: 2006-AT-1019
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TO: Jose R. Rivera, Director, Community Planning and Development, San Juan Field Office, 4ND  
*James D. McKay*

FROM: James D. McKay  
Regional Inspector General for Audit, 4AGA

SUBJECT: The Municipality of Toa Baja, Puerto Rico, Did Not Administer Its Section 108 Loan Guarantee Assistance Program in Accordance with HUD Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Municipality of Toa Baja's (Municipality) Section 108 Loan Guarantee Assistance (Loan Guarantee) program. We selected the Municipality for review because the U.S. Department of Housing and Urban Development (HUD) classified it as a high-risk recipient in the 2005 and 2006 annual assessments. The objective of the audit was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Loan Guarantee program.

### **What We Found**

The Municipality did not manage two Loan Guarantee program activities in an economical, efficient, and effective manner. It paid more than \$4.8 million for two activities in which the intended benefits and compliance with Community Development Block Grant (Block Grant) national objectives were not met and paid \$70,369 for unreasonable/unnecessary expenditures.

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Further, the Municipality did not maintain adequate records to demonstrate that it complied with environmental review procedures associated with the construction of the Toa Baja public library. As a result, HUD has no assurance that requirements were met or whether potential findings or concerns were properly addressed.

### **What We Recommend**

We recommend that the director of the San Juan Office of Community Planning and Development require the Municipality to develop and implement a corrective action plan to eliminate safety hazards and ensure that the public library meets a national objective or repay \$3.8 million used for its construction. The director should also require the Municipality to provide all supporting documentation showing that it obtained HUD approval to change the purpose and scope of the Candelaria multipurpose center or repay \$1 million used for its construction. We also recommend that the director require the Municipality to repay \$70,369 in unreasonable/unnecessary cost for repairs at the public library. In addition, we recommend that the director require the Municipality to develop and implement an internal control plan to ensure that the Loan Guarantee program has (1) procedures that ensure funded activities provide the intended benefits to the community and meet at least one of the Block Grant national objectives and (2) environmental review procedures that ensure funded activities are properly assessed and supported.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We discussed the findings with the Municipality during the audit and at the exit conference on August 18, 2006. The Municipality provided its written comments to our draft report on August 24, 2006. In its response, the Municipality generally agreed with finding 1, but it disagreed with finding 2.

The complete text of the Municipality's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Municipality of Toa Baja (Municipality) is an entitlement recipient administering more than \$10.7 million in Community Development Block Grant (Block Grant) funds approved by the U.S. Department of Housing and Urban Development (HUD) during the past four years. HUD's Integrated Disbursement and Information System reflected Block Grant expenditures exceeding \$4 million during fiscal years 2004 and 2005. In 1995, HUD approved \$9.55 million in Section 108 Loan Guarantee Assistance (Loan Guarantee) funds for the following activities:

<b>Loan Guarantee activity</b>	<b>Amount</b>	<b>Program objective</b>
Rehabilitation of recreational facilities at various sites	\$4,350,000	Low- and moderate-income persons
Construction and reconstruction of streets, sidewalks, drainage, etc. at various sites	2,000,000	Low- and moderate-income persons
Toa Baja public library	1,700,000 <sup>1</sup>	Low- and moderate-income persons
Candelaria community service center	1,000,000	Low- and moderate-income persons
Museum	500,000	Low- and moderate-income persons
Total	\$9,550,000	

The Municipality's housing department was responsible for administering the Loan Guarantee program. The Municipality's books and records for the Loan Guarantee and Block Grant programs are maintained at Road #867, Sábana Seca Avenue, Toa Baja, Puerto Rico.

We audited the Municipality's Loan Guarantee program as part of the HUD Office of the Inspector General's (OIG) strategic plan. The Municipality was selected for review because HUD classified it as a high-risk recipient in the 2005 and 2006 annual community assessments. The objective of the audit was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Loan Guarantee program.

