



U.S. Department of Housing and Urban Development

District Office of the Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 700
Atlanta, GA 30303-3388
(404) 331-3369

May 16, 1996

Audit Related Memorandum
No. 96-AT-241-1817

MEMORANDUM FOR: Carmen R. Cabrera, Director, Community Planning and
Development Division, Caribbean Office, 4ND

FROM: Kathryn Kuhl-Inclan
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: State Block Grant Program - Commonwealth of Puerto Rico
Office of the Commissioner of Municipal Affairs
Hato Rey, Puerto Rico

We completed a limited review concerning the distribution of selected FY 1993 State Block Grant Program (SBGP) funds by the Office of the Commissioner of Municipal Affairs (OCMA) of the Commonwealth of Puerto Rico. The objective of the review was to determine OCMA's compliance with the Housing and Community Development Act and the State Block Grant Program regulations.

We interviewed HUD and OCMA officials and reviewed documentation at those offices concerning the distribution of SBGP funds allocated during FY 1993. We also reviewed subsequent Fiscal Year distributions as needed.

Our emphasis was on the methods and practices of distribution of the Governor's Discretionary Fund. Our review was not an audit of State activities and our observations are related to the limited emphasis and scope. While conducting the review, we noted indications of deficiencies that appear to warrant additional attention by both HUD and OCMA staff. We did not develop the deficiencies as we normally would to meet reporting standards for generally accepted government auditing standards.

SUMMARY

OCMA generally followed the method of distribution described in the Final Statement. However, we noted five projects in which OCMA did not properly document and justify its funding

decisions.

Within 60 days, please give us, for each recommendation in Attachment 1 a status report on (1) the corrective actions taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued as a result of this review.

We provided a copy of this report to the auditee.

We appreciate your cooperation during the audit. Should you have any questions, please contact me or James D. McKay, Assistant District Inspector General for Audit, at (404) 331-3369 or Aurora Rodriguez, Senior Auditor, at (809) 766-5879.

Finding 1 Inadequate Documentation to Support Distribution of 1993 Governor's Discretionary Funds

OCMA did not properly document some of its funding decisions.

Special Fund/Solid Waste Activities

The original Final Statement submitted to HUD on May 28, 1993 provided for the establishment of a special fund of \$15 million for solid waste disposal activities. The State was to distribute the fund based on recommendations from the Solid Waste Authority of Puerto Rico to assure the municipalities' compliance with Subtitle D of the Resource Conservation and Recovery Act of EPA. To comply with the Act, certain municipalities were required to close their landfill sites while others had to rehabilitate theirs. The determination as to which ones were to be closed or rehabilitated was to be made by the Solid Waste Authority of Puerto Rico.

On June 11 and July 20, 1993 the Final Statement was revised. The revisions identified the specific landfills that either must close or be rehabilitated on or before October 9, 1993 to conform with Federal requirements. The funds set aside for these activities were to be distributed based on the specific need of each affected municipality.

OCMA notified the municipalities on April 27, 1993 (prior to issuance of the Final Statement on May 28), the amount of funds assigned for solid waste related activities. OCMA could not provide documentation evidencing (1) eligibility of selected landfill sites for funding under the 1993 program, and (2) the reasonableness of the distribution of funds for each municipality.

Although OCMA could not provide details on the basis used to distribute the \$15 million, interviews of representatives of selected municipalities, disclosed that, in general, the funds assigned for waste disposal activities were adequate. None of the municipalities were fined for noncompliance with the Environmental Protection Agency requirements, as it pertains to the operations of landfill sites.

Competitive Discretionary Fund

Part II.D of the 1993 Final Statement describes the method of distribution to be used for the SBGP Discretionary Fund. This part provided that the 64 non-entitlement municipalities could compete based on 9 competitive factors for up to \$1 million. According to the Final Statement the proposals submitted were subject to a preliminary review by OCMA to determine eligibility and compliance with program requirements. The preliminary review also included an assessment of the project in reference to 9 competitive factors. Upon completion of the preliminary evaluation process, the proposals were to be evaluated by a special committee, appointed by the Governor, for the review of the technical aspects. (The Final Statement did not specify the technical aspects to be reviewed by the Special Committee.) Funds were to be assigned to best rated grants, until the \$20,858,720 of available funds were exhausted.

