



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

September 15, 2017

**MEMORANDUM NO:**  
2017-AT-1802

## *Memorandum*

TO: Olga De La Rosa, Director, Community Planning and Development, San Juan Field Office, 4ND

*//signed//*

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

SUBJECT: San Sebastian Fine Arts Center, Office of the Commissioner for Municipal Affairs, San Juan, PR, State Block Grant Program

### **INTRODUCTION**

We audited the Office of the Commissioner for Municipal Affairs' (OCMA) Puerto Rico State Community Development Block Grant program. We selected OCMA for review based on concerns regarding the slow progress of the Municipality of San Sebastian's fine arts center. The objective of this audit was to determine whether OCMA effectively used State Block Grant funds on a fine arts center that met a national objective of the program and fully provided the intended benefits.

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 audit.

### **METHODOLOGY AND SCOPE**

To accomplish our audit objective, we performed the following associated with the San Sebastian arts center project:

- reviewed applicable laws, regulations, relevant HUD program requirements, and agreements;

- reviewed OCMA’s project and disbursement records;
- conducted a site inspection of the activity; and
- interviewed OCMA and Municipality officials.

To achieve our audit objective, we did not rely on computer-processed data. OCMA’s records showed that it disbursed more than \$1 million in State Block Grant funds between December 1995 and July 1999.

Grant year	Amount	Number of disbursements
1995	\$1,000,000	9
1998	14,211	2
<b>Totals</b>	1,014,211	11

The universe of disbursements pertaining to the activity was not large. As a result, we selected 100 percent of the disbursements for testing. The results of the audit apply only to the project selected for review and cannot be projected to the universe or population of OCMA’s other activities.

The audit generally covered the period December 1, 1995, through February 28, 2017. We performed our onsite fieldwork from March 30 through May 31, 2017, at the OCMA office and our office in San Juan, PR. We also conducted a site inspection of the project on March 30, 2017. This was a limited scope audit, and we did not review OCMA’s internal and information system controls and procedures. Therefore, the audit 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 audit results. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### **BACKGROUND**

Authorized under Title I of the Housing and Community Development Act of 1974, Public Law 93-383, as amended, the Block Grant program is a flexible program that provides communities with resources to address a wide range of unique community development needs. HUD awards annual grants on a formula basis to local governments and States. The States then award grants to smaller units of general local government based on their funding priorities and program criteria.

An activity that receives Block Grant funds must meet one of three national objectives:

- benefit low- and moderate-income persons,
- aid in the prevention or elimination of slums or blight, or
- meet community development needs having a particular urgency.

OCMA was the lead agency in Puerto Rico charged with the responsibility of overseeing the administration of the State allocation of Block Grant program funds. OCMA was created on August 30, 1991, through the Commonwealth of Puerto Rico Autonomous Municipalities Act of 1991. One of its responsibilities is to regulate, advise, and give technical and professional assistance to municipalities in the areas related to their organization, administration, and operations. In fiscal year 2016, the U.S. Department of Housing and Urban Development (HUD) awarded Puerto Rico nearly \$23.7 million in State Block Grant funds, distributed among 51 nonentitlement recipients.<sup>1</sup> OCMA's books and records are maintained at 360 Angel Buonomo Street, San Juan, PR.

The Municipality of San Sebastian is located in the northwest part of Puerto Rico and has a population of approximately 42,430. The Municipality became an entitlement recipient in July 2004. Previously, it was a nonentitlement recipient under OCMA's oversight. HUD has awarded the Municipality more than \$1.3 million in Block Grant funds during the past 2 fiscal years.

Effective July 1, 2017, the Governor of the Commonwealth of Puerto Rico transferred the administration of the State Block Grant program to the Office for the Socioeconomic and Community Development.

## **RESULTS OF REVIEW**

OCMA did not ensure that State Block Grant funds used for the construction of San Sebastian's fine arts center project provided the intended benefits and met a national objective of the program. These deficiencies occurred because OCMA did not properly monitor the use of State Block Grant funds for the arts center to ensure that the activity met program objectives. As a result, more than \$1 million in State Block Grant funds were not effectively used to meet program objectives.