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<sup>1</sup> The Municipality later increased this amount to more than \$1.8 million. The Library was a multi-year project. The Municipality used \$677,226 from its 1991 Loan Guarantee, and more than \$1.4 million from Block Grant funds. The total amount in HUD funds used for the construction of the library was \$3.9 million as of May 2006.

## RESULTS OF AUDIT

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### Finding 1: The Municipality Mismanaged Loan Guarantee Activities

The Municipality did not manage two Loan Guarantee program activities in an economical, efficient, and effective manner. It paid for activities or services that (a) did not meet national program objectives, (b) did not generate the intended benefits, or (c) were unreasonable/unnecessary. This occurred because the Municipality did not develop and implement adequate procedures to ensure compliance with HUD requirements. As a result, HUD has no assurance that funds were used solely for authorized purposes and that program objectives were met. The Municipality paid more than \$4.8 million for two activities in which the intended benefits were not provided and Block Grant national objectives were not met and paid \$70,369 for unreasonable/unnecessary expenditures.

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#### National Objectives Not Met

For the Toa Baja public library activity, the Municipality did not take adequate steps to ensure that it met at least one of the three Block Grant national objectives required by 24 CFR [*Code of Federal Regulations*] 570.200(a)(2). About 13 years have elapsed since construction started, but the library is not open to the public. Further, the steel structure above the library has significantly deteriorated, making the public facility unsafe. This occurred because the Municipality did not have adequate controls to ensure that program objectives were met. As a result, the community of Toa Baja has not received the intended benefits described in the Loan Guarantee application.

HUD approved the Municipality's application to use \$1.7 million in 1994 Loan Guarantee funds to construct the Toa Baja public library.<sup>2</sup> According to the application, public and private school students would use the library, and the activity would meet the national objective of benefiting low- and moderate-income persons.

In March 1993, the Municipality initiated the construction of the Toa Baja public library at the base of an existing water tower that was no longer in use. The library, a three-story building with no parking facilities, was constructed within the support structure of the water tower and under the water tank. According to Municipality records, the public library was substantially completed in April 2005.

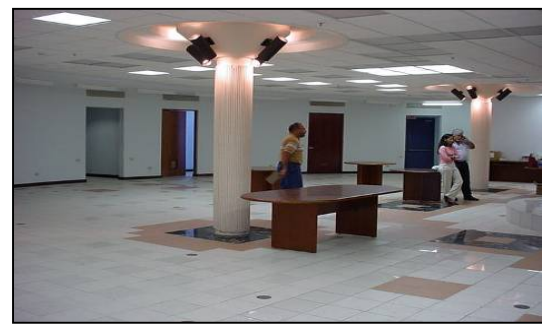
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<sup>2</sup> The Municipality increased this amount to more than \$1.8 million. It also used \$677,226 from the 1991 Loan Guarantee, and more than \$1.4 million from Block Grant funds. The total amount in HUD funds used for the construction of the library was \$3.9 million.

In March 2006, the library was not operational, and it did not contain furnishings or equipment associated with a functioning library. Therefore, the intended benefits and compliance with Block Grant national objectives were not in evidence.



Picture of the front of the public library. The library is beneath the water tower and has no parking facility.



Pictures of the interior of the library. There were no furnishings associated with a functioning library.

The steel structure above the library had significantly deteriorated due to neglect. There was an advanced stage of deterioration associated with corrosion to the steel frame and water tank. A significant amount of steel debris had fallen to the ground and onto the library roof.

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We requested the assistance of a licensed engineer from the San Juan Office of Public Housing to advise us on the condition of the water tower and potential safety issues. HUD's engineer concluded that the deterioration of the steel structure and water tank has made the public facility unsafe and recommended that it not to be used until the steel structure is rehabilitated or removed.

The local community also had concerns regarding the slow progress of the public library and the potential hazard of the water tower. In April 2004, HUD referred two citizens' complaints to the Municipality and urged officials to promptly resolve the issues. The Municipality was not diligent in taking corrective measures. Two years after HUD referred the complaints, the library was not open to the public, and the hazardous conditions still existed.

