



Issue Date	July 28, 2006
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Audit Report Number	2006-AT-1016
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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 Humacao, Puerto Rico, Did Not Administer Its Community Development Block Grant in Accordance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Municipality of Humacao's (Municipality) Community Development Block Grant (Block Grant) 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 2004 and 2005 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 Block Grant program.

What We Found

The Municipality's financial management system did not fully comply with applicable HUD requirements. The system did not properly identify the application of more than \$1.2 million in program income, did not properly allocate more than \$315,500 in administrative salaries, allowed the use of more than \$66,500 for ineligible expenditures, and could not account for more than \$79,900 in Block Grant receipts.

Table of Contents

The Municipality awarded 12 contracts totaling more than \$2.2 million without following HUD procurement requirements. As a result, it cannot ensure that quality goods and services were obtained at the most advantageous terms. In addition, the Municipality did not support the reasonableness of \$1.9 million in Block Grant contracts and paid more than \$102,500 for excessive or unnecessary expenditures.

The Municipality did not maintain adequate records to demonstrate that activities met at least one of the three Block Grant national objectives. Therefore, the intended benefits and compliance with the Block Grant national objectives and related expenditures totaling \$211,860 are unsupported.

What We Recommend

We recommend that the director of the San Juan Office of Community Planning and Development require the Municipality to repay \$102,533 in excessive costs and \$66,593 in ineligible operating expenditures. The director should also require the Municipality to provide all supporting documentation showing the appropriateness and eligibility of \$3.8 million in Block Grant disbursements. We also recommend that the director require the Municipality to develop and implement an internal control plan to ensure the Block Grant program has (1) a financial management system that complies with HUD requirements, (2) procurement procedures that ensure goods and services are obtained at the most advantageous terms and in a manner providing full and open competition, and (3) procedures that ensure funded activities meet at least one of the Block Grant national objectives. In addition, we recommend that the director require the Municipality to ensure Block Grant expenditures are properly accounted for, reconciled with HUD's disbursement system, and in compliance with HUD requirements.

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 directive issued because of the audit.

Auditee's Response

We discussed the findings with the Municipality during the audit and at the exit conference on June 27, 2006. The Municipality provided its written comments to our draft report on July 6, 2006. In its response, the Municipality generally agreed with the findings, except for recommendation 1D. The Municipality did not address Recommendation 2B.

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

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Municipality’s Financial Management System Did Not Fully Comply with HUD Requirements	5
Finding 2: The Municipality Did Not Comply with Procurement Requirements	9
Finding 3: The Municipality Did Not Demonstrate Compliance with National Objectives	14
Scope and Methodology	18
Internal Controls	20
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	22
B. Auditee Comments and OIG’s Evaluation	24
C. Criteria	30
D. Schedule of Procurement Deficiencies	31

BACKGROUND AND OBJECTIVES

The Municipality of Humacao (Municipality) is an entitlement recipient administering more than \$7.3 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 \$5.2 million during fiscal years 2004 and 2005 for the following activities:

Block Grant activity	Fiscal year 2004	Fiscal year 2005
Public facilities and improvements	\$2,282,660	\$1,317,215
Planning and administration	376,769	469,443
Public service	233,115	279,604
Housing rehabilitation	144,798	\$176,146
Total	\$3,037,342	\$2,242,408

The Municipality's Federal Programs Office was responsible for administering the Block Grant program. The Municipality's books and records for the Block Grant program are maintained at 155 Miguel Casillas Street, Humacao, Puerto Rico.

We audited the Municipality's Block Grant 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 2004 and 2005 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 Block Grant program.

RESULTS OF AUDIT

Finding 1: The Municipality's Financial Management System Did Not Fully Comply with HUD Requirements

The Municipality's financial management system did not properly identify the application of more than \$1.2 million in program income, did not properly allocate more than \$315,500 in administrative salaries, allowed the use of more than \$66,500 for ineligible expenditures, and could not account for more than \$79,900 in Block Grant receipts. Consequently, the Municipality's internal controls were not sufficient to safeguard assets or assure their use for authorized purposes and in accordance with HUD requirements. This noncompliance occurred because the Municipality did not develop and implement policies and procedures to ensure compliance with the financial requirements of HUD programs.