### **Incomplete Project**

On June 3, 1996, the Municipality signed an agreement with a contractor to develop the arts center at a total cost of more than \$3 million.<sup>2</sup> According to the agreement, the expected completion date was March 15, 1997. OCMA disbursed an additional \$94,211<sup>3</sup> in State Block Grant funds for design and acquisition of equipment. Although the construction of the project began in 1996, the contractor filed for bankruptcy and was not able to finish the project. The bonding company took over the construction of the arts center, but the Municipality did not accept the project because of construction defects. An engineer's report, dated January 2, 2009, concluded that the arts center had various construction defects, which if not properly addressed, could ruin the structure. The report contained multiple recommendations and stated that if the defects were corrected, the structure could provide the expected services.

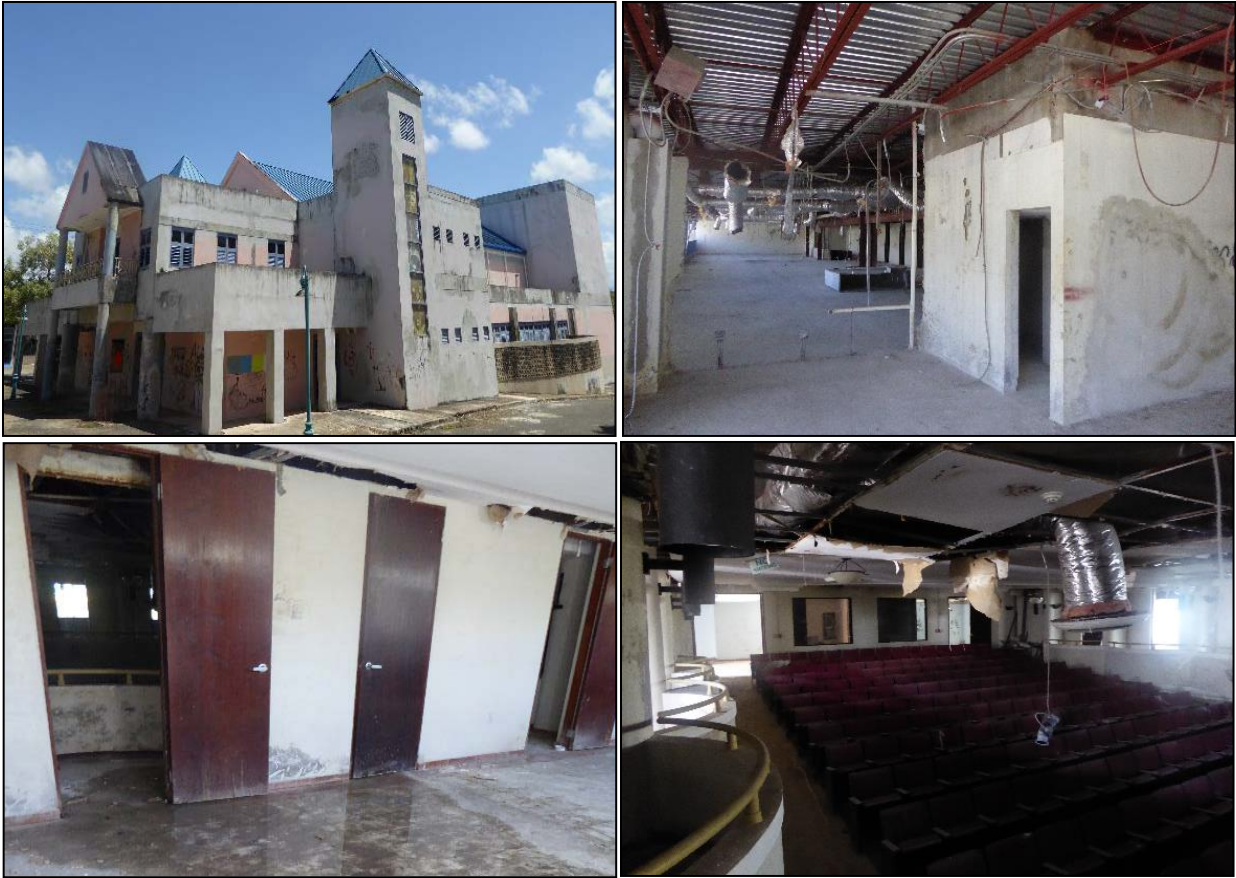
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<sup>1</sup> A nonentitlement public entity represents a unit of general local government that does not receive Block Grant funds directly from HUD as part of the Block Grant entitlement program.

<sup>2</sup> The Municipality assigned \$2.17 million in local funds plus \$920,000 from State Block Grant funds for the construction contract.

<sup>3</sup> OCMA disbursed \$40,000 in 1995, \$40,000 in 1996, and \$14,211 in 1999.