A Municipality official informed us that the poor condition of the water tower was the principal reason for not opening the library. Although the library was not open to the public, the Municipality used the facility for meetings, lectures, and training sessions. The Municipality is currently providing computer workshops for elementary school students at this facility. The Municipality did not provide us with an occupancy permit for the public library. Its planning director informed us that he believes an occupancy permit was obtained, but it was lost or misplaced. We were informed that a new occupancy permit was requested from local authorities.

### **Activity Amended without HUD Approval**

For the Candelaria multipurpose center activity, the Municipality did not take adequate steps to ensure that citizens received the intended benefits for which HUD funds were approved. More than five years have elapsed since completion of the facility, but the daycare and emergency health facilities have not been established at the site as proposed in the Municipality's 1994 Loan Guarantee application. This occurred because the Municipality has not developed and implemented adequate procedures to ensure compliance with HUD requirements. As a result, HUD has no assurance that funds are solely used for authorized purposes and that program objectives are met.

In August 1995, HUD approved the Municipality's application to use \$1 million in 1994 Loan Guarantee funds to construct the Candelaria multipurpose center.<sup>3</sup> According to the application, the center would accommodate a daycare center and an emergency health facility. The Municipality characterized this activity as an urgent project and suitable for senior citizens who did not have a means of transportation. According to Municipality records, the center was substantially completed in December 2000.

In May 2006, the center housed a municipal police station and a room for activities/gatherings of the local community.<sup>4</sup> The daycare and emergency health facilities had never operated at the site. Therefore, the Municipality substantially changed the purpose and scope of the Candelaria multipurpose center, and the intended benefits were not provided.

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<sup>3</sup> The Municipality increased the budget amount to \$1,046,281.

<sup>4</sup> A police official informed us that the police station has been at the Candelaria center for about three years.





Picture of front of the police station.



Gathering room used by the community.

HUD’s regulations (24 CFR [Code of Federal Regulations] 570.704(c)(5)) provide that if the public entity wishes to carry out an activity not previously described in its application or to substantially change the purpose, scope, location, or beneficiaries of an activity, HUD must approve the amendment. The Municipality did not provide us with an explanation of why the scope of the project was changed or whether it obtained HUD approval. HUD officials informed us that the Municipality did not request approval to amend this activity.

The structure was significantly deteriorated due to structural defects and poor workmanship. One of the three main rooms in the structure is currently unusable because of serious water leaks. During our site visit, we found inoperable bathrooms, missing or damaged ceiling panels, mold, and water accumulated on the floor (inside the building).



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The Municipality informed us that the water leak problems have existed since the completion of the center in December 2000. The rest of the structure, used by the municipal police and the community, also suffers from water leakage and mold. Although the Municipality is aware of the structural deficiencies, it has not taken proper actions to address the problem.

### Unnecessary Expenditures

The Municipality charged the Block Grant program \$70,369 for unnecessary or unreasonable expenditures associated with the repair of construction work that was completed, paid for, and later vandalized. This occurred because the Municipality did not have adequate controls to properly safeguard HUD-funded assets. As a result, HUD funds were used to pay for duplicate costs associated with previous construction phases of the public library.

On April 21, 2004, the Municipality awarded a \$499,000 contract to a private entity to complete the fourth and final phase of the construction of the Toa Baja public library. Municipality records showed that the scope of the construction work included the repair of items that were completed as of March 2001 and later vandalized. This included the replacement of doors, light fixtures, fire detection equipment, acoustic ceiling, and other items. We estimate that the cost associated with this repair work was at least \$70,369.

According to Municipality records, the third phase of construction of the library was finished in March 2001, and the fourth phase began in April 2004. This reflects a gap of about three years between the two construction phases. During this period, the construction site was abandoned, and the project became prey to vandalism. The Municipality was aware that the repairs to correct the vandalism could not be charged to HUD programs. During a prebid meeting, the Municipality's consultant explained that a separate quote was requested (vandalized items) because repairs were not part of the scope of the project, and

the Municipality would have to fund it with other sources (nonfederal). The Municipality did not explain why the repairs were charged to the Block Grant program. Therefore, the \$70,369 is considered an unreasonable/unnecessary program expenditure.

