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| Audit Report Number | 2012-AT-1001 |
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TO: José R. Rivera, Director, Community Planning and Development, San Juan Field Office, 4ND

FROM: //signed//
James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Municipality of San Juan, PR, Generally Complied With Homelessness Prevention and Rapid Re-Housing Program Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Municipality of San Juan Homelessness Prevention and Rapid Re-Housing Program. The audit was in accordance with our audit plan to review funds provided under the American Recovery and Reinvestment Act of 2009. We selected the Municipality based on the large amount of Program funds approved. Our objective was to determine whether the Municipality ensured that its Program complied with Recovery Act and U. S. Department of Housing and Urban Development (HUD) program expenditure and reporting requirements.

What We Found

The Municipality generally administered its Program in accordance with HUD requirements. However, it did not correctly report the number of jobs created or retained with Program funds. As a result, the public was not provided with complete and accurate information about the jobs funded by the Recovery Act.

What We Recommend

We recommend that the Director of the San Juan Office of Community Planning and Development require the Municipality to review and correct any inaccurate information reported on the Federal reporting Web site and develop and implement procedures to ensure complete and accurate reporting in accordance with Section 1512 of the Recovery Act.

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

Auditee's Response

We discussed the finding with HUD and the Municipality during the audit and at the exit conference on October 7, 2011. The Municipality provided its written comments to the draft report on October 10, 2011. In its response, the Municipality generally agreed with the findings.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report. Attachments to the Municipality's comments were not included in the report but are available for review upon request.

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BACKGROUND AND OBJECTIVE

The American Recovery and Reinvestment Act of 2009 established the Homelessness Prevention and Rapid Re-Housing Program, which is regulated by the U.S. Department of Housing and Urban Development (HUD) and administered by HUD’s Office of Community Planning and Development. The purpose of the Program is to provide homelessness prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and rapid rehousing assistance to persons who are homeless as defined by Section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). The Program provides temporary financial assistance and housing relocation and stabilization services to individuals and families who are homeless or would be homeless but for this assistance. The eligible program activities target two populations facing housing instability:

- Individuals and families that are currently housed but are at risk of becoming homeless.
- Individuals and families that are experiencing homelessness (residing in emergency or transitional shelters or on the street).

On July 24, 2009, HUD entered into a grant agreement with the Municipality of San Juan to distribute more than \$4.2 million in Program funds. The Municipality is the second largest recipient of Program funds in Puerto Rico. The Municipality’s accounting records reflected expenditures exceeding \$2.6 million, as of March 31, 2011, for the following activities:

| Funding categories | Expenditures |
|--------------------------------|---------------------------|
| Homelessness prevention | \$2,017,171 |
| Rapid rehousing | 466,021 |
| Data collection and evaluation | 132,690 |
| Administration | 46,121 |
| Total | <u>\$2,662,003</u> |

The Municipality’s Housing and Family departments are responsible for administering the Program. Its books and records are maintained at the San Juan Integra Building, 1205 Ponce de Leon Avenue, and at the Municipal Tower, 160 Chardon Avenue, in San Juan, PR, among other sites. We reviewed the Municipality’s program in accordance with our goal to review funds provided under the Recovery Act. Our objective was to determine whether the Municipality ensured that its Program complied with Recovery Act and HUD program expenditure and reporting requirements.

RESULTS OF AUDIT

Finding: The Municipality Did Not Fully Comply With Program Reporting Requirements

The Municipality generally administered its Program in accordance with HUD requirements. However, it did not report accurate information on Program accomplishments. This condition occurred because the Municipality lacked controls and procedures to ensure that Program accomplishments were reported accurately and completely. As a result, the public was not provided accurate and complete information on the Municipality's accomplishments.

Inaccurate Job Information

The Municipality did not correctly estimate the total number of jobs that were funded in accordance with Office of Management and Budget (OMB) Memorandum M-10-8. According to the OMB guidance, the estimate of jobs created or retained by the Recovery Act should be expressed as full-time equivalents. The hours worked in funded jobs are divided by the number of hours representing a full work schedule for the kind of job being estimated.