Unsupported Program Income

HUD requires that receipts and expenditures of program income be recorded as part of the financial transactions of the grant program and be subject to all applicable requirements governing the use of Block Grant funds. The Municipality's records reflect that between July 2001 and September 2005 the Block Grant program received more than \$1.2 million in program income related to the lease of a public facility. However, the accounting records do not reflect the disposition of these receipts. The Municipality also improperly deposited to its general fund \$2,400 in program income. Consequently, HUD has no assurance that program income was used in accordance with program requirements. The Municipality expects to receive an additional \$318,853 in program income between October 2005 and September 2006, for which it has not established a proper accounting system.

Unsupported Administrative Salaries

The Block Grant program only allows disbursements for reasonable expenditures associated with the planning and execution of community development activities that are supported by source documentation. The Municipality did not track its employees' time by program activity or implement an indirect cost allocation plan to allocate its administrative salary expenses among HUD programs. It charged the full salary of at least five employees to the Block Grant program although they

performed additional functions not related to the program. The Municipality did not allocate the salaries based on the time spent by these employees on each of the programs. HUD has no assurance of the reasonableness, allowability, and allocability of the \$315,515 in administrative salaries charged to the Block Grant program between July 2003 and January 2006. A similar deficiency was identified in a prior HUD monitoring report; however, the deficiency continues to exist. A Municipality official attributed the improper allocation to the lack of funds of its Section 8 program, which could not pay its share of the administrative salaries.

Unrelated Program Disbursements

The Municipality improperly used Block Grant monies for general operating/maintenance expenditures of a public facility. It withdrew from HUD more than \$66,500 in Block grant funds, charging \$11,643 to program administration and \$54,950 to its housing rehabilitation activity. The funds requested were used instead for repairs of the Municipality's North Terminal public facility. As a result, Block Grant funds totaling \$66,593 were improperly used for expenditures not related to program administration or housing rehabilitation efforts. HUD regulations prohibit the use of Block Grant funds for any expense associated with repairing, operating, or maintaining public facilities.

Inaccurate Accounting Records

HUD requires recipients of Block Grant funds to maintain financial records that are accurate and current and that adequately identify the source and application of funds provided for assisted activities. The Municipality's accounting records were not accurate, current, or complete.

The Municipality uses Microsoft Excel spreadsheets to track program receipts and expenditures. However, these records do not reflect complete financial information on program activities and do not reflect budgeted and disbursed amounts by activity. In addition, the expenditures shown in the Municipality's general ledger (spreadsheets) for the fiscal year ending June 30, 2005, did not agree with amounts reflected in HUD's Integrated Disbursement and Information System.

Activity	General ledger	IDIS*	Difference
Administration	\$487,113	\$469,443	\$17,670
Public and neighborhood facilities	\$579,870	\$470,869	\$109,001
Housing rehabilitation	\$170,169	\$176,146	<\$5,977>
Public service	\$205,675	\$279,604	<\$73,929>

* Integrated Disbursement and Information System

The Municipality did not explain the discrepancies between the accounting records and could not account for \$79,906 drawn from HUD for its housing rehabilitation and public service activities.

The Municipality's Block Grant program accounting records are incomplete since the accounting record maintained is basically a check register that does not reflect budgeted and disbursed amounts by activity. As a result, HUD has no assurance that funds were used only for eligible purposes.

Recommendations

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

- 1A. Require the Municipality to submit all supporting documentation showing the eligibility and propriety of nearly \$1.26 million in program income disbursed. Any amounts determined ineligible must be reimbursed to the Block Grant program from nonfederal funds.
- 1B. Require the Municipality to determine the correct allocation of the \$315,515 in administrative salaries, make the related accounting adjustments to its books and records, and transfer the funds to correct the allocation.
- 1C. Require the Municipality to develop and implement a system to track its administrative employees' time spent on various HUD programs.
- 1D. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$66,593 paid for ineligible general operating expenditures.
- 1E. Take appropriate monitoring measures to ensure the Block Grant program has in place a financial management system that complies with HUD requirements. At a minimum, the system should ensure that fiscal controls and accounting procedures are sufficient to permit the tracing of funds, including future program income of \$318,853, to a level that ensures such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- 1F. Require the Municipality to submit all supporting documentation showing the eligibility and propriety of \$79,906 drawn from HUD for its housing rehabilitation and public service activities. Any amounts determined ineligible must be reimbursed to the Block Grant program from nonfederal funds.