## Conclusion

The Municipality did not manage Loan Guarantee-funded activities in an economical, efficient, and effective manner. It paid more than \$4.8 million for two activities in which the intended benefits were not provided and Block Grant national objectives were not met. This occurred because the Municipality had inadequate management controls.

## Recommendations

We recommend that the director of the San Juan Office of Community Planning and Development

- 1A. Require the Municipality to develop and implement a corrective action plan to eliminate the safety hazards and ensure that the public library meets a national objective or reimburse the Block Grant program from nonfederal funds more than \$3.8 million used for its construction.
- 1B. Require the Municipality to provide all supporting documentation evidencing that it complied with HUD requirements when it changed the purpose and scope of the Candelaria multipurpose center or reimburse the Block Grant program from nonfederal funds more than \$1 million used for its construction.
- 1C. Require the Municipality to reimburse the Block Grant program from nonfederal funds the \$70,369 paid for unreasonable/unnecessary library repair expenditures.
- 1D. Take appropriate monitoring measures and require the Municipality to establish and implement policies and procedures to ensure that activities meet a Block Grant national objective and are used for the approved purposes.

## Finding 2: The Municipality Did Not Demonstrate Compliance with Environmental Review Procedures

The Municipality did not maintain adequate records to demonstrate that it complied with environmental review procedures associated with the construction of the Toa Baja public library. This occurred because the Municipality had inadequate management controls. As a result, HUD has no assurance that requirements were met or whether potential findings/concerns were properly addressed.

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### Inadequate Environmental Documents

The Municipality did not take adequate steps to ensure that it followed environmental review procedures required by 24 CFR [*Code of Federal Regulations*] Part 58. The regulations provide that recipients must fully document environmental reviews and assessment reevaluations, written determinations, or environmental findings associated to all stages of a particular project or activity.

On September 21, 1992, the Municipality submitted an environmental assessment on the construction of the Toa Baja public library. According to the assessment, the preliminary cost for the project was \$350,000, funded with its 1991 Loan Guarantee. Municipality records showed that the construction of the library included three additional stages, funded with Block Grant and 1994 Loan Guarantee funds totaling more than \$3.9 million. However, the files did not contain adequate support that the three additional stages were properly assessed or reevaluated.

Program regulations require recipients to reevaluate their environmental assessments when there are substantial changes in the nature, magnitude, or extent of the project. HUD's environmental specialist informed us that the Municipality was required to reevaluate its 1992 environmental assessment of the library as the magnitude and extent of the project increased. Had the Municipality properly completed the reevaluations as required, the lack of parking facilities at the site could have been properly addressed.<sup>5</sup> Although a Municipality official stated that environment assessment reevaluations were performed, we did not find adequate support in the files.

As a result, HUD has no assurance that the Municipality complied with applicable environmental requirements or whether potential findings and concerns were

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<sup>5</sup> No parking facilities were constructed at the site, and there were no other alternate facilities (private or public) within its vicinity.

properly addressed. The file deficiencies demonstrate that the Municipality lacked adequate management controls.

## **Recommendations**

We recommend that the director of the San Juan Office of Community Planning and Development

- 2A. Require the Municipality to provide all supporting documentation showing that it complied with environmental review procedures, including assessment reevaluations, associated with the construction of the Toa Baja public library.
- 2B. Take appropriate monitoring measures and require the Municipality to establish and implement policies and procedures to ensure that activities meet environmental review procedures.

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## SCOPE AND METHODOLOGY

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The audit objective was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Loan Guarantee program. The compliance requirements included the expenditure of HUD funds for eligible, necessary, and reasonable project costs; compliance with national objectives; and compliance with environmental review procedures. To accomplish our objectives, we

- Obtained and reviewed relevant HUD regulations and Municipality guidelines;
- Interviewed HUD and Municipality officials;
- Reviewed monitoring and independent accountant reports;
- Reviewed the Municipality's files and records, including financial statements and general ledgers;
- Performed site inspections of Loan Guarantee activities; and
- Reviewed the Municipality's controls related to the administration of its Loan Guarantee program.

