



# *Audit Report*

## **District Inspector General for Audit Southeast/Caribbean District**

*Report: 99-AT-241-1001*

*Issued: November 5, 1998*

**TO:** Carmen Cabrera, Director, Community Planning and Development Division, 4ND

**FROM:** Nancy H. Cooper  
District Inspector General for Audit-Southeast/Caribbean, 4AGA

**SUBJECT:** Municipality of Arecibo  
Community Development Block Grant and  
Section 108 Loan Guarantee Assistance Programs  
Arecibo, Puerto Rico

This report presents the results of our audit of the municipality's administration of the Department of Housing and Urban Development's (HUD) Community Development Block Grant and Section 108 Loan Guarantee Assistance Programs. The municipality's comments to the three findings and associated recommendations are included as Appendix B with excerpts and the Office of Inspector General's (OIG) response incorporated into the Findings and Recommendations section of the report.

Please furnish this office a reply within 60 days on each recommendation describing: (1) the corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit. Note that HUD Handbook 2000.06 REV-3 requires management decisions to be reached on all recommendations within 6 months of report issuance. It also provides guidance regarding the format and content of your reply.

We are providing a copy of this report to the municipality.

We appreciate the cooperation of your staff during the audit. If you or your staff have any questions, please contact me or Mike Gill, Assistant District Inspector General for Audit at (404) 331-3369.

---

# *Executive Summary*

At the request of HUD, we conducted an audit of the Municipality of Arecibo's administration of the Community Development Block Grant (CDBG) and Section 108 Loan Guarantee Assistance (LGA) Programs. Our objectives were to determine whether the grantee: (a) administered program activities in an economical, efficient, and effective manner, (b) complied with program requirements, and (c) established adequate management controls to ensure compliance.

Our review disclosed that the grantee did not manage the programs in an economical, efficient, and effective manner. The grantee also did not comply with all program requirements. This occurred because the grantee disregarded requirements and had not established adequate management controls to ensure compliance. We identified about \$6.2 million of ineligible and \$.3 million of unsupported costs. Cost efficiencies totaled about \$.3 million. (See Appendix A.) We found serious deficiencies in the administration of HUD funded and guaranteed programs.

- The grantee failed to meet program objectives by not completing two major construction projects and by allowing properties purchased with LGA funds to significantly deteriorate. Since 1988, the grantee has spent about \$5.3 million in program funds on these projects. In May 1997, the grantee approved the sale of part of one of the properties for \$250,000. In July, it advertised the remaining part for sale, although no value determination had been made. In addition, HUD had not approved either sale.
- During the period July 1993 through June 1997, the grantee improperly used about \$768,000 in CDBG funds to pay employees who performed general government duties. About \$237,000 was budgeted for similar employee services for the 1997-1998 fiscal year.
- The grantee did not comply with procurement requirements. Contract files were not documented to show: (a) how contracts were awarded (e.g., solicited), (b) whether contract expenditures addressed program objectives, (c) justification for sole-source contracts and contract amendments, (d) that price or cost analyses were performed, and (e) contract specifications or detailed contract requirements. The grantee did not provide for full and open competition by splitting contracts and routinely awarding sole-source contracts to avoid required advertising and bidding.
- The grantee paid about \$200,000 in LGA funds for poor and incomplete work on six construction projects. Contractors were paid for the work although the grantee's inspector had reported significant construction deficiencies. Our subsequent site visits found the deficiencies had not been corrected. Some deficiencies were serious safety hazards. Final payments were made on four of the contracts. About \$6,200 remained to be paid on the other contracts.

- The grantee paid about \$83,000 in CDBG and HOME funds to a consulting firm for services related primarily to general government activities. The semi-annual sole-source contracts stated that the firm would assist the grantee to implement commercial, industrial, and residential loan programs. Although the grantee had received similar services from the firm for over 10 years, no loan programs had been established.
- The grantee's financial management system and related controls need immediate improvement. Accounting records and reports were not accurate, current, or complete. Bank statements were not reconciled timely. Numerous accounting adjustments from prior reconciliations were not posted. Grant expenditures reported to HUD did not agree with grantee accounting records. Required single audit reports were not submitted on time. Similar deficiencies had been reported previously by independent public accountants (IPA) and by HUD but the grantee did not provide resources to correct the problem. The last IPA who reviewed the grantee's financial statements expressed no opinion on them.
- The grantee could not account for program funds in investment accounts totaling about \$224,000. The grantee had recorded the funds in its accounting system; however, investment entity statements did not show the funds being held. The grantee did not reconcile these type statements with its accounting records.

We recommend that you sanction the grantee for continuing to disregard program requirements and for failing to take corrective actions on known deficiencies. We also recommend that you require the grantee to reimburse the ineligible costs and determine eligibility of the unsupported costs (see Appendix A) and strengthen various management control systems.

On July 30, 1998, we held an exit conference with HUD program officials who agreed with the findings and recommendations. On July 21, 1998, we provided the draft audit report to the grantee and held an exit conference with them on August 12, 1998. The grantee provided its written comments on September 8, 1998. Except for Finding 1 regarding employee costs charged to the CDBG Program, the grantee generally agreed with our findings. Applicable portions of the municipality's comments are incorporated along with our position into the Findings and Recommendations section of the report. The full text of the grantee's comments excluding appendices, is included as Appendix B.

---

# *Table of Contents*

Management Memorandum .....	i
Executive Summary.....	ii
Table of Contents .....	iv
Introduction.....	1
Findings and Recommendations	
1. The Grantee Mismanaged HUD Programs.....	3
2. The Grantee Did Not Comply With Procurement Requirements .....	12
3. Immediate Financial Management System and Control Improvements Are Needed .....	21
Follow-up on Prior Audits .....	25
Appendices	
A. Schedule of Ineligible and Unsupported Costs, and Cost Efficiencies ....	26
B. Municipality Comments.....	27
C. Distribution.....	34

**Abbreviations:**

## Abbreviations

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
FY	Fiscal Year
GPR	Grantee's Performance Report
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
LGA	Loan Guarantee Assistance

# *Introduction*

## **BACKGROUND**

The Municipality of Arecibo was organized under the laws of the Commonwealth of Puerto Rico and is governed by a municipal assembly composed of 16 elected members. The Mayor is Angel M. Roman. The grantee's Municipal Development Office is responsible for administering the CDBG and LGA Programs under the direction of Harry Marengo. The programs' books and records are maintained at the Municipal Development Office.

Title I of the Housing and Community Development Act of 1974 (Public Law 93-383) established the CDBG Program. The CDBG Program provides grants to States and units of local government to aid in the development of viable urban communities. This is accomplished by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. All program projects and activities must either benefit low and moderate income persons, aid in the elimination or prevention of slums and blight, or meet other community needs having a particular urgency.