- 1G. Require the Municipality to ensure that grant expenditures from July 2003 through March 2006 are properly accounted for, reconciled with HUD's Integrated Disbursement and Information System, and in compliance with HUD requirements.

Finding 2: The Municipality Did Not Comply with Procurement Requirements

The Municipality awarded 12 contracts totaling more than \$2.2 million without following HUD procurement requirements. This occurred because the Municipality did not have in place adequate internal controls and procedures and was not familiar with applicable Block Grant requirement standards. As a result, it cannot ensure that quality goods and services were obtained at the most advantageous terms. In addition, the Municipality did not support the reasonableness of \$1.9 million in Block Grant contracts and paid more than \$102,500 for excessive or unnecessary expenditures.¹

Procurement Standards Not Followed

Program regulations provide that recipients shall comply with HUD procurement standards contained in 24 CFR [*Code of Federal Regulations*] 85.36. The standards include conducting procurements using full and open competition, fully documenting all procurement activities, and performing price or cost analyses. We analyzed 12 contracts awarded between February 2004 and February 2005. There was at least one procurement deficiency in all 12 contracts reviewed. For example, the Municipality did not

- Maintain adequate records providing a full description of the activity including its location; the amount of funds budgeted, obligated, and expended; and the provisions under which it was determined to be an eligible activity (24 CFR [*Code of Federal Regulations*] 570.506a);
- Maintain adequate support showing that price or cost analyses were performed and the basis used to determine the reasonableness of the contracted amount;
- Provide complete and adequate specifications of the scope of work to be performed to contractors before the submission of bids;
- Perform public solicitation in one procurement;
- Award to the lowest bidder (but instead split contracts among seven vendors); or
- Ensure that contracts included all provisions required by 24 CFR [*Code of Federal Regulations*] 85.36(i). For example, it did not include provisions

¹ Total disbursements of \$2.1 million were adjusted to consider \$211,860 questioned in recommendation 3A.

related to (1) compliance with the “Antikickback” Act and with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act as supplemented in U.S. Department of Labor regulations; (2) notice of awarding agency requirements and regulations pertaining to reporting; and (3) the retention of all required records for three years after the final payment and all other matters are closed.

Thus, the Municipality did not provide evidence that it created an environment that permitted full and open competition as required by HUD. Appendix D has a list of the procurement deficiencies found during the review.

The Municipality’s bid board president informed us that he was not familiar with HUD procurement standards and acknowledged that the procurement process followed was deficient. The president also attributed the deficiencies of the February 2004 street resurfacing procurement to the urgency of spending Block Grant funds to avoid a reduction to the Municipality’s entitlement allocation by HUD.

Other Procurement Deficiencies

Other significant procurement deficiencies resulted in the payment of excessive and/or unnecessary Block Grant monies exceeding \$102,500.

Contracts not awarded to lowest bidder - The Municipality awarded three contracts and paid \$641,847 for street resurfacing work at various sites within Humacao. Although the services were procured through formal bidding, the Municipality did not award the procurements to the lowest bidder. It did not provide documentation explaining why the lowest bidder was not selected or the basis used to determine the reasonableness of the contracted amounts. As a result, the Block Grant program was charged \$100,143 for excessive expenditures.

Location of street resurfacing work	Amount paid	Lowest bid	Excessive amount
Cataño suburb	\$287,360	\$259,743	\$27,617
Buena Vista suburb	146,980	130,076	16,904
Boulevard Del Rio	207,507	151,885	55,622
Total	\$641,847	\$541,704	\$100,143

Contract amendments with excessive charges - The Municipality executed a contract amendment to the street resurfacing work at Collores suburb. The contract amendment included additional street resurfacing work, requiring 478 tons of asphalt. However, the contract amendment contained a higher cost per ton than what was originally contracted. The Municipality paid the contractor at \$70 per ton, although the original contract/bid was awarded at \$65 per ton. The files

did not contain support explaining the increase or its reasonableness. Therefore, the \$ 2,390 is considered an excessive expenditure.