The Municipality's check register reflected \$9.4 million in Loan Guarantee disbursements between November 8, 1996, and April 19, 2006. We selected disbursements from the Municipality's check register with a value greater than \$30,000, resulting in a sample of six disbursements totaling \$454,170.<sup>6</sup> The expenditures and related supporting documents were reviewed to determine whether the payments met Loan Guarantee requirements, including reasonableness of the costs. Our review also included the examination of environmental review procedures associated with the construction of the Toa Baja public library.

In addition, we visited a sample of five activities funded with Loan Guarantee funds to determine whether the intended benefits and compliance with the Block Grant national objectives were met. The selected activities had \$5.1 million in expenditures, representing about 53 percent of the \$9.55 million approved for its 1994 Loan Guarantee.

To achieve our audit objectives, we did not rely on computer-processed data contained in the Municipality's database. Alternate testing methods were used to verify the accuracy of the questioned expenditures. The results of the audit apply only to the items selected and cannot be projected to the universe.

The audit generally covered the period July 1, 2004, through January 2006, and we extended the audit period as needed to accomplish our objectives. Due to the nature of some of the deficiencies, we extended the period back to March 1993. Some of the Loan Guarantee activities

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<sup>6</sup> The disbursements reviewed were those incurred after January 1, 2000.



examined were also financed with Block Grant funds; our review also included those funds. We conducted our fieldwork from February through June 2006 at the Municipality's offices in Toa Baja, Puerto Rico. We performed our review in accordance with generally accepted government auditing standards.

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# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Municipality did not manage two Loan Guarantee program activities in an economical, efficient, and effective manner (see finding 1).

- The Municipality did not maintain adequate records to demonstrate that it complied with environmental review procedures associated with the construction of the Toa Baja public library (see finding 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

<u>Recommendation</u>	<u>Unsupported 1/</u>	<u>Unreasonable or unnecessary 2/</u>
1A	\$3,833,456	
1B	1,046,281	
1C		\$70,369
Total	<u>\$4,879,737</u>	<u>\$ 70,369</u>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.


## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



Estado Libre Asociado de Puerto Rico  
**Gobierno Municipal de Toa Baja**  
Oficina del Alcalde

**Anibal Vega Borges**  
Alcalde

August 24, 2006

Mr. James D. McKay  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Region 4 Office of Inspector General  
Office of Audit, Box 42  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 350  
Atlanta, GA, 30303-3388

**Subject: The Municipality of Toa Baja Draft Audit Report  
Section 108 Loan Guarantee Assistance Program**

Dear Mr. McKay:

This is in response to your letter dated August 9, 2006 transmitting subject document and requesting our review and written comments. Following are our comments.

Since I took office on January 2005, I have been in contact with HUD Caribbean Field Office to deal with the multiple findings that previous administrations ignored or did not address properly. Most of these findings and issues had been unresolved for more than 10 years and their correction/resolution required the search and collection of documentation, its proper analysis and identification. This is also the case of the finding included in the Audit report performed by member of your staff. Most of the issues are related to projects of previous administration and files that are older than 15 years. The Municipality of Toa Baja accepts the responsibilities and we work together with HUD Caribbean Field Office to correct the deficiencies found, and took corrective action in all of the findings.

**Response to finding #1**

Toa Baja Public Library

As the report clearly stated the construction of the Public Library took more than 13 years and was not completed until last year. On January 2005, this project was abandoned and

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not ready for use. In order to correct the situation we ordered the immediate rehabilitation that was completed on April 2005. During this work the project engineer informed us that the water tank beneath which the library is located was in need of corrective structural works. The Water Tank required a rehabilitation which consists of the removal and replacement of extensively corroded structural features, and repainting. The project also involves repainting of the public Municipal Library, which is located right underneath the water tank. The undertaking is located in a commercial and public use area, so that the method proposed to clean and remove the existing paint will be the "Sponge-jet" blasting method. This method is 99% dust free thus ongoing business and public processes would not be affected or interrupted.