The Housing and Community Development Act of 1977 (Public Law 95-128) expanded the CDBG Program to include loan guarantees. The Section 108 Loan Guarantee Assistance Program allows communities entitled to CDBG a means to finance up front certain large scale projects beyond the scope which can be financed only by annual grants. Communities can borrow up to five times their annual CDBG amount. HUD guarantees the payments on the notes or other obligations that are used to fund the loans. Grantees are required to pledge current and future CDBG funds as security. All projects must meet the same national objectives as the CDBG Program.

The Grantee's Performance Report (GPR), for the year ending June 30, 1997 (grantee fiscal year 1996), showed CDBG expenditures of about \$3.37 million.

<i>Activity</i>	<i>Expended</i>
Section 108 LGA Repayment	\$2,235,004
Program Administration	502,922
Public Service	333,788
Single Unit Housing Rehabilitation	270,775
Arecibo Observatory	25,000
Other	316
Total	\$3,367,805

The report also reflected 1993 Section 108 LGA expenditures of about \$2.34 million with an unobligated balance of \$526,967. The grantee budgeted approximately \$4 million for CDBG program activities for Fiscal Year (FY) 1997.

**AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

Our objectives were to determine whether the grantee: (1) carried out program activities in an economical, efficient, and effective manner; (2) complied with program requirements; and (3) established adequate management controls to ensure compliance.

Our review was conducted at the grantee's Municipal Development Office. We also made site visits within the municipality to assess various projects and activities. The audit was primarily directed at program activities and expenditures during the 12-month period ending June 30, 1997. Audit coverage was extended to November 30, 1997, and to prior periods as necessary to meet our audit objectives. Our field work was performed between June 1997 and January 1998. Sites visited and costs reviewed were judgmentally selected.

To accomplish our objectives we:

- reviewed applicable laws, regulations, and other program related requirements,
- evaluated HUD monitoring and IPA audit reports,
- assessed grantee action plans and performance reports,
- interviewed responsible HUD and grantee officials,
- visited municipal construction and other activity sites, and
- analyzed applicable management controls including those associated with grantee monitoring, accounting, and purchasing.

Our audit was conducted in accordance with generally accepted government auditing standards.

---

# *Findings and Recommendations*

## **Finding 1**

### **The Grantee Mismanaged HUD Programs**

The grantee did not manage program activities in an economical, efficient, and effective manner. It paid for projects, activities, or services that (a) did not meet national program objectives, (b) were incomplete, and (c) were ineligible. This occurred because the grantee disregarded program requirements and had inadequate management controls. We determined that program funds expended totaling \$6,040,549 are ineligible, \$1,985 are unsupported, and \$236,854 are cost efficiencies (see Appendix A).

Part 570.501(b) of Title 24, Code of Federal Regulations (CFR) provides that the recipient is responsible for ensuring that grant funds are used in accordance with program requirements. These requirements include spending funds to meet at least one of the three national program objectives and in accordance with program eligibility requirements.

#### **Major Construction Projects Were Not Completed**

The grantee failed to meet national program objectives by not completing two major construction projects funded with Section 108 LGA funds totaling about \$4.57 million. Properties purchased with the funds were neglected and vandalized. The projects included a hotel development and a historical building rehabilitation.

##### **Hotel Development**

In May 1988, HUD approved the grantee's application to use \$4.5 million in 1987 LGA funds to purchase and rehabilitate a property called the Puerto Rico Distillers. The property was to be converted to offices and other economic development. In September 1988, the grantee purchased the property (about 16.5 acres of land and buildings) for \$3.3 million. The remaining funds were to be used for the conversion. When the property was purchased, the distillery was operational; however, the purchase did not include the distillery equipment.



The grantee amended its application in April 1989 and transferred the property to Corporacion de Desarrollo del Atlantico, a non-profit corporation created by the grantee. The property was to be sold to a private developer for construction of a hotel. Plans were to create 450 construction jobs and 400 permanent jobs for low and moderate income persons.

The corporation returned the property to the grantee in June 1991 and was subsequently dissolved. According to an audit report issued by the Puerto Rico Comptroller's Office (Audit Report No. M-93-29 dated June 30, 1993), the corporation could not get the necessary hotel construction permits because of zoning restrictions. Also toxic materials were found on the property.

Our visit to the property in August 1997 found that the buildings had significantly deteriorated due to neglect and vandalism. All that remained were walls and roofs. Some sections of the buildings had been destroyed by fire.



Puerto Rico Distillers Property-Arecibo, P.R.



Puerto Rico Distillers Property-Arecibo, P.R.

The grantee leased part of the property for \$15,000 per year. In May 1997, the grantee approved the sale of the leased property (.4 acres) for \$250,000. In July, the grantee advertised the remaining property for sale. However, no assessment had been made to determine its value. These transactions were done without HUD approval.

The grantee disbursed \$5,177,430 in CDBG funds from July 1991 through July 1994, to repay the LGA loan. We consider these costs ineligible because the grantee failed to meet program objectives and allowed the buildings to deteriorate.

### **Alvarez Rossi Historic Building Rehabilitation**

In September 1994, the grantee used \$75,000 in 1993 LGA funds to purchase a building to rehabilitate and use as a public archive. Rehabilitation of the property was to be financed with \$750,000 Puerto Rican government funds approved in May 1995. As of August 1997, the grantee had not done any work on the building. The Director of the Municipal Development Office was not aware when rehabilitation of the building would occur. Our site visit found the building abandoned and significantly deteriorated due to neglect and vandalism. We consider the \$75,000 paid ineligible because the grantee failed to meet program objectives and allowed the building to deteriorate.

### **CDBG Funds Were Spent For Ineligible Activities**

The grantee used program funds to carry out ineligible activities. It disregarded program requirements and failed to establish adequate management controls to ensure program activities met eligibility requirements.

### General Municipal Operating Costs Were Improperly Paid With Program Funds

During the period of July 1993 through June 1997, the grantee improperly charged general local government operating costs totaling \$767,594 as CDBG Program costs. The funds were improperly expended for salaries and fringe benefits of employees carrying out duties of a general government nature and charged to the program as public services. The grantee also budgeted \$236,854 for similar services in FY 1997.

Title 24 CFR 570.207(a)(2) provides that expenses required to carry out the regular responsibilities of general government nature are not eligible for assistance under this part. Title 24 CFR 570.201(e) states that in order to be eligible for CDBG assistance a public service must be either a new service or a quantifiable increase of an existing service on behalf of the general local government. The services provided must also meet a national objective of the CDBG Program (e.g., assist low and moderate income persons).

We determined that during FY 1993 through 1996 the grantee charged as Crime Prevention and Educational Services \$767,594 for salaries and fringe benefit costs of employees that performed general local government services. There was no evidence that these services were new or in addition to existing services.

