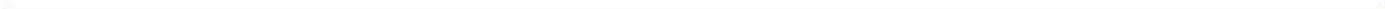




# Municipality of San Juan, PR, Emergency Solutions Grant

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2018-AT-1002  
December 29, 2017**





**To:** Olga De La Rosa, Director, Community Planning and Development, San Juan Field Office, 4NG

**//Signed//**

**From:** Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** The Municipality of San Juan, PR, Did Not Always Administer Its Emergency Solutions Grants Program in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Municipality of San Juan, PR's Emergency Solutions Grants program.

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.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



**Audit Report Number: 2018-AT-1002**

**Date: December 29, 2017**

**The Municipality of San Juan, PR, Did Not Always Administer Its  
Emergency Solutions Grants Program in Accordance With HUD  
Requirements**

## Highlights

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### What We Audited and Why

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We audited the Municipality of San Juan's Emergency Solutions Grant (ESG) program. We selected the Municipality for review as part of our strategic plan based on the large amount of ESG funds approved and because the U.S. Department of Housing and Urban Development (HUD) classified the Municipality as a high-risk grantee in its 2016 risk assessment. Our main objective was to determine whether the Municipality administered its ESG program in accordance with HUD requirements.

### What We Found

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The Municipality did not always administer its ESG program in accordance with HUD requirements. Specifically, it did not properly support more than \$47,000 in required matching contributions and did not report accurate information to HUD. As a result, HUD lacked assurance that matching requirements were sufficiently met and program accomplishments were accurately reported.

### What We Recommend

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We recommend that the Director of the San Juan Office of Community Planning and Development require the Municipality to submit all supporting documentation showing the eligibility and propriety of the \$47,720 in unsupported matching contributions, and reconcile the data included in its consolidated annual performance and evaluation report with the data in its financial management system.

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# Background and Objective

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The Emergency Shelter Grants program was authorized by subtitle B of Title IV of the McKinney-Vento Homeless Assistance Act of 1987 (42 U.S.C. (United States Code) 11371-11378). The Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 amended the McKinney-Vento Homeless Assistance Act, revising the Emergency Shelter Grants program and renaming it the Emergency Solutions Grants (ESG) program. It authorized the U.S. Department of Housing and Urban Development (HUD) to make grants to metropolitan cities, urban counties, territories, and States for the rehabilitation or conversion of buildings for use as emergency shelters for the homeless, the payment of certain expenses related to operating emergency shelters, essential services related to emergency shelters and street outreach for the homeless, and homelessness prevention and rapid rehousing assistance.

The Municipality of San Juan, an entitlement recipient, is the capital of the Commonwealth of Puerto Rico and its largest city. San Juan is located in the northeast part of the island. According to the 2010 U.S. Census, it had a population of 381,931 residents. As an entitlement recipient, the Municipality receives annual allocations from HUD community and planning development programs, including the ESG program. From fiscal years 2011 through 2016, the Municipality received more than \$3.6 million in ESG program funds.

This audit was part of our strategic plan based on the large amount of ESG funds approved and because HUD classified the Municipality as a high-risk grantee in its 2016 risk assessment.

The Municipality's Department for Social Community Development is responsible for administering ESG funds. Its books and records are maintained in its offices located at 160 Carlos F. Chardon Avenue, San Juan, PR.

The objective of the audit was to determine whether the Municipality administered its ESG program in accordance with HUD requirements.

# Results of Audit

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## **Finding: The Municipality Did Not Always Administer Its ESG Program in Accordance With HUD Requirements**

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The Municipality did not always administer its ESG program in accordance with HUD requirements. Specifically, it did not properly support more than \$47,000 in required matching contributions and did not report accurate information to HUD. These conditions occurred because the Municipality did not have written policies and procedures regarding matching contributions, and did not reconcile the data reported to HUD with its accounting records. As a result, HUD lacked assurance that matching requirements were sufficiently met and program accomplishments were accurately reported.

### **Unsupported Matching Contributions**

The Municipality did not fully support its required matching contributions. In its 2015<sup>1</sup> consolidated annual performance and evaluation report (CAPER), the Municipality reported to HUD \$510,676 in matching contributions for its 2014 ESG award.<sup>2</sup> As part of its matching contributions, it reported \$317,666 in personnel expenses; however, its supporting documentation totaled \$269,945, a difference of \$47,720. The supported match was not sufficient to show that the Municipality met ESG program requirements. Regulations at 2 CFR (Code of Federal Regulations) 225, appendix B, paragraph 8(h)(7) require that salaries and wages used in meeting matching requirements of Federal awards be supported in the same manner as those claimed as allowable costs under Federal awards. The above condition occurred because the Municipality did not have written policies and procedures to document and support its matching contributions. As a result, HUD lacked assurance that matching requirements were met.