The Municipality allocated \$546,330 for the rehabilitation work and open to project for public bidding (September 2005) but unfortunately the lowest bid for the project was \$1,234,918(due to this fact the bid board cancelled the project).

On July, 2006 the Safety and Public Order Commission of the Municipal Legislature initiated an investigation of the condition of the water tank to determine if the structure will be rehabilitated or will be demolished. As of today we are awaiting the final determination of the Municipal Legislature investigation to undertake the proposed actions and recommendation of the body. We understand that the investigation of the legislature and the final resolution of this case (rehabilitation or demolition) will be completed by December 2007 (copy of the working documents of the Municipal Legislature are included in appendix 1).

Regarding the use of the library the Municipality requested and obtained conditional permit use from the State Administration of Regulation and Permits on august 2005. The permit was conditioned to the endorsement of the Fire and Health Departments. As of today those state agencies have not granted the endorsement. (Copy of the permit is included in appendix 2)

Taking into consideration the conditional permit the administration inaugurated the library on August 2005. Since its inauguration, the Municipality is providing services to the low income persons of the Municipality. The following services are provided at the facility:

#### **Extended Hour Program**

A new after-school tutoring program staffed by teachers and funded with federal and state money is designed to provide the academic help necessary to assure Toa Baja Public Schools' students meet achievement goals.

The Extended-Learning Program serves 3 elementary schools of the Municipality. Students attend the programs for two hours after classes end on Mondays through Thursdays, receiving instruction from 12 certified teachers trained in reading and math programs designed to reinforce



standard-based classroom lessons. Bus transportation to the home is provided for some locations. All of the schools using the program were identified under the federal "No Child Left Behind Act (NCLB)" as being in the School Improvement category, which means that the students' academic progress is inadequate. The following schools are participating in the program:

- José Neváres López
- Francisca Dávila Sempritt
- Ernestina Bracero

Approximately 180 students per day receive the tutoring services. A total of 10,800 services have been provided at the library.

To increase the service at the public library a proposal to the Puerto Rico Education Department is being prepared. In the proposal the municipality will request funds to acquire books and equipment that will improve the provision of services.

#### **Community Orientation Program**

To serve the needs of the community, the Public Library is used for the Community orientation program. Under this program the following workshops has been offered to adults and children of the Municipality:

Autism for Teachers and Parents- The purpose of this workshop is to prepare parents and teacher to deal with the problems of autism in education. The workshop was attended by 120 persons.

Introduction to Coop movement for students- The purpose of this workshop is to introduce students to the Cooperative movement and the advantages of this economic model. The workshop was attended by 300 students.

Cultural Workshop- During the last week of November 2005 the Toa Baja Department of Education, Culture and Tourism organized a music workshop for elementary school students. The workshop was attended by more than 100 students that participated actively and were introduced to musical movements in Latin America.

In addition to these workshops, the public meeting rooms are available for public use.

We disagree with the determination that we are not in compliance with the national objective of benefiting low and moderate income persons. Although in a limited way the facility is being used by low and moderate income persons and is available to all

residents of Toa Baja (citywide) thus we understand that we are in compliance with the national objective of the CDBG program.

**Regarding recommendation 1A** –As soon we receive the recommendations of the Municipal Legislature we will present a corrective plan to eliminate the safety hazards of the structure.

**Regarding recommendation 1C-** The municipality is interested in pursuing the resolution of the findings by exchanging the cost (to be covered with local funds) of rehabilitation or demolition of the tank in lieu of the sanction of recommendation 1C. It is expected that the cost of demolition or rehabilitation will exceed \$1,000,000 thus the amount will be sufficient to cover the costs of the sanction. If accepted we will present a work plan to undertake the corrective actions.

