



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 18, 2014

MEMORANDUM NO:
2014-AT-0801

Memorandum

TO: María Ortiz, Director, Community Planning and Development, San Juan Field Office, 4ND

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: HUD's Monitoring of the Vieques Sports City Complex's Section 108 Loan Guarantee Program

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), reviewed HUD's San Juan, PR, Office of Community Planning and Development's monitoring of the Vieques, PR, Sports City Complex project. The review was performed based on indicators identified in the audit of the Vieques Sports City Complex¹, Office of the Commissioner for Municipal Affairs' (OCMA) Puerto Rico State Community Development Block Grant (CDBG) Section 108 Loan Guarantee program. More than 11 years had elapsed since HUD monitored the sport complex; however, the deficiencies identified remained unresolved. The objective of this review was to determine whether HUD took effective actions to enforce the resolution of the deficiencies noted in its 2002 monitoring review of the Vieques Sports City Complex.

This memorandum contains two recommendations for corrective action. HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the review.

¹ Audit memorandum number 2014-AT-1801.

METHODOLOGY AND SCOPE

To accomplish our objective, we

- Reviewed applicable laws, regulations, and HUD handbooks;
- Reviewed HUD's Section 108 loan files related to the Vieques sports complex, including loan application documents;
- Reviewed HUD's monitoring report, including action plans submitted by OCMA for completing the project and related correspondence; and
- Conducted interviews with staff from HUD's San Juan field office.

We conducted the review at the HUD field office and our HUD, Office of Inspector General (OIG), office in San Juan, PR, from February through May 2014. Our review generally covered the period September 1, 2002, through January 31, 2014. This was a limited scope review, and we did not review HUD's internal and information system controls and procedures. Therefore, the review was not performed in accordance with generally accepted government auditing standards. To meet our objective, it was not necessary to fully comply with the standards, nor did our approach negatively affect our review results.

BACKGROUND

Vieques Sports City Complex

In July 1993, the Municipality of Vieques, a nonentitlement recipient, submitted an application for a \$5 million Section 108 loan for the planning, design, development, and construction of a sports city complex in the Luján ward.² The Municipality expected to complete the project 2 years after signing the Section 108 loan contract. In August 1993, OCMA recommended the approval of the loan and agreed to pledge future State CDBG funds for the Section 108 loan. HUD approved the \$5 million Section 108 loan in April 1994.

On December 24, 1997, the Vieques Conservation and Historical Trust, Inc., and a Vieques resident filed a lawsuit in Federal court, alleging environmental violations by the Municipality and two Federal agencies, HUD and the U.S. Department of the Interior. The plaintiffs alleged that the defendants, by planning, funding, and carrying out the construction of the sports complex, would violate the National Environmental Policy Act, the Endangered Species Act, and the National Historic Preservation Act. In September 2002, the plaintiffs entered into a settlement agreement with the Municipality. As a result of the settlement agreement,³ the

² The project consisted of a main recreational building to house, among other facilities, a cafeteria, basketball-volleyball court with a seating area for 1,000 spectators, three handball courts, three game rooms, a child care room, an exercise room, and a swimming pool. It also included two baseball parks with seating areas for 3,000 spectators.

³ In September 2002, the plaintiffs entered into a settlement agreement, and the Municipality agreed to (1) not complete the sports complex as designed, (2) comply with the requirements for outdoor lighting in case a future facility was constructed, and (3) continue to maintain the site in full compliance with all applicable Federal and State laws.

construction of the sports complex was suspended, with about 72 percent of the project completed and more than \$10.8⁴ million in State CDBG funds disbursed.

2002 HUD Monitoring Report

HUD conducted a monitoring review of the Vieques sports complex activity and raised two concerns⁵ with specific recommendations in its monitoring report, dated September 19, 2002 (see table 1).

Concern	Recommendation(s)
1. The Municipality of Vieques has not completed the Vieques sports complex project and has not met national objectives.	1A. OCMA submits to HUD an action plan with a course of action to be taken regarding the Vieques sports complex project within 30 days.
2. Documentation, record-keeping, and financial reporting of the Vieques sports complex needs improvement.	2A. OCMA evaluates and updates all outstanding issues pertaining to the project and maintains updated data. 2B. OCMA designs reporting systems that provide the necessary data on Section 108 projects to mitigate any adverse effects or consequences of the deficiency. These records should be accurate and current and fully disclose financial results. 2C. OCMA assigns staff to provide ongoing technical assistance throughout the Section 108 loan process.

Table 1

Regarding the first concern, HUD concluded that the Section 108 loan proceeds, as well as additional CDBG grants used to repay the loan and for the development of the sports complex, did not accomplish program objectives. OCMA was informed that if the concern was not properly addressed and a workable solution that corrected the deficiency was not attained, HUD would raise a finding and consider imposing sanctions, which could include disallowing all funds expended on the project. In the second concern, HUD pointed out the lack of an inventory and source documentation pertaining to unused construction materials and equipment found at the project site.

HUD's San Juan field office is responsible for monitoring CDBG recipients within its jurisdiction, which includes Puerto Rico. HUD's books and records are maintained at 235 Federico Costa Street, San Juan, PR.

RESULTS OF REVIEW

HUD did not take effective actions to enforce the resolution of the deficiencies noted in its 2002 monitoring review of the Vieques sports complex. We attribute this deficiency to HUD's

⁴ The more than \$10.8 million in State CDBG funds consisted of (1) more than \$6.8 million used to repay the Section 108 loan, (2) more than \$3.7 million expended for development costs, and (3) \$320,252 in expended program income proceeds.