We performed a site inspection of the arts center in March 2017 and confirmed that the project was abandoned and incomplete. The physical condition of the site showed that the project had been abandoned for a long time. Doors and windows were shut, and the building's exterior showed evidence of deterioration and graffiti. Inside the building, there was evidence of water damage, cracked walls, missing electrical infrastructure, damaged air conditioning ducts, and damaged ceilings. More than 20 years had elapsed since construction began; however, the fine arts center was incomplete and abandoned, without meeting a national objective of the Block Grant program and resulting in the inefficient use of State Block Grant funds.



On March 30, 2017, pictures were taken of the project site. The arts center was abandoned and deteriorated.

**Project's Future Uncertain**

The Municipality informed us that it was still interested in completing the project and wanted to rehabilitate the building to make it operational. Although the Municipality received various bids for the rehabilitation of the building, it had not awarded a contract due to problems with funding availability. The Municipality estimated that an additional \$1.5 million would be needed to complete the project. According to a Municipality official, the Municipality had tried to obtain a loan from the U.S. Department of Agriculture to complete the project. However, the loan had not been approved, and the future of the project remained uncertain.

## **Inadequate Monitoring**

OCMA failed to properly monitor the San Sebastian arts center project to resolve the issues associated with the abandoned project. A May 2002 OCMA monitoring report on the Municipality noted problems with the arts center and that it was not operational. In 2001 and 2007, OCMA issued two monitoring reports on the Municipality, but these reports did not refer to the abandoned arts center. OCMA did not provide us with evidence that it had taken steps to resolve the issues associated with the abandoned arts center. In addition, OCMA stated that it was not aware of the situation until we informed it of the audit.

## **RECOMMENDATIONS**

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

- 1A. Reevaluate the feasibility of the project to determine the eligibility of the \$1,014,211 in State Block Grant funds disbursed. If HUD determines that the project has been canceled or is not feasible, the Government of Puerto Rico or its designee must reimburse all project costs to its State Block Grant program from non-Federal funds.
- 1B. Instruct the Office for the Socioeconomic and Community Development to submit a plan for how it will proceed with the fine arts center project. The plan should include a schedule that HUD can track to ensure the project's completion without proposing the use of additional HUD funds.

## Appendix A

### SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported 1/</u>
1A	<u>\$1,014,211</u>
Total	<u>\$1,014,211</u>

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.


# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

Comment 1



**GOBIERNO DE PUERTO RICO**  
Oficina para el Desarrollo  
Socioeconómico y Comunitario

August 25, 2017

Ms. Nikita Irons  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
Office of Audit, Region 4  
75 Ted Turner, Room 330  
Atlanta, GA, 30303


**COMMENTS TO DRAFT AUDIT MEMORANDUM SAN SEBASTIÁN'S FINE ARTS CENTER, OFFICE FOR THE SOCIOECONOMIC AND COMMUNITY DEVELOPMENT, SAN JUAN, PR, STATE BLOCK GRANT**

We appreciate the opportunity to comment on the subject draft Memorandum, that your Office submitted to our attention. As requested by your Office, we completed the review of the document.

The Office for the Socioeconomic and Community Development (OSECD) will require to the Municipal Administration of San Sebastián, a proposal and implementation plan for the completion of the project of the Fine Arts Center, that met a CDBG National Objective. Since the feasibility of the project was not the reason of the abandonment; and the main cause was the claim related to the construction defects, we emphasize that we are willing to take the steps needed to reach an acceptable and feasible solution to the situation, with the collaboration of the State and the Municipality, for the benefit of the low and moderate income participants.


Should you need additional information regarding this finding, please contact, Ms. Aida Gracia-Rivera, Assistant Commissioner for Federal Programs, at (787) 754-1600, extension 309, or via email: [agracia@ocam.pr.gov](mailto:agracia@ocam.pr.gov).

Sincerely,



Jesús Velez Vargas  
Executive Director

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Oficina para el Desarrollo Socioeconómico y Comunitario

## **OIG Evaluation of Auditee Comments**

Comment 1    The Office for the Socioeconomic and Community Development stated that it will collaborate with the Municipality of San Sebastian to develop a plan for the completion of the Fine Arts Center.

OIG acknowledges the Office for the Socioeconomic and Community Development efforts of developing a plan for how it will proceed with the fine arts center project. Any plans and efforts should be coordinated with HUD to ensure compliance with program requirements.