**Regarding recommendation 1D-** By November 2006, we will present monitoring procedures to ensure that activities meet national objectives and are used for the approved purposes.

#### **Candelaria Multipurpose Center**

We agree with the OIG determination that the Candelaria Multipurpose Center use was changed without following the required procedure. In order to comply with this requirement we will follow the established procedure in our citizen participation plan and the corrective action will be completed by October 31, 2006.

Regarding the condition of the structure during July 2006, we completed a rehabilitation of the structure. Enclosed you will find the photos (appendix 3) of the structure demonstrating the action taken to correct the deficiencies identified in the report (water leaks, inoperable bathrooms, missing or damaged ceiling panels, mold, and accumulation of water over the floor).

**Regarding recommendation 1B-** We will submit all supporting documentation evidencing compliance with change of use requirements by October 31, 2006.

#### **Response to finding #2**

Enclosed you will find evidence of the ERR record of the project for your review and record (appendix 4). Specifically the record includes the following documents:

- Certification from Víctor Soto Santiago, Mayor, dated April 15, 2004 stating that the project was a continuation of the existing projects.
- Notice of removal of grant conditions, dated April 21, 1994- demonstrating that the ERR was presented and approved by HUD field Office.

## **Comment 1**

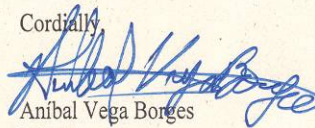


- Certification from Víctor Soto Santiago, Mayor, dated August 8, 2000 stating that the project was a continuation of the existing projects and that no significant changes in the environmental conditions require the preparation of a new ERR.
- Authority to use grant funds dated December 15, 2000. Demonstrating that the approval of HUD to use the funds for the continuation of the project.

We understand that we are in compliance with the environmental regulation and we request the clearance of this finding.

Before ending, I will like to extend my appreciation and thanks to all members of your staff that worked in the audit, for the cooperation, guidance and support provided to the staff of the Municipality of Toa Baja, in addressing the correction of the findings in this report, which we are sure will result in a significant improvement in our operation of the CDBG Program.

Cordially,



Anibal Vega Borges  
Mayor

**Enclosures**

## IG Evaluation of Auditee Comments

**Comment 1** The Municipality claims that it is in compliance with environmental requirements, and requests the clearance of the finding. However, the certifications and funding release authorizations provided did not demonstrate that assessment reevaluations were performed. HUD's environmental specialist informed us that the Municipality was required to reevaluate its 1992 environmental assessment of the library as the magnitude and extent of the project increased. Although a Municipality official stated that environment assessment reevaluations were performed, we did not find adequate support in the files.

HUD regulations provide that recipients must fully document environmental reviews and assessment reevaluations, written determinations, or environmental findings associated to all stages of a particular project or activity. The documentation provided was not sufficient to demonstrate that it complied with environmental review procedures, including assessment reevaluations, associated with the construction of the Toa Baja public library.

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## Appendix C

### CRITERIA

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#### **Federal Regulations at 24 [*Code of Federal Regulations*] 58.38(a)**

The environmental review record shall contain all the environmental review documents, public notices, and written determinations or environmental findings required as evidence of review, decision making, and actions pertaining to a particular project.

#### **Federal Regulations at 24 [*Code of Federal Regulations*] 58.47(a)**

The entity must reevaluate its environmental findings when the entity proposes substantial changes in the nature, magnitude, or extent of the project.

#### **Federal Regulations at 24 [*Code of Federal Regulations*] 570.200(a)(2)**

Each recipient under the Entitlement and HUD-administered Small Cities programs must ensure and maintain evidence that each of its activities assisted with Block Grant funds meets one of the three national objectives as contained in its certification.

#### **Federal Regulations at 24 [*Code of Federal Regulations*] 570.704(c)(5)**

If the public entity wishes to carry out an activity not previously described in its application or to substantially change the purpose, scope, location, or beneficiaries of an activity, HUD must approve the amendment. The public entity shall follow the citizen participation requirements for amendments in section 570.704(a)(2).

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