⁵ According to the 2002 HUD monitoring report and the Office of Community Planning and Development's Monitoring Handbook 6509.2, REV-6, a finding is a violation of the statute, regulations, or a grant agreement, while a concern is a deficiency in performance that could potentially become a finding if not properly addressed. However, corrective actions are not required for concerns.

categorizing the monitoring deficiencies as concerns, for which corrective actions are not required. The monitoring deficiencies are findings because the project remained incomplete and abandoned without meeting a national objective of the CDBG program, and records were not accurate and current and did not fully disclose financial results.⁶ As a result, HUD had no assurance that more than \$10.8 million in CDBG funds disbursed on the project would meet program objectives and provide the intended benefits.

Ineffective Efforts

HUD was not effective in enforcing a quick resolution to the monitoring deficiencies of the Vieques sports complex. HUD performed follow-up inquiries in its annual assessments and held meetings with OCMA where alternate options to the Vieques project were discussed; however, these efforts did not result in the implementation of a corrective action plan to mitigate and resolve the noncompliance issues associated with the sport complex.

The September 19, 2002, monitoring report advised OCMA that if corrective actions were not in place within 30 days, HUD could consider imposing sanctions. HUD extended the due date twice for OCMA to complete and submit a plan with a course of action to be taken regarding the Vieques sports complex project. HUD sent 11 additional letters reminding OCMA that the 2002 monitoring deficiencies were outstanding and that corrective measures were required (see table 2).

Date of HUD letter	Time extension granted by HUD	New due date for responses	Comment
Nov. 14, 2002 Sept. 17, 2003 Aug. 17, 2004		N/A*	HUD advised OCMA that it was still waiting for the action plan to correct deficiencies of the sports complex project as noted in the 2002 monitoring report. HUD also instructed OCMA to develop a plan that would bring the project into compliance with one of the three national objectives of the CDBG program.
Jan. 28, 2005	60 days	Mar. 29, 2005	HUD informed OCMA that it was required to provide a final determination regarding the use of the sports complex and provide an action plan before March 30, 2005.
Dec. 23, 2005	96 days	Mar. 29, 2006	HUD informed OCMA that it was required to submit an action plan before March 30, 2006, regarding the proposed use of the sports complex.
Nov. 21, 2006		N/A*	HUD informed OCMA that it had not received an action plan for the sports complex and it might consider disallowing the funds if the information was not received.
Nov. 26, 2007		N/A*	
Nov. 17, 2008		N/A*	HUD informed OCMA that the 2002 deficiencies were still outstanding.
Nov. 24, 2009		N/A*	HUD informed OCMA that the issues related to the sports complex had been outstanding since 2002. It also stated that OCMA had not complied with the action plan submitted on March 13, 2008.
Nov. 26, 2010		N/A*	
Nov. 28, 2011		N/A*	
Nov. 26, 2012		N/A*	

⁶ Required by 24 CFR 570.200(a)(2), 570.703, and 85.20.

Dec. 13, 2013		N/A*	HUD informed OCMA that the issues related to the sports complex remained outstanding and that it would address them after the OIG audit was completed.
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Table 2

* HUD did not impose a due date.

In an email, dated October 21, 2002, the Acting General Deputy Assistant Secretary for Community Planning and Development informed the San Juan field office that the monitoring revealed serious problems and that it was time for OCMA to reimburse HUD if it did not develop options that would bring the project into compliance with one of the three CDBG national objectives. Despite OCMA’s failure to bring the sports complex into compliance with program objectives, we did not find documentation from HUD requesting the reimbursement of the funds invested in the sports complex.

Conclusion

HUD did not take appropriate actions to prevent a continuation of the deficiencies and to mitigate the adverse effects and consequences of the deficiencies noted in the 2002 HUD monitoring of the Vieques project, as provided in 24 CFR (Code of Federal Regulations) 570.495. HUD’s actions during the past 11 years did not produce a quick resolution of the monitoring deficiencies. Although alternate options to the sports complex project were presented and discussed with HUD, OCMA did not implement a corrective action plan to mitigate and resolve the noncompliance issues associated with the project.

The failed sports complex project was abandoned and not completed, materials and equipment acquired for its construction were unaccounted for, and the intended benefit was not realized. Despite the continued noncompliance on behalf of OCMA to bring a resolution to the concerns of the project, HUD allowed the situation to continue for more than 11 years without raising a finding and providing corrective actions or imposing sanctions. The failure of HUD to take timely actions had a negative impact on the State CDBG program, as more than \$10.8 million in Federal funds were spent for developing a project that was never completed and low- and moderate-income persons did not receive the intended benefits.⁷

RECOMMENDATIONS

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

- 1A. Issue a finding pertaining to the deficiencies identified in the 2002 HUD monitoring report.
- 1B. Increase its monitoring of OCMA to ensure that the monitoring deficiencies related to the Vieques sports complex are resolved in a quick manner and in accordance with HUD requirements.

⁷ More than \$10.8 million disbursed for the sports complex were questioned in the March 20, 2014, audit memorandum.

Appendix A

AUDITEE COMMENTS

The Program Manager of the Office Community Planning and Development San Juan Field Office informed us via email that HUD would not provide written comments to the audit memorandum.