For the reporting period ending March 31, 2011, the Municipality reported 8.65 jobs created associated with its Program activities. However, the reported job information was based on incomplete and inaccurate information. The Municipality failed to include partially funded jobs in its estimate and incorrectly included in its calculations the hours worked related to prior quarters. As a result, the reported number of jobs was understated, and the public did not have access to accurate and complete information on the estimated number of jobs funded with Recovery Act funds granted to the Municipality. This error was the result of a lack of established procedures for reporting.

Conclusion

The Municipality generally established adequate controls for the Program and used funds for eligible activities. However, it lacked procedures and controls to ensure that reported Program accomplishments were accurate and complete. As a result, the public was not provided accurate and complete information on Program accomplishments. Management must ensure that it complies with HUD and Recovery Act requirements.

Recommendations

We recommend that the Director of HUD's San Juan Office of Community Planning and Development

- 1A. Require the Municipality to review all Program job information on the Federal reporting Web site and correct inaccurate information.
- 1B. Require the Municipality to develop and implement procedures to ensure the accuracy and completeness of the job information reported in accordance with Section 1512 of the Recovery Act and OMB guidelines in Memorandum M-10-8.

SCOPE AND METHODOLOGY

The objective of the audit was to determine whether the Municipality had adequate controls and procedures to administer the Program in accordance with requirements and spent Program funds for eligible activities.

To accomplish our audit objective, we

- Reviewed applicable HUD laws, regulations, and other HUD program requirements;
- Reviewed the Municipality's controls, policies, and procedures as they related to our objective;
- Reviewed the Municipality's organizational chart;
- Interviewed HUD, Municipality, and contractor officials;
- Reviewed monitoring, internal review, and independent public accountant reports;
- Reviewed the Municipality's files and records, including activity files and accounting records;
- Traced information reported in HUD's information system to the Municipality's records, including accounting records and executed agreements; and
- Reviewed OMB guidance for reporting program accomplishments and assessed the accuracy of reporting by the Municipality.

The Municipality's records reflected that it expended more than \$2.48 million for homelessness prevention and rapid rehousing efforts on behalf of 466 participants between July 1, 2009, and March 31, 2011. We randomly selected and reviewed 25 participants' files with assistance totaling more than \$158,000. We reviewed the 25 participants' files and the related supporting documents to determine whether disbursements made in relation to such participants were eligible and properly supported. The random selection methodology was chosen because a review of a 100 percent of the case files was unfeasible.

The Municipality's records reflected that it expended more than \$46,000 for administrative costs between July 1, 2009, and March 31, 2011. We reviewed disbursements totaling \$40,000 based on the dollar amount of transactions. We reviewed the expenditures and the related supporting documents to determine whether the payments met Recovery Act and HUD requirements, including allowability and allocability of the costs.

The progress report for the period ending March 31, 2011, reflected that 8.65 jobs were created or retained related to the Municipality's homelessness prevention and rapid rehousing activities

undertaken. We reviewed the reported job information to determine whether the Municipality reported accurate and supported information on program accomplishments.

To achieve our audit objective, we relied in part on computer-processed data contained in the Municipality's database and HUD's information system. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. 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, 2009, through March 31, 2011, and we extended the period as needed to accomplish our objective. We conducted our fieldwork from May through August 2011 at the Municipality's offices in San Juan, PR.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives, while considering cost effectiveness and efficiency.
- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of assets and resources - Policies and procedures that management has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in

financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Municipality did not have adequate procedures for ensuring the accuracy and completeness of reporting Program accomplishments on the Federal reporting Web site (see finding).

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

October 10, 2011

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

Subject: Comments to Draft Audit Report
The Municipality of San Juan, PR, Generally Complied With Homelessness
Prevention and Rapid Re-Housing Program Requirements

This is in response to your letter dated September 21, 2011, and received by the City on September 30, 2011 and related to the above subject. We reviewed the draft and have prepared the following comments addressing the issues in which the Municipality understands it is in compliance with the applicable regulations.