<i>Public Service</i>					
	<i>FY 1993</i>	<i>FY 1994</i>	<i>FY 1995</i>	<i>FY 1996</i>	<i>Total</i>
<i>Crime Prevention</i>	\$142,708	\$103,248	\$95,929	\$85,115	\$427,000
<i>Educational Services</i>	51,448	97,511	106,741	84,894	340,594
<b>TOTAL</b>	<b>\$194,156</b>	<b>\$200,759</b>	<b>\$202,670</b>	<b>\$170,009</b>	<b>\$767,594</b>

The grantee charged as Crime Prevention \$427,000 for guards to protect municipal buildings such as the public works, civil defense, multipurpose center, hospital, and lighthouse buildings. Guard duties included turning on and off lights, raising and lowering flags, verifying that gates and doors were closed, and other general guard duties. Some guards worked in municipal parks. These duties were the general municipal government's responsibility and not an authorized public service activity. The grantee informed HUD the funds were for the municipal police. The guards did not carry guns and were not part of the municipal police force. In FY 1997, the grantee budgeted \$141,727 as Crime Prevention for guards, three clerks and a laborer. The clerks and laborer worked at the grantee's administrative offices and at a museum.

In addition, the grantee improperly charged \$340,594 during the period as Educational Services for costs of clerks, guards, drivers, a secretary, and a laborer. These employees worked in different units of the municipality such as the animal shelter, the road construction division, the art museum, the multipurpose center, and financial and administrative offices. They did not provide educational services. The grantee budgeted \$95,127 for similar services in FY 1997.

### **Road Improvements Were Made In Other Than Low or Moderate Income Areas**

The grantee improperly spent 1993 Section 108 LGA funds totaling \$15,894 in FY 1996 for road improvements. The funds were required to be spent for services in low and moderate income areas. Because grantee files did not show that the funds were spent in these type areas, we conducted site inspections. We found improvements made in two areas that were not low and moderate income .

<i>AREA</i>	<i>COST</i>
College Park	\$9,363
Valle Verde	6,531
	\$15,894

The Director of the Municipal Development Office acknowledged that some improvements were made in other than low and moderate income areas. He indicated that he was aware of the grant requirements. He said that the roads were in bad condition and the municipality did not have local funds to repair them.

### **Ineligible Road Maintenance Costs Were Paid With Program Funds**

In FY 1996, the grantee charged \$1,931 in 1993 Section 108 LGA funds for debris removal near a state road (PR 10). The invoice indicated the expense was for general municipal operations. This expense cannot be paid with program funds.

### **Costs for a Canvas Canopy are Ineligible**

The grantee improperly paid \$2,700 from the 1993 Section 108 LGA funds in FY 1997 for a 4 foot by 8 foot canvas canopy. The canopy was for a small coffee shop located on the municipal plaza. It replaced an existing canopy damaged by Hurricane Hortence. The purchase did not address any program objective. The Director acknowledged that this was not a proper use of program funds. He said the purchase was directed by the Mayor. A claim will be made with the Federal Emergency Management Agency.

**The Grantee Did Not Properly Administer Its Housing Rehabilitation Program**

In FY 1996, the grantee spent \$270,784 in CDBG funds to help 363 municipal residents repair their homes. The assistance ranged between \$48 and \$2,770 per resident. We found that participant files did not (a) contain documentation to show how residents were selected to participate in the program, (b) reflect all repair needs, and (c) show that repairs were made. In addition, the grantee did not maintain a waiting list of eligible participants.

The grantee did not establish procedures to ensure that repairs were made. For example, in November 1997, we visited five program participant residences to determine whether repairs were completed. Our visits identified one participant that had received materials valued at \$1,985 in October 1996, but had performed no work. Some of the materials were on the property, however the house looked abandoned. The \$1,985 is unsupported pending a HUD eligibility determination.

**Municipality Comments**

In its response to the draft report, the grantee stated on September 8, 1998, that: *The Municipality has analyzed all of the activities in a way that will permit them to comply with all objectives and regulations. This analysis will be implemented during FY98. Operations manuals that specify procedures and deadlines have been written and implemented for the HOME Program and similar manuals are being written for all CDBG programs individually. These latter manuals will be completed during FY98.*

**Hotel Development**

The grantee stated that it had intended to use the Puerto Rico Distillers' property purchased in 1988 to house its offices. However, in 1991 it found the property contaminated with hazardous waste including oil, asbestos, and PCB's. Drums left on the property were later determined to contain non-toxic materials. The cleanup was completed in 1994 and a final inspection report was issued by the Environmental Protection Agency in September 1997. A final clearance certification has not been issued. The grantee plans to sell the property when it gets the final certification and reprogram the proceeds.

**Alvarez Rossi Historic Building**

The Puerto Rican legislature appropriated \$750,000 for the grantee to rehabilitate the building for use as a public record depository. The winning bid to begin rehabilitation was ratified by the Municipal Assembly on December 9, 1997.

### **General Municipal Operating Costs**

According to the grantee, information available to us at the time of our field work was incorrect. Activities of employees paid by Public Services and charged as Crime Prevention and Educational Services were charged in accordance with the municipality's CDBG plan approved by HUD. The grantee provided employee job descriptions to support its statement.

### **Road Improvement Costs**

The grantee acknowledged that LGA funds were spent on road improvements that were not in low and moderate income areas. It stated that use of the funds was justified in an emergency because water that collected on the roads attracted mosquitoes (a potential health problem) and caused access problems for the elderly and low-income persons.

### **Road Maintenance and Canopy Costs**

The grantee said that the LGA funds improperly spent for road debris removal and for a canopy have been reimbursed to the program.

### **Housing Rehabilitation Program**

According to the grantee, it has strengthened management controls over its Housing Rehabilitation Program by 1) developing a program operations manual, 2) revising forms, and 3) appointing a three-member board to administer the eligibility process. A waiting list of eligible participants will also be used.

The grantee said that it followed up with the program participant in our review for over 2 months. Near the end of this period it learned that materials purchased with program funds had been stolen. It provided a copy of the police report to support its claim. It said that any unused materials should be returned for use by other participants.

## **OIG Response**

### **Hotel Development**

The grantee attributed the delay in developing the Puerto Rico Distillers' property to time required to clean up hazardous waste found on the property and to obtain a final clearance certification. However, it did not provide any information on the environmental assessment that should have been conducted prior to purchasing this high risk property. Also, there was no comment on the current condition of the property and what had been done in the past to maintain and secure it. Because of the nature and extent of this deficiency, HUD should recover the CDBG funds spent on this project.

### **Alvarez Rossi Historic Building Rehabilitation**

It is encouraging to learn that subsequent to our field work the grantee approved a bid to begin rehabilitation work on the property. However, the Puerto Rico legislature approved funding for the work in May 1995. HUD should confirm that the work has begun and determine what efforts the grantee has taken to maintain and secure the property to reduce further deterioration.

### **General Municipal Operating Costs**

Our review found that the grantee used CDBG funds to pay the costs of many employees who provided only general government services. It provided no support to show that these costs met program objectives. The municipality's CDBG plan provided only a general description regarding use of funds for Educational Services. We did not question any costs of employees who provided these type services. Under Crime Prevention, the plan stated that funds would be used to expand the municipality's police force. We did not question costs of municipal police. Our analysis of the job descriptions provided us for five employees found one employee who was not included in our review. There was nothing in the duties of the other four employees to change our position.