Work at private properties - On March 1, 2006, we performed site inspections of various street resurfacing projects funded with Block Grant monies. The Municipality paid contractors for resurfacing work at private properties. During our visit, the Municipality project supervisor showed us at least eight private properties that were paved with HUD monies.



Table of Contents



The above pictures show paved driveways. The contractor indicated that these properties were resurfaced as instructed by the Municipality.

The project supervisor and the contractor informed us that the paving of private properties was outside the original scope of the contracted work. The additional work affected the completion of the project since other areas scheduled for paving were postponed or cancelled. The Municipality could not explain why the work on private properties was done, who authorized it, or how this met Block Grant program objectives. In addition, Municipality records did not show how this work represented reasonable or necessary program expenditures.

The acting federal programs director informed us that the Municipality was not aware of the situation and the contractor was not authorized to do this type of work. Although the Municipality claims it was not aware of the improper work, the 2005 Consolidated Annual Performance and Evaluation Report submitted to HUD included pictures showing the work done at private properties.

Conclusions

The Municipality did not provide evidence that it created an environment that permitted full and open competition as required by HUD. In addition, it did not provide adequate support showing the reasonableness of \$1.9 million in Block Grant contracts and paid \$102,533 in excessive or unnecessary expenditures. As a result, HUD has no assurance that services were obtained at the most advantageous terms and in a manner providing full and open competition or in accordance with HUD requirements.

Table of Contents

Recommendations

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

- 2A. Require the Municipality to provide support showing the eligibility and reasonableness of more than \$1.9 million spent on public facilities, summer camp activities, and consulting services. Any amounts determined ineligible must be reimbursed to the Block Grant program from nonfederal funds.²
- 2B. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$102,533 paid for excessive street resurfacing expenditures.
- 2C. Require the Municipality to develop and implement procurement procedures and controls that comply with HUD requirements to ensure goods and services are obtained at the most advantageous terms and in a manner providing full and open competition.
- 2D. Require the Municipality to determine the amount expended for the resurfacing of all private properties, and reimburse the Block Grant program from nonfederal funds.

² Total disbursements of \$2.1 million were adjusted to consider \$211,860 questioned in recommendation 3A.

Finding 3: The Municipality Did Not Demonstrate Compliance with National Objectives

The Municipality did not maintain adequate records to demonstrate that activities met at least one of the three Block Grant national objectives. This occurred because the Municipality had inadequate management controls and was not familiar with applicable Block Grant regulations. Therefore, the related expenditures of two activities totaling \$211,860 are unsupported pending an eligibility determination by HUD.³

Inadequate Documents

Our examination of two Block Grant activities disclosed that the Municipality did not take adequate steps to ensure it met at least one of the three Block Grant national objectives required by 24 CFR [*Code of Federal Regulations*] 570.200(a). Grantees and subgrantees must carry out activities that benefit low- and moderate-income persons, aid in the prevention or elimination of slum and blight, or meet community development needs having a particular urgency. In addition, grantees and subgrantees are required to maintain sufficient records to enable HUD to determine whether the recipient has met all applicable requirements of the Block Grant program.

The Municipality informed us that both activities met the national objective of benefiting low- and moderate-income persons based on the 1990 census. Further, one of the activities was classified as “area benefit” and the other as “limited clientele.” Although Municipality officials stated they properly evaluated each activity to ensure compliance with HUD’s national objectives, we did not find adequate support in the files.

Activity	Amount	National objective
Boulevard Del Rio-street resurfacing	\$207,507	Low- and moderate-income, area benefit activity
Summer camp activities	\$59,975	Low- and moderate-income, limited clientele activity

Specific examples of poor efforts to support national objectives compliance include

Boulevard Del Rio street resurfacing - The Municipality disbursed \$207,507 in Block Grant funds for street resurfacing in an area know as Boulevard Del Rio. A Municipality official informed us that the street resurfacing of this project

³ Total disbursements of \$267,482 were adjusted to consider \$55,622 questioned in recommendation 2B.

benefited low- and moderate-income persons and met Block Grant requirements as an area benefit activity. However, the Municipality did not

- Maintain records providing a full description of the activity including its location; the amount of funds budgeted, obligated, and expended; and the provisions under which it was determined to be an eligible activity;
- Maintain records showing the boundaries of the service area; and
- Maintain records showing the income characteristics of families and unrelated individuals in the service area.