The audit identifies the following conditions:

- Condition 1: In 2 of the 25 files reviewed, the Municipality failed to obtain proper documentation to show that the participant would become homeless without Program assistance; and
- Condition 2: The Municipality did not correctly estimate the total number of jobs that were funded in accordance with Office of Management and Budget (OMB) Memorandum M-10-8

Comments to Condition #1

Regarding Condition #1, during the exit conference we presented documentation evidencing the eligibility of the participants and how the staff took all the required actions to evidence the housing status (as required by HUD'S Eligibility Determination and Documentation Guidance, August 2011).

According to HUD's guidance, the housing situation for households occupied by an Applicant without Paying Rent, including housing shared with friends or family must be documented as follows:

| HUD guidelines/required action | Documentation Maintained by the Municipality |
|--|---|
| Acceptable Type of Documentation (Self Certification) | Forms-SHPR-2 & 2A (See Attachment 1) |
| Obtain signed and dated original self-declaration from applicant | Form was signed and dated by applicant (See Attachment 1) |
| HPRP worker must document attempt to obtain third party documentation and sign self-declaration form | Various attempts were made to obtain the third party documentation evidenced in file. |
| HPRP worker must sign self-declaration form | Form was signed and dated by case worker (See Attachment 1) |
| Include self-declaration in participant file. | Form was included in two separate files (pre-application and application) |

Copies of the documentation used by the Municipality were provided to the auditors during the exit conference.

Comment 1

As additional documentation, SJ-HPRP-20 forms were presented for both cases ([see Attachment 2](#)). In this self certification the participant certifies its housing status. With this letter we are including the Instructions to be followed by the Staff to complete the form ([see Attachment 3](#)). The adoption of the memorandum included in appendix 3 will avoid the recurrence of the situation. The Memorandum was distributed to all the employees of the HPRP program.

With this documentation the Municipality demonstrates that the \$13,608 funds were used for eligible purposes of the HPRP program. Based on this information we request that the OIG recognize that the corrective action has been taken and that no additional action be required.

Comments to Condition #2

Comment 2

As discussed by Mr. Michael Rivera during the exit conference, the ARRA requirement for Job Creation/Retention reporting has changed in multiple occasions since the approval of the Act. Due to this variable instruction and requirements the Municipality did not report the jobs retained (current employees not at risk of losing their jobs) in the way required by the OMB Circular. We were informed of the discrepancies in mid June 2011, and we immediately took action to correct the reports. Copies of the reports were provided to the auditors in the second week of July 2011 (A copy of the report and the

supporting documentation is included in Attachment 4). In addition, during our September 2011 reporting period we submitted the reports with the correct Jobs Creation/Retention Information. We understand that we took the required corrective action of recommendation 10 and we request that the OIG recognizes the action in the final report.

Regarding recommendation 1E, the report recommends the Municipality "to develop and implement procedures to ensure the accuracy and completeness of the job information reported in accordance with Section 1512 of the Recovery Act and OMB guidelines in Memorandum M-10-8". To address recommendation 1E, we prepared and implemented a job reporting procedure that complied with the requirements of the ACT. The procedure was used for the preparation of the reports submitted by the Municipality in July and September 2011. The procedure is included for your review and comment in Attachment 5.

Taking into consideration the documentation presented, we understand that we took the necessary and adequate corrective actions to address the deficiencies identified by the OIG. Based on this information we request that the OIG recognizes that the corrective actions have been taken and that no additional action be required.

The above comments represent our initial evaluation of the report. If you need additional information please contact Mr. Hector Tamayo, Director, San Juan Housing Department, at 787-347-4000.

Cordially,

Lourdes M. Rovira
Executive Director

Enclosures

OIG Evaluation of Auditee Comments

Comment 1 The Municipality obtained signed self-declarations from two participants and provided explanations of efforts made to obtain third party verification of the information provided. In addition, it prepared written procedures to ensure the housing status of participants is properly documented. As a result we removed the related finding language from the report.

Comment 2 The Municipality stated that it has taken corrective action to properly report the jobs created or retained using Program funds and that it has developed and implemented written procedures to properly report accomplishments in the Federal reporting Web site.

We acknowledge the Municipality's efforts to improve its controls and procedures associated with the Program. HUD needs to verify the accuracy of job information reported with appropriate source documentation and confirm that the new procedures are in place.