### **Road Improvement Costs**

The grantee originally claimed the costs benefited low and moderate income persons. However, it now acknowledges that the improvements were not made in low and moderate income areas. The information that was presented also did not support that the costs were incurred to meet a community development need having a particular urgency. The information presented also did not show a serious condition or that the road conditions were of recent origin.

### **Housing Rehabilitation Program**

Our review of the police report regarding the missing material showed that the theft took place in April 1998, 16 months after the participant received the assistance. In addition, the description of the stolen items did not reconcile with the materials provided. Our visit in November 1997 showed unused materials at the site. HUD should determine whether the grantee has implemented an adequate participant monitoring system to ensure work is properly and timely completed.

## **Recommendations**

### **We recommend that you:**

- 1A. Sanction the grantee for disregarding program requirements and for failing to take corrective actions (also see Findings 2 and 3).

- 1B. Require that the grantee submit a work plan to ascertain that responsible CDBG officials become familiar with CDBG and LGA program requirements.
- 1C. Require that the grantee establish management controls to ensure activities meet eligibility requirements and program objectives and files are adequately documented. Assess compliance during the next monitoring visit.
- 1D. Require that the grantee reimburse \$6,040,549 in ineligible costs spent during FY's 1993 through 1996 (see Appendix A).
- 1E. Determine the eligibility of \$236,854 budgeted for general local government services in FY 1997 and \$1,985 spent in FY 1996 for housing rehabilitation (see Appendix A). Recover any ineligible costs.



## Finding 2

### The Grantee Did Not Comply With Procurement Requirements

The grantee did not comply with program procurement requirements. We determined that the grantee (a) failed to provide full and open competition by splitting contracts and awarding sole-source contracts to avoid advertising and bidding, (b) amended contracts without proper justification, and (c) performed no price or cost analyses. It also paid contractors for poor and incomplete work, and nonexistent services and equipment. Because the grantee disregarded procurement requirements and controls, there was no assurance that quality goods and services were obtained at the most advantageous terms. We determined that \$202,648 in program funds are ineligible, \$83,116 are unsupported, and \$58,101 are cost efficiencies (see Appendix A).

Program regulations provide that recipients shall comply with HUD procurement standards contained in Title 24 CFR 85.36. Grantees can use their own procurement procedures, provided procurements conform to these standards. Standards include conducting procurements using full and open competition, performing price or cost analyses, fully documenting all procurement activities, and ensuring quality services and equipment are received prior to payment. The municipal law required that procurements totaling over \$40,000 must be advertised and bid.

We analyzed 14 contracts awarded during the period of July 1995 through June 1997, paid with LGA and CDBG funds. No price or cost analyses were performed and contract files generally were not documented to show how contracts were solicited and awarded. In addition, we found other significant procurement deficiencies.

#### Bid Splitting and Sole-Source Contracts

In 1997, the grantee awarded 2 fixed-price contracts to Constructora Santiago, totaling \$73,466 for the improvements to 22 roads. It requested that the contractor submit separate quotations within 17 days of each other. The grantee was aware of all roads needing improvement when the first request was made.

<i>Quote Request Date</i>	<i>Contract Date</i>	<i>Contract Amount</i>	<i>Number of Roads</i>
01/28/97	04/08/97	\$34,121	7
02/13/97	06/18/97	39,345	15
Total		\$73,466	22

The grantee did not advertise and bid the work. Grantee files showed that three companies were solicited for each project; however, only one other company submitted a quote related to the April 1997 contract.

The grantee also gave a \$137,157 sole-source fixed-price contract on July 22, 1996, to the same construction company to improve six roads. This work was not advertised and bid as required. Another company was solicited to do work; however, it submitted a quote for only one of the six roads.

The Director of the Municipal Development Office said that he did not advertise and bid the work because other contractors were not interested in doing it. He said that HUD had approved this procurement method. HUD said that it was not aware of the grantee's procurement practice and did not waive the requirements. Contract files were not documented to support and justify the actions taken on this contract.

### Unsupported Contract Amendments

We identified four construction contracts where the grantee approved contract amendments that significantly increased contract costs without justification. Cost increases ranged from 18 to 25 percent. For three of the contracts, amendments were made within 8 days of the original awards.

<i>Contractor</i>	<i>Project</i>	<i>Original</i>	<i>Contract</i>	<i>Amended</i>	<i>Contract</i>	<i>Increase</i>	
		<i>Amount</i>	<i>Date</i>	<i>Amount</i>	<i>Date</i>	<i>Amount</i>	<i>Percentage</i>
<i>Pro-Solder</i>	<i>Hato Viejo Basketball Court</i>	\$27,283	10/16/96	\$34,104	10/23/96	\$6,821	25
<i>Ruben Rodriguez Construction</i>	<i>Palo Blanco Basketball Court</i>	\$39,900	10/22/96	\$47,200	10/26/96	\$7,300	18
<i>Ruben Rodriguez Construction</i>	<i>Parcelas Bithorn Basketball Court</i>	\$39,900	10/22/96	\$49,800	10/27/96	\$9,900	25
<i>Sammy Construction</i>	<i>Parcelas Nuevas Baseball Park</i>	\$37,500	10/30/96	\$46,875	03/14/97	\$9,375	25

**Payments Were Made for Poor and Incomplete Work** The grantee paid \$200,318 in 1993 Section 108 LGA funds for poor and incomplete construction work. Payments were made although a grantee inspector had reported the defective work. Our site visits conducted in August and September 1997, found that the construction deficiencies had not been corrected. Final payments were made on four of the six projects.

PROJECT	CONTRACT			DEFICIENCIES
	PERFORMANCE PERIOD	AMOUNT	PAID <sup>1</sup>	
<b>Parcelas Bithorn Basketball Court</b>	10/23/96-12/16/96	\$49,800	\$49,800	missing 64 foot X 63 foot wall, construction debris not cleared, court floor not properly leveled, septic tank installed without drainage system
<b>Palo Blanco Basketball Court</b>	10/23/96-12/16/96	47,200	48,456	smaller diameter pipes substituted, angle of boards not properly inclined, regular plywood used instead of treated wood, construction debris not cleared, court floor not even
<b>Sabana Hoyos Storm Sewer System</b>	08/16/96-10/25/96	15,300	13,770	reinforcement rods exposed, all storm pipes were not installed, concrete not properly spread
<b>Parcelas Nuevas Baseball Park</b>	10/31/96-05/21/97	46,875	42,188	short fence gate, sections of supporting wall holding the fence were in the air, fence welds not properly treated and rusted, \$1,700 charged for an improperly constructed pitcher's mound
<b>Los Caños Bathroom Facilities</b>	09/05/96-11/07/96	12,000	12,000	handicap ramp was short, falling plaster, sink not properly installed, electrical fire in main breaker, neighbors completed plumbing
<b>Hato Viejo Basketball Court</b>	10/17/96-12/03/96	34,104	34,104	reinforcement rods exposed- a serious safety hazard
Total		205,279	\$200,318	
<sup>1</sup> Amount paid as of December 1997				



Parcelas Bithorn Basketball Court-Construction debris not cleared and court floor not properly leveled causing water to stand on the court



Palo Blanco Basketball Court  
Construction debris not cleared



Sabana Hoyos Storm Sewer System  
Concrete not properly spread



Parcelas Nuevas Baseball Park-  
Pitcher's mound improperly  
constructed (almost flat). The  
contractor charged \$1,700 for this  
work. The mayor concurred that the  
cost was excessive.