We performed a site inspection in March 2006 because Municipality files did not show the funds were spent for services in low- and moderate-income areas. The street resurfacing work was done in an area that was not predominantly residential; it was mainly composed of commercial spaces and government offices.



The above pictures show the area was predominantly commercial, including shopping centers, automobile dealerships, and grocery stores. There were also local government offices in the area.

Although the Municipality claims that this activity benefits low- and moderate-income persons, no support was provided. Further, 24 CFR [*Code of Federal*

Regulations] 570.208(a)(1) provides that an activity that serves an area that is not primarily residential in character shall not qualify as an area benefit activity.

Summer camp activities - The Municipality disbursed \$59,975 in Block Grant monies for services related to organizing and providing summer camp activities for 100 children between the ages of 6 and 13. The length of the summer camp was three weeks, July 12-30, 2004. Among the activities to be presented to the children were excursions, computer training (Word, Excel, and PowerPoint), sport workshops, and others. A Municipality official informed us that the summer camp activity benefited low- and moderate-income persons and met Block Grant requirements as a limited clientele activity. However, the Municipality did not

- Maintain records providing a full description of the activity including its location; the amount of funds budgeted, obligated, and expended; and the provisions under which it was determined to be an eligible activity;
- Maintain documentation describing the nature of the services and how they were used predominantly by low- and moderate-income persons;
- Maintain documentation showing the income limits applied and the point in time when the benefit was determined, and
- Maintain documentation showing the size and annual income of the children's families.

The file deficiencies demonstrate that the Municipality lacked adequate management controls and its unfamiliarity with Block Grant regulations. Therefore, the intended benefits and compliance with the Block Grant national objectives were not supported.

Recommendations

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

- 3A. Require the Municipality to provide all supporting documentation showing the eligibility and compliance with national objectives of the \$211,860 disbursed for the two activities. Any amounts determined ineligible must be reimbursed to the Block Grant program from nonfederal funds.⁴

⁴ Total disbursements of \$267,482 were adjusted to consider \$55,622 disallowed in recommendation 2B.

- 3B. Take appropriate monitoring measures and require the Municipality to establish and implement policies and procedures to ensure funded activities meet a Block Grant national objective and that they are properly supported.

SCOPE AND METHODOLOGY

The audit objective was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Block Grant program. The compliance requirements included the expenditures of HUD funds for eligible, necessary, and reasonable project costs; maintaining adequate procurement and financial controls over funded activities; and maintaining adequate documentation showing compliance with national objectives. To accomplish our objectives, we

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

The Municipality's check register reflected \$2.9 million in Block Grant disbursements between July 1, 2004, and September 30, 2006. We selected disbursements from the Municipality's check register with a value greater than \$50,000, resulting in a sample of eight disbursements totaling \$926,164. We also selected the two highest payroll disbursements charged to the Block Grant program totaling \$33,492. The expenditures and related supporting documents were reviewed to determine whether the payments met Block Grant requirements, including compliance with national objectives and reasonableness of the costs. Our review also included the examination of program income receipts recorded in the Municipality's accounting records between July 2001 and September 2005.

We obtained a list of the Municipality's Block Grant procurement efforts performed between July 1, 2004, and September 30, 2005. The Municipality conducted 17 procurements totaling \$1.1 million. We selected and reviewed a sample of four procurements totaling \$941,612.⁵ At HUD's request, we reviewed three additional procurements awarded before our audit period totaling \$1.3 million. In total, we reviewed seven procurement efforts amounting to \$2.2 million. We reviewed each file to determine whether the procurement process followed by the Municipality met HUD standards.