We reviewed OCMA's process used in rating 43 projects and found that OCMA generally complied with the method of distribution described in the Final Statement. However, we noted instances in which OCMA did not adequately document its reasons for not funding some activities or funding less than the amount requested. As a result, some applications may not have been properly considered or may have been improperly reduced. The projects were:

<u>Project Name</u>	<u>Municipality</u>	<u>Amount</u>
Reconstruction of Basketball Court	Peñuelas	\$ 250,000
Reconstruction of curbs and sidewalks	Coamo	300,000
Construction of a Cemetery	Guayama	224,762
Construction of Athletic field	Guayama	380,128
Acquisition of Vacant Lot	Cabo Rojo	<u>415,000</u>
Total		\$ 1,569,890

PEÑUELAS - Reconstruction of a Basketball Court

OCMA considered the project as maintenance of public facilities and therefore, ineligible for funding. However, the project application described the installation of new seats, the constructions of dugouts, etc. The files did not document why OCMA considered the application as maintenance of public facilities.

COAMO - Reconstruction of Curbs and Sidewalks

This project was not funded. OCMA reviewed and evaluated the project application and assigned 40 points (we noted a mathematical error and the total should have been 44 points) to the project. OCMA claimed that the activity was not funded because of its low rating and because the proposal indicated that the project was near completion at a cost of \$474,199.20. The municipality had been awarded \$526,057 from 1990-1992 SBGP funds for this activity and the municipality requested \$300,000 of additional funds to complete the activity.

Our review disclosed that the project could have received about 20 more points for a total rating of 64 points. The project received "0" points in the factor dealing with planning or adequate use of resources. OCMA assigned a "0" rating based on a document submitted by the municipality which showed that only \$8,500 of the \$526,057 of funds previously assigned for the activity had been expended. However, another document included in the proposal showed that 89 percent of the funds had been expended. Also, OCMA assigned a "0" rating for project continuity even though the \$300,000 requested was to complete the last phase of the project. Although the municipality submitted conflicting information regarding the use of funds previously awarded, the files do not document a careful review of the proposal to resolve the issues.

GUAYAMA - Construction of a Cemetery and Athletic Field

1. Construction of a Cemetery (\$224,762). The project received a rating of 47 points . However, OCMA did not award any funds because the project did not fall within the Discretionary Fund priorities. This reason was not properly supported because the priority was only one of nine rating factors. The failure to meet one rating factor did not constitute acceptable grounds to disqualify the project.
2. Construction of an Athletic Field at the Sports Complex Center, Machete Ward. The municipality requested \$380,128, but was awarded \$150,000. The file does not contain documentation justifying the reduction in the funds approved for this activity.

CABO ROJO - Acquisition of a Vacant Lot

The municipality submitted an application for acquisition of a vacant lot for the future development of a housing project. OCMA gave the project a rating of 43 points, but did not fund the project.

Although the project received a rating of 43 points, it was not included on OCMA's ranking list. This list included projects that received 39 points or more. We were informed that most projects ranking 42 or more points were funded. The files did not explain why the project was not included on the list.

In a letter dated June 13, 1994, OCMA informed the Mayor of Cabo Rojo that the reason for not awarding funds to this project was that the proposal did not identify any efforts to obtain additional financial resources to develop the project. Efforts to obtain additional financial resources was only one of nine rating factors. The files do not explain why this project was not funded while other projects which received 42 points were funded. The municipality was subsequently awarded \$300,000 of 1995 SBGP funds for costs related to this activity.

Recommendation:

We recommend your office:

- 1-A Advise OCMA that it must maintain proper documentation to support and justify its funding decisions. OCMA is responsible for maintaining proper documentation even though some parts of the review and recommendations are made by other parties.

DISTRIBUTION

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Director, Community Planning and Development Division, 4ND
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 ATTN: Audit Liaison Officer (3)
Chief Financial Officer, F, Room 10164 (2)
Director, Office of Internal Control and Audit Resolution, FOI (Room 10176) (2)
Associate Director, US GAO, 820 1st St. NE Union Plaza, Bldg. 2, Suite 150,
 Washington, DC 20002, (2)
Office of the Commissioner for Municipal Affairs