Parcelas Nuevas Baseball Park -  
Fence gate with 3 foot gap.



Parcelas Nuevas Baseball Park  
Fence welds were not properly treated. Grantee inspector indicated that the fence will soon collapse because of the rust.

Los Caños Bathroom Facilities  
Improperly installed sinks in the bathroom (not handicapped accessible). Park neighbors completed plumbing.





#### Hato Viejo Basketball Court

Retaining wall with exposed reinforcement rods, a serious safety hazard.

Contractor solicitation documents, contracts, and project files contained no specifications or detailed project requirements. The Director of the Municipal Development Office acknowledged that the work was defective and payments were approved without ensuring that work was properly completed and that reported deficiencies were corrected.

The grantee paid \$1,256 more for the Palo Blanco basketball court than the modified contract amount. There was no support for the excess cost. We consider \$200,318 spent on these projects ineligible, and \$6,217 that remained to be paid a cost efficiency.

**Payments Were Made For Services and Equipment That Were Not Received** In January 1997, the grantee paid \$1,700 in CDBG funds for an employee's computer training. The training was paid for in advance. However, it was canceled before it was scheduled to start and no reimbursement was sought by the grantee. In August 1996, the grantee paid \$630 in CDBG funds for an 8 gallon water cooler. The voucher was approved without an invoice and a receiving document. The grantee could not locate the cooler.

**Unsupported Consulting Services** Between July 1995 and June 1997, the grantee executed five sole-source contracts with the National Development Council for consulting services. The contracts required the consultants to assist the grantee to implement commercial, industrial, and residential loan programs.

<i>Contract</i>			<i>Amount Paid<sup>1</sup></i>
<i>Date</i>	<i>Period</i>	<i>Amount</i>	
06/26/97	07/01/97-06/30/98	\$45,000	\$3,750
01/01/97	01/01/97-06/30/97	22,500	16,153
07/01/96	07/01/96-12/31/96	22,500	21,975
01/01/96	01/01/96-06/30/96	22,500	22,238
07/01/95	07/01/95-12/31/95	22,500	19,000
Total		\$135,000	\$83,116
<sup>1</sup> Paid as of October 1997			

Reports submitted by the consultant showed services provided were associated with general government activities such as attendance at meetings with the grantee and comptroller's office to discuss audits and with other government and banking officials to discuss financing alternatives. Although the grantee had received similar services from the contractor for over 10 years, no loan programs have been established.

The grantee did not document how the services were procured and we could not determine from available documentation the amount of ineligible services that were provided. Therefore, we consider the \$83,116 paid unsupported, and \$51,884 unpaid a cost efficiency, pending a HUD eligibility determination.

### **Municipality Comments**

On September 8, 1998, the municipality stated in its response that: *The CDBG Program has adopted the procedures used by the Municipality for all future contracts. These rules were established by the Municipal Secretary and published on May 6, 1997. They require the department directors to assume responsibility for all contracts and purchases but also require that all contracts be approved by the Municipal Bid Board.*

### **Bid Splitting and Sole-Source Contracts**

The grantee stated that the bid request was for repairs to both major and minor roads. Only one company bid for the work because the other companies did not have the proper size equipment to work on the minor (smaller) roads. It said that HUD approved use of the sole-source contract. It provided a copy of a letter sent to a HUD official as support.

### **Contract Amendments**

The grantee stated that the amendments significantly increasing costs for four construction contracts were properly approved and adequately documented. It provided various documents to justify its conclusion.

### **Payments Were Made for Poor and Incomplete Work**

The grantee stated that it has inspected the cited projects and except for the Sabana Hoyos Project, all construction deficiencies have now been corrected at no additional cost. It provided photographs to show that the work had been done. The grantee said that it withheld the last payment and the 10 percent retention on the Sabana Hoyos Project and requested bids to complete the work. It said that it has implemented new management controls to ensure future projects are properly completed.

### **Payments Were Made for Services and Equipment That Were Not Received**

According to the grantee, it has requested reimbursement for the computer training that was not received. It said that it is also investigating disposition of the missing water cooler and supporting payment documents.

**Unsupported Consulting Services**

The grantee said that although objectives of the consultant contract have changed, funds were spent in accordance with program requirements.

**OIG Response****Bid Splitting and Sole-Source Contracts**

The grantee did not address the issue of bid-splitting or show that the 22 roads were included in the original bid request. Also the grantee did not provide any evidence to show that the sole-source contract for improvements to six roads was advertised and bid as required. As previously discussed in the report, the HUD official was not aware of the grantee's procurement practice. Also the letter to HUD was dated August 12, 1996; the contract was awarded July 22, 1996.

**Contract Amendments**

The documents provided by the grantee did not show that the amendments were justified. The documents were only certifications of project completion.

**Payments Were Made for Poor and Incomplete Work**

The grantee's reply did not address weaknesses cited in the report regarding documenting files and making payments for poor and incomplete work. Also there were no comments on what actions it will take to recover project costs from the Sabana Hoyos Project contractor and to recover \$1,256 in excess funds paid another contractor. In addition, the photographs provided did not show that the cited deficiencies were corrected. In reaching management decisions, HUD should 1) inspect the projects to confirm that the work was done and 2) determine whether the grantee's new management controls over project completion are adequate.

**Payments Were Made for Services and Equipment That Were Not Received**

HUD should ensure that the training funds are reimbursed the program and the grantee provides support for receipt of the water cooler.

**Unsupported Consulting Services**

The grantee did not show that all contract costs met program objectives. There was also no comment on how the services were procured.



## **Recommendations**

### **We recommend that you:**

- 2A. Ensure that the grantee has written procurement procedures that conform to HUD requirements and establishes management controls to ensure it pays only for quality services and equipment received.
- 2B. Assess procurement practices during the next monitoring visit.
- 2C. Require that the grantee reimburse ineligible costs of \$202,648 paid for poor and nonexistent services and equipment (see Appendix A).
- 2D. Determine the eligibility of \$83,116 spent on consultant services and \$58,101 obligated for construction and consultant services (see Appendix A). Recover any ineligible costs.

## Finding 3

### Immediate Financial Management System and Control Improvements Are Needed

The grantee did not adequately account for and report on program activities. Accounting records and reports were not accurate, current, or complete. Similar deficiencies have been identified in prior IPA and HUD monitoring reports; however, deficiencies continue to exist. The grantee has not provided sufficient resources to correct the problem. We identified LGA funds totaling \$224,223 that the grantee could not account for (see Appendix A).

Title 24 CFR 85.20(b)(1) provides that accurate, current, and complete disclosure of the financial results of assisted activities must be made in accordance with financial reporting requirements of the program.

We identified serious management control weaknesses and financial deficiencies:

- The grantee did not reconcile its CDBG and LGA Program bank statements timely. At the time of our review in November 1997, the last reconciliation was July 1997. According to the grantee, reconciliations were not done because accounting adjustments from prior reconciliations had not been made. We found numerous adjustments from reconciliations dating back to 1992 that had not been posted. In addition, the grantee did not reconcile investment statements received from several entities as part of its reconciliation process. If the grantee had instituted proper reconciliation procedures, differences could have been promptly investigated and resolved. The grantee's failure to (a) reconcile bank statements timely, (b) investigate and resolve inconsistencies promptly, and (c) include investment statements in the reconciliation resulted in the following deficiencies:
  1. The grantee's accounting records did not show the disposition of LGA funds totaling \$223,873. The grantee's register used to record cash receipts showed the funds invested at two entities. However, statements from the entities did not reflect any funds invested. The grantee had no records to support disposition of the funds. The grantee said that the discrepancy may have been caused by a posting error, but no reconciliation and subsequent resolution had been made. Accordingly, \$223,873 is unsupported.
  2. A reconciliation made in July 1997 of cash receipts from July, August, and September 1996 found \$350 on the cash register that was not on the bank statements. The grantee did not know what happened to the funds. Accordingly, \$350 is unsupported.

- The grantee did not submit its single audit reports timely. For example, the report on the grantee's 1991 and 1992 financial statements was submitted June 7, 1995.

<i><b>Financial Statements</b></i>	<i><b>Date</b></i>	
	<i><b>Due</b></i>	<i><b>Received</b></i>
1991-1992	June 30, 1993	June 7, 1995
1992-1993	June 30, 1994	June 7, 1995
1993-1994	June 30, 1995	February 5, 1998
1994-1995	June 30, 1996	No
1995-1996	June 30, 1997	No

- Expenditures shown in the FY 1995 GPR dated November 12, 1996, did not agree with amounts in the general ledger.

<i><b>ACTIVITY</b></i>	<i><b>GENERAL LEDGER</b></i>	<i><b>GPR</b></i>	<i><b>DIFFERENCE</b></i>
Arecibo Observatory	\$0	\$293,794	\$293,794
Educational Services	\$133,179	\$132,959	<\$220>
Crime Prevention	\$274,008	\$273,326	<\$682>

The FY 1996 GPR report was submitted after our field work.

- The 1995 GPR did not include \$15,000 from the lease of part of the Puerto Rico Distillers complex which was acquired with LGA funds. However, the funds were recorded in the general ledger as program income.

Previous IPA and HUD monitoring reports reflected similar deficiencies related to the grantee's financial management system; however, the grantee did not correct the problem. For example, the IPA reports for 1991-1992 and 1992-1993 stated that the grantee's (a) accounting records that did not provide timely, accurate, and complete financial information, and (b) bank reconciliations were not made timely. The IPA gave a qualified opinion on the grantee's financial statements. No opinion was rendered on the grantee's 1993-1994 financial statements by another IPA because of the condition of the grantee's financial management system and related reports.

A HUD monitoring report dated March 7, 1996, stated:

- General ledgers were not accurate and complete.
- There was no assurance assets were used solely for authorized purposes because of a lack of control and accountability for all grants and subgrants.
- Program bank accounts were not reconciled timely.
- Receipts and expenditures involving all CDBG activities were not properly accounted for.
- Program financial results reported were inaccurate, untimely and incomplete.

We found that the grantee's financial management system and controls did not ensure the propriety of program costs. The grantee expended funds for activities that did not address national objectives, improperly charged the program general local government costs, and paid for poor, incomplete and nonexistent services and equipment (see Findings 1 and 2). These deficiencies will continue to occur unless management controls are strengthened.

### **Municipality Comments**

The municipality in its response dated September 8, 1998, stated that: *The Municipality is undertaking a complete reorganization of its financial management system for federal accounting. This process is being supervised by CPA Ramon Marrero who performed the Municipality's Single Audits. Mr. Marrero is required to submit a certification of the reorganization process and as soon as the Municipality receives this certification a copy will be forwarded.*

#### **Bank Reconciliation and GPR Amounts**

The grantee stated that it has adjusted its accounting records for the 1) \$223,873 difference in invested funds caused by a posting error, 2) \$350 difference in cash receipts caused by a posting error, and 3) various differences between GPR and general ledger amounts.

#### **Single Audit Reports**

The grantee said that single audit reports for 1994-1995 and 1995-1996 have now been submitted. The report for 1996-1997 was submitted on time and work is progressing on the 1997-1998 report.

### **OIG Response**

#### **Bank Reconciliation and GPR Amounts**

The documentation submitted by the grantee was not sufficient to ascertain that the accounting discrepancies resulted from posting errors. The grantee also did not address the reasons for the differences in amounts reported in the GPR and amounts shown in the accounting records.

### **Recommendations**

#### **We recommend that you:**

- 3A. Require that the grantee provide the necessary resources to correct the financial management deficiencies cited in this report.

- 3B. Require that the grantee provide a IPA certification that it has developed and implemented a financial management system that complies with the requirements prescribed in 24 CFR Part 85.20.
- 3C. Require that the grantee submit, for review, documentation to show the reconciliation and disposition of LGA funds totaling \$223,873 recorded as invested and \$350 in cash receipts (see Appendix A). Recover any ineligible costs.

# *Follow-up on Prior Audits*

The grantee's single audit reports were not submitted timely. On June 7, 1995, the grantee submitted to HUD the single audit reports for fiscal years ending June 30, 1992 and 1993. The IPA gave a qualified opinion on the financial statements for the year ended June 30, 1993. Reported findings were similar to those identified during our review (see Finding No. 3). All of the findings remained open when we ended our site work. The single audit report for fiscal year ending June 30, 1994, was submitted on February 5, 1998, after our field work was completed. The IPA gave a disclaimer on the grantee's financial statements.

# Appendices

## Appendix A

### Schedule Of Ineligible and Unsupported Costs, And Cost Efficiencies

Recommendation	Description	Ineligible	Unsupported	Cost Efficiencies
1	LGA and CDBG funds paid for two projects that failed to meet national objectives (\$5,252,430), for general government employee salaries that were the grantee's responsibility (\$767,594), and for other ineligible costs paid (\$20,525).	\$6,040,549		
1	CDBG funds budgeted (\$236,854) for FY 1997 for employee salaries and paid for housing rehabilitation activity for which repairs were not done (\$1,985).		\$1,985	\$236,854
2	Funds paid to contractors for poor (LGA \$200,318) and nonexistent (CDBG \$2,330) services and equipment.	202,648		
2	CDBG (\$76,116) and HOME (\$7,000) funds paid for consulting services and \$51,884 obligated for the services. \$6,217 in LGA funds obligated for poor construction.		83,116	58,101
3	LGA funds recorded in the books as invested, but not supported (\$223,873) and unsupported cash receipts (\$350).		224,223	
		<b>\$6,243,197</b>	<b>\$309,324</b>	<b>\$294,955</b>

**Ineligible**

Costs not allowable by law, regulation, contract, or HUD or local agency policy.