To achieve our audit objectives, we did not rely on computer-processed data contained in the Municipality's database. Since the financial records were incomplete, alternate testing methods

⁵ The procurement activities reviewed were those with a value greater than \$50,000.

were used to verify the accuracy of the questioned Block Grant expenditures. The results of the audit apply only to the items selected and cannot be projected to the universe or population.

The audit generally covered the period July 1, 2004, through September 30, 2005, and we extended the period as needed to accomplish our objectives. Due to the nature of some of the deficiencies, we extended the period back to July 2001. We conducted our fieldwork from November 2005 through April 2006 at the Municipality's offices in Humacao, Puerto Rico. We performed our review in accordance with generally accepted government auditing standards.

Table of Contents

INTERNAL CONTROLS

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.

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's financial management system did not fully comply with applicable HUD requirements (see finding 1).
- The Municipality did not follow HUD procurement requirements when awarding 12 contracts totaling more than \$2.2 million (see finding 2).

- The Municipality did not maintain adequate records to demonstrate that activities met at least one of the three Block Grant national objectives (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Unreasonable or unnecessary 3/</u>	<u>Funds to be put to better use 4/</u>
1A		\$ 1,259,392		
1B		315,515		
1D	\$ 66,593			
1E				\$ 318,853
1F		79,906		
2A		1,934,272		
2B			\$102,533	
3A		211,860		
Total	<u>\$ 66,593</u>	<u>\$ 3,800,945</u>	<u>\$102,533</u>	<u>\$ 318,853</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.

2/ 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.

3/ 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.

4/ “Funds to be put to better use” are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Municipality implements our recommendation, it will ensure that fiscal controls are sufficient to permit the tracing of future program income, to a level that ensures funds have not been used in violation of

the applicable statutes. Once the Municipality successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of these recurring benefits

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments





Estado Libre Asociado de Puerto Rico • Municipio Autónomo de Humacao
 Honorable Marcelo Trujillo Panissa, Alcalde

Box 178, Humacao, PR 00792 • Teléfono: 656-0400

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

From: Marcelo Trujillo Panisse, Mayor
 Municipality of Humacao

**SUBJECT: OIG AUDIT REPORT FOR THE PERIOD JULY 2001 TO
 SEPTEMBER 30, 2005**

According with your recommendation, requiring the Municipality of Humacao:

- a) To repay \$102,533 on excessive costs and \$66,593 on ineligible operating expenditures.

The details for the \$66,593 on ineligible operating expenditures correspond to the following activities according with Mrs. Torres (OIG Auditor):

Finding 1
Unrelated program expenditures

Date	Disb. Voucher Ck Number	Payee	Charged to Administration (IDIS code 312)	Charged to Housing Rehab (IDIS code 310)	Total	Description
05/4/2004	DV 51640	Margaro López	\$7,050.65		7,050.65	Rehabilitation of 1 st floor office space Industrial Commission
05/4/2004	DV 51641	Margaro López	\$792.03		\$792.03	
12/3/2004	CK 4882	Director de Finanzas		\$30,000.00	\$30,000.00	
01/5/2005	CK 4927	Specialty Refrigeration and Air Conditioning	3,000.00		3,000.00	A/C Compressor replacement
01/5/2005	Ck 4926	Preventive Maintenance Service	\$800.00		\$800.00	A/C Maintenance
01/6/2005	CK 4928	Aquasystems de Puerto Rico		\$24,950.00	\$24,950.00	Stainless Steel Water Tank
Totals			\$11,642.68	\$54,950.00	\$66,592.68	





Estado Libre Asociado de Puerto Rico • Municipio Autónomo de Humacao
Honorable Marcelo Trujillo Panissa, Alcalde

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These amounts correspond to Program Income funds received and used in Housing Rehabilitation and Public Service activities. When we had disbursement vouchers for the Program Income activities was drawdown from CDBG funds because, at that moment, we did not have Program Income funds in balance.

The Municipality expects to provide all supporting documentation showing the appropriateness and eligibility of the balance of \$2.7 million.

- c) We also recommend that the director require the Municipality to develop and implement an internal control plan to ensure the Block Grant program has
1. financial management system that complies with HUD requirements,
 2. procurement procedures that ensures goods and services are obtained at the most advantageous turns and in a manner providing full and open competition,
 3. procedures that ensure funded activities meet at least one of the Block Grant national objectives.

The Municipality of Humacao accepts and will be implementing the recommendations to ensure that complies with the 24 CFR 85.20 (Standards for financial management systems) 24 CFR 85.36 (Procurement) and 24 CFR 570.208 (Criteria for national objectives).

- d) That the director require the Municipality to ensure Block Grant expenditures are properly accounted for, reconciled with HUD's disbursement system, and in compliance with HUD requirements.

The Municipality of Humacao accepts and will be implanting the recommendation and is working with HUD San Juan offices to report all the Program Income funds received since July 1, 2001 through June 30, 2006. At the beginning of this period, the Municipality asked for technical assistance to HUD San Juan office, for which on December 2005 we finally received the instructions to register these funds in IDIS system.

Also, the Municipality of Humacao will ensure that the expenditure is properly accounted for and in accordance with the HUD requirements.





Estado Libre Asociado de Puerto Rico • Municipio Autónomo de Humacao
 Honorable Marcelo Trujillo Panissa, Alcalde

Box 178, Humacao, PR 00792 • Teléfono: 656-0400

Comment 1

1) Disbursement Amounts: \$7,050.65 + \$792.03

These amounts are included in the \$30,000.00, according with the disbursement analysis provided to Mrs. Torres, and that amount is questioned in 100%.

2) Disbursement Amount \$30,000.00

Comment 2

The disbursement of \$30,000.00 to the Humacao Finance Director (payee) on 12/3/04 corresponds to a loan between the Municipality and our office for the rehabilitation of a free space in the 1st floor of the North Terminal Building. This office was constructed with CDBG funds.

The 24 CFR 570.201 (c) establish as basic eligible activities:

c) Public facilities and improvements

Acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements, except as provided in 570.207 (a), carried out by the recipient on other public or private non-profit entities.

According to the 570.207 (a) (i), building or portions thereof used for the general conduct of government as defined at 570.3 (d) cannot be assisted with CDBG funds. The rehabilitatee space with these funds wasn't designated for the use of local government offices.

3) Disbursement of \$3,000.00 + \$800.00

Comment 3

Both amounts correspond to the 20% administrative the Program Income funds. The administrative accounts used to the \$3,000.00 amount, was Equipment Maintenance and for the \$800.00 was (in the general ledger) construction and project, but in the electronic accounting system (OCAM) was in the Building Maintenance account; it should be registered as Equipment Maintenance.

The \$3,800.00 represents equipment maintenance (air conditioning) equipment for the lease spaces built up with CDBG funds and which the Municipality received a program income.





Estado Libre Asociado de Puerto Rico • Municipio Autónomo de Humacao
Honorable Marcelo Trujillo Panissa, Alcalde

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4) Disbursement of \$24,950.00

Comment 4

On September 7, 2003, the Municipality announced a public notice in "El Vocero" newspaper, in which informed the citizens the intention of the acquisition and installation of a water tank in the North Terminal Building, to comply with the Municipality citizen's participation plan.

The acquisition of this water tank respond to the water problems confronted by this building, and our tenants had to reduce the labor hours to the employees to comply with local law requirements. These activities, as acquisition or public facilities or improvements represent an eligible activity, according with 570.20 (a) and 570.201 (b).

According with this analysis the \$66,592.68 questioned in your report was used complied with the eligible activities for the CDBG funds.

The Municipality of Humacao is evaluating the accounts used to describe the transaction realized with CDBG funds and/or Program Income, to comply with HUD requirements.

b) The director should also require the Municipality to provide all supporting documentation showing the appropriateness and eligibility of \$3.8 million in Block Grant disbursements.