**Unsupported**

Costs contested because they lack adequate documentation to support eligibility.

**Cost Efficiency**

An action to prevent an ineligible obligation or expenditure, or to increase revenue.

# Appendix B

## MUNICIPALITY COMMENTS



ESTADO LIBRE ASOCIADO DE PUERTO RICO  
**GOBIERNO MUNICIPAL DE ARECIBO**  
 OFICINA DESARROLLO MUNICIPAL  
 Apartado 1086, Arecibo, P. R. 00613

Tel. (787) 878-2770  
 878-7302

September 8, 1998

Ms. Aurora Rodriguez  
 Assistant District Inspector for Audit  
 Office of the Inspector General for Audit  
 Department of Housing and Urban Development

Dear Ms. Rodriguez,

The Municipality of Arecibo is pleased to answer the findings reported in the Office of the Inspector General for Audit's report. The answers provided follow the same order as that found in the audit report.

### Finding 1

#### The Grantee Mismanaged HUD Programs

The Municipality has analyzed all of the activities in a way that will permit them to comply with all objectives and regulations. This analysis will be implemented during FY98. Operations manuals that specify procedures and deadlines have been written and implemented for the HOME Program and similar manuals are being written for all CDBG programs individually. These latter manuals will be completed during FY98.

#### Major Construction Projects Were Not Completed

##### Hotel Development

In December 1988, the Municipality of Arecibo acquired the site of Puerto Rico Distillers from the Serralles company. This was bought with CDBG funds and with Section 108 loan guarantees.

The Municipality of Arecibo had intended to use the property to house its own offices. However, in February 1991 after a full investigation, the Municipality informed the Puerto Rico Environmental Quality Board (PREQB) that a "Bunker





C Oil" spill existed on the property: This apparently had occurred before the property was acquired by the Municipality but was unknown at the time of the purchase. During the subsequent investigation by PREQB, more toxic material was discovered. Nothing further could be done with the property until this contamination issue was completely resolved to the satisfaction of EPA and EQB.

The PREQB submitted a Preliminary Assessment Report in March 1991. The report recommended that a site inspection be conducted. In April 1991 the US Environmental Protection Agency (EPA) received a complaint concerning the storage of hazardous materials and the presence of asbestos on the site.

The PREQB issued an order to the Municipality and to Serralles on July 31, 1991 requiring them to clean the site in accordance with EQB regulations. The cleaning activities were supervised by the EPA and EQB Technical Assistance teams from January 1993 through July 1994. Drums, asbestos and PCB's were removed.

The final site inspection report was issued by the EPA in September 1997. That inspection revealed that:

1. All potentially hazardous materials originally stored within the building had been removed.
2. No evidence of runoff or migration of contaminants was observed.
3. The drums observed contained molasses, or non-toxic materials.

The Municipality of Arecibo has requested a final clearance certification for the site which is still pending.

The Municipality proposes to sell the site, and reprogram the CDBG funds involved, as soon as the final clearance certification is received.

#### **Alvarez Rossi Historic Building Rehabilitation**

The Puerto Rican Legislature approved funds to rehabilitate the Alvarez Rossi Building as a Public Record depository after it was bought with LGA funds in 1993. A total of \$750,000 was assigned for this project after the Legislative approval was received. A bid request was issued for the project and the winning bid was ratified by the Municipal Assembly on December 9, 1997. A copy of the contract, the award documents and the plans for rehabilitation are attached to this letter in Appendix I.

## **CDBG Funds Were Spent For Ineligible Activities**

### **General Municipal Operating Costs Were Improperly Paid With Program Funds**

The personnel assigned to the Public Service activities of Crime Prevention and Educational Services complied with the requirements established for the activity. The information available to the auditors at the time of their work was incorrect. The positions paid by Public Services were for activities that were specified in the corresponding, approved, CDBG Programs. Appendix II contains copies of the job descriptions of all the employees concerned with the Crime Prevention activity and the Education Services activity. Appendix III contains a description of the Educational Services activity approved for FY98.

### **Road Improvements Were Made In Other Than Low or Moderate Income Areas**

Valle Verde, one of the two areas in question, is a rural community where the majority of people are elderly and many have physical problems. The water from rainfall formed large pools which sometimes flooded cars and which always attracted mosquitos. It posed not only an emergency access situation for the elderly residents but also a health hazard.

The Municipality was informed that one of the roads in College Park was almost impassable, and, even though it is not in a low income area, it does contain medical offices which low-income people use.

In both cases the Municipality decided that, although neither of these projects was in a low-income area, they did require emergency help.

### **Ineligible Road Maintenance Costs Were Paid With Program Funds**

Funds were received from FEMA during the month of August 1998. These funds were reimbursements for damages caused by hurricane action. These funds were deposited in the Section 108 custodial account and included the \$1,931 cited in this finding. The Custodial Account number is #157-010910 and the total amount deposited from FEMA was \$17,477.68. Appendix IV contains a copy of this transaction.

### **Costs for a Canvas Canopy**

The funds received from FEMA during the month of August 1998, cited above in "Ineligible Road Maintenance Costs" also contains the reimbursement for the canopy cited as ineligible in this finding. These funds were also reimbursements for damages caused by hurricane action. Thus this expenditure has been reimbursed.

### **The Grantee Did Not Properly Administer Its housing Rehabilitation Program**

The Municipality of Arecibo has worked to revise the documents and the procedures for the Rehabilitation of Housing. Commencing in the 1998-99 fiscal year a waiting list will be used for eligible participants and the entire process will be administered by a three-member board appointed by the Mayor. The Board will meet periodically to rule on pending cases and to ensure that low-income participants receive priority. The forms to be used in this process are attached in Appendix V. In addition, an operations manual has been written for the activity which specifies all steps and procedures as well as deadlines.

The particular case of Sra. Carmen Morales Carrion of Barrio Domingo Ruiz who received \$1,985 received follow-up over a two month period. It was not until the end of the second month that the Municipality received information that the materials involved had been stolen. Attached in Appendix VI is a copy of the police report. It is the policy of the program that, when materials are not used, they are returned and used for other applicants in the waiting list.

\*\*\*\*\*

## **Finding 2**

### **The Grantee Did Not Comply With Procurement Requirements**

The CDBG Program has adopted the procedures used by the Municipality for all future contracts. These rules were established by the Municipal Secretary and published on May 6, 1997. They require the department directors to assume responsibility for all contracts and purchases but also require that all contract be approved by the Municipal Bid Board.

**Bid Splitting and Sole-Source Contracts**

The bid request issued by the Municipality for the road repairs in question included minor and major roads. The equipment of two of the bidders did not fit in the small minor rural roads and so they did not bid. Only one bidder bid for the small road contract. That bidder did not initially submit the correct documentation and so was requested to resubmit the bid. The Municipality requested guidance from the HUD Program officer and was advised to go ahead with the single contractor. The letter confirming this conversation is attached in Appendix VII.

**Unsupported Contract Amendments**

The process followed to approve amendments and change orders to contracts is that the contractor requests a change, Municipal inspectors inspect the reasons for the change and reach an agreement with the contractor. This process is documented by exchanges of letters. Once the amendment is approved, or denied, the work proceeds. This process was followed in all projects cited in this finding and Appendix VIII contains copies of the relevant documents. In the case of Sammy Construction the 10% retained by the Municipality for final inspection has been withheld pending the appropriate completion of the project.

**Payments Were Made for Poor and Incomplete Work**

The Municipality has inspected all of the projects cited under this part of the finding and has worked with the contractors concerned to make all of the corrections necessary at no extra cost to the Municipality. Appendix IX contains photographs of the completed projects. In addition, the new Bid Board requirements, and financial controls, for contracts will ensure that they are implemented correctly in the future. In the case of the Sabana Hoyos Project the corrections were not made and the last payment and the 10% retained amount have been withheld. Bids are presently being requested to complete the work.

**Payments Were Made for Services and Equipment That Were Not Received**

The finding related to the expenditure of CDBG funds for a seminar that was not given has been addressed as follows: The Municipality has discussed the matter with the State OCAP agency and has been informed that the agency is sending a letter approving reimbursement of the \$1,700. Copies of the letters involved are contained in Appendix X.

In the cited case of a water cooler purchase for \$630. It was for handicapped persons in one of the recreational parks. The cooler was apparently removed from the park without

the authorization of the Director of the Department concerned. The Municipality is investigating how this happened and is also verifying the documentation to locate the missing invoice and receiving document.

### **Unsupported Consulting Services**

The Municipality accepts that the objectives of the original contract with the National Development Council changed. However, they have been responsible for the Municipality acquiring funding for the Paseo de Diego project, the Puerto Rico Distillers project and the remodeling of the Plaza Mercado project. The National Development Council has also assisted the Municipality in various infrastructure projects which have resulted in a greater ability to attract industrial development to the area.

\*\*\*\*\*

### **Finding 3**

#### **Immediate Financial Management System and Control Improvements Are Needed**

The Municipality is undertaking a complete reorganization of its financial management system for federal accounting. This process is being supervised by CPA Ramon Marrero who performed the Municipality's Single Audits. Mr. Marrero is required to submit a certification of the reorganization process and as soon as the Municipality receives this certification a copy will be forwarded.

#### **Management Control Weaknesses and Financial Deficiencies**

##### **Reconciliation of Bank Accounts**

##### **Bank reconciliations**

##### **1. \$223,873:**

An error of \$223,873 occurred in FY95 and was caused by a posting error in the cash ledger of the LGA account. Attached in Appendix XI is a copy of the cash ledger adjustment, dated November 20, 1997, which corrects this error. The \$23,873 difference was corrected through an adjustment on September 10, 1998. Appendix XII contains a copy of this transaction.

**2. \$350:**

The amount of \$350 corresponds to the CDBG current account in Banco Popular (#157-831191). An investigation showed that this error resulted from differences in posted income. The Municipal Director of Finance sent a directive in August 1998 to adjust the cash ledger in order to correct this error. Attached in Appendix XIII is a copy of this cash ledger adjustment.

**Single Audit Reports**

The Single Audit Report for 1994-1995 which was due on June 30, 1996 and the Single Audit Report for 1995-1996 which was due on June 30, 1997, were both submitted to HUD. The Single Audit for FY97 was submitted to Hud on June 24, 1998. Ramon L. Marrero, CPA is presently working on the 1997-1998 audit.

**GPR and General Ledger**

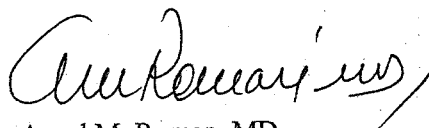
The differences in the GPR report for FY95 and the General Ledger for the Educational Services and Crime Prevention activities were corrected by adjustments made on June 30, 1996. The Arecibo Observatory activity did not expend any of the programmed funds and the sheet attached in Appendix XIV shows the amount reprogrammed.

**GPR/PR Distillers**

The \$15,000 that did not appear in the FY95 GPR were reflected in the accounts during FY96. Attached in Appendix XV is the document where this amount is reflected.

Thank you for your attention.

Yours sincerely,



Angel M. Roman, MD  
Mayor

## Appendix C

### Distribution

Secretary's Representative, 4AS  
 Caribbean Coordinator, San Juan Area Office, 4NS  
 Director, Office of Community Planning and Development, 4ND  
 Audit Liaison Officer, 3AFI  
 Director, Administrative Service Center, 4AA  
 Acquisitions Librarian, Library, AS (Room 8141)  
 General Counsel, C (Room 10214)  
 Associate General Counsel, Office of Assisted Housing and Community Development, CD  
 (Room 8162)  
 Assistant Secretary for Community Planning and Development, D (Room 7100)  
 Office of Community Planning and Development, DG ATTN: Audit Liaison Officer  
 (Room 7214)  
 Chief Financial Officer, F (Room 10164) (2)  
 Deputy Chief Financial Officer for Finance, FF (Room 10164) (2)  
 Director, Office of Budget, FO (Room 3270)  
 Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street N.W.,  
 Room 2474, Washington DC 20548 ATTN: Judy England-Joseph  
 Counsel to the IG, GC  
 Public Affairs Officer, G  
 HUD OIG Webmanager-Electronic format cc:mail- Morris\_F.\_Grissom@Hud.Gov  
 Director, HUD Enforcement Center, 1240 Maryland Avenue, Suite 200, Washington, DC 20024  
 Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)  
 Assistant to the Secretary for Labor Relations, SLD (Room 7118)  
 The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,  
 United States Senate, Washington DC 20515-4305  
 The Honorable John Glenn, Ranking Member, Committee on Governmental Affairs,  
 United States Senate, Washington DC 20515-4305  
 The Honorable Dan Burton, Chairman, Committee on Government Reform and Oversight,  
 United States House of Representatives, Washington DC 20515-6143  
 Mr. Pete Sessions, Government Reform and Oversight Committee, Congress of the United States,  
 House of Representatives, Washington, DC 20510-6250  
 Ms. Cindy Sprunger, Subcommittee on General Oversight and Investigations, Room 212,  
 O'Neil Office Building, Washington DC 20515  
 Mayor, Municipality of Arecibo, Arecibo, Puerto Rico