Comment 5

According with the 24 CFR 570.504 (s) (i) (ii), the Program Income shall be disbursed for eligible activities before additional cash withdrawals are made form the US Treasury. The amount of \$79,906.00, included in the 3.8 million, correspond according with Mrs. Torres detail to the following activities:

Activity	General Ledger Balance as of 06-30-2005	Reference	IDIS	Page reference on attaché file: H02 IDIS FY 04-05 disbursements. PDF	Difference
Housing Rehabilitation	\$170,169	See sheet "housing reh.prog", row I315 in attached file- Desembolsos 2004-2005.xls	\$176,146	Page 5	<\$5,977>
Public Service	\$205,675	"housekeeping" in attached file - H02 tracing PY 2004.xls	\$279,604	Page 3	<\$73,929>



OIG Evaluation of Auditee Comments

The Municipality generally agreed with our recommendations, except for recommendation 1D. The Municipality believes the \$66,592 was used for eligible activities under the Block Grant program. Recommendation 2B was not addressed by the Municipality.

Comment 1 The Municipality withdrew from HUD \$7,842 in Block Grant funds in May 2004, and charged it as administrative program costs. (These are not part of the \$30,000 included in comment 2.) According to the supporting documentation the Municipality provided us, these disbursements were related to rehabilitation work at the North Terminal public facility. The North Terminal rehabilitation was not among the HUD approved activities, and the expenditures were not associated with the administration of the Block Grant program.

Comment 2 The Municipality states that the \$30,000 was used for rehabilitation work at the North Terminal public facility. Although the rehabilitation of public facilities is an eligible activity under the Block Grant program, the North Terminal rehabilitation was not among HUD approved activities. In November 2004 the Municipality withdrew from HUD \$30,000 in Block Grant funds, and charged it to the Municipality's housing rehabilitation activity. Block Grant funds were used for an activity not approved by HUD, and were not part of the housing rehabilitation efforts.

Comment 3 The Municipality states that the \$3,800 was used for repairs and maintenance of the air conditioning system at the North Terminal public facility, and that program income was used. However, the support provided by the Municipality during the audit shows it withdrew from HUD \$3,800 in Block Grant funds in January 2005, and charged it as administrative costs. The North Terminal rehabilitation was not among the HUD approved activities, and the expenditures were not associated with the administration of the Block Grant program.

Comment 4 The Municipality states the \$24,950 was used for the acquisition and installation of a water tank at the North Terminal public facility, and that it was an eligible activity. Although the rehabilitation of public facilities is an eligible activity under the Block Grant program, the North Terminal rehabilitation was not among the HUD approved activities. On January 24, 2005, the Municipality withdrew from HUD \$24,950 in Block Grant funds, and charged it to the Municipality's housing rehabilitation activity. The Municipality used Block Grant funds for an activity not approved by HUD, and was not part of the housing rehabilitation efforts.

Comment 5 The Municipality states that the \$79,906 was used for housing rehabilitation and public service activities. However, the Municipality did not explain the discrepancies between HUD's IDIS and the Municipality's accounting records or how funds were disbursed.

Appendix C

CRITERIA

Federal Regulations at 24 [*Code of Federal Regulations*] 85.20

Standards for financial management systems require recipients' financial management systems to provide for the following:

- Accurate, current, and complete disclosure of the financial results of financially assisted activities.
- Records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- Effective control and accountability for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- Following applicable Office of Management and Budget cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining the reasonableness, allowability, and allocability of costs.

Federal Regulations at 24 [*Code of Federal Regulations*] 85.36(b)(9)

Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

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*] 570.504

The receipt and expenditure of program income as defined in section 570.500(a) shall be recorded as part of the financial transactions of the grant program. Program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

Appendix D

SCHEDULE OF PROCUREMENT DIFFICIENCIES

Contracted services	Amount	No public solicitation	Missing or inadequate specifications of services solicited	No cost or price analysis	Lowest bidder not selected	Missing contract provisions	Inadequate number of proposals
Street resurfacing February 2004	\$1,176,553		X	X	X	X	
Street resurfacing August 2004	757,637		X	X	X	X	
Ciudad Cristiana basketball court	100,000			X		X	
Block Grant-technical assistance April-December 2004	80,500	X	X	X		X	X
Summer camp activities	59,975	X	X	X		X	X
Block Grant-technical assistance February-May 2004	50,000		X	X		X	X
Block Grant-technical assistance February-December 2005	24,000		X	X		X	
Total	\$2,248,665	2	6	7	2	7	3

** The schedule does not indicate all violations noted during the review. We only included most frequent and serious violations.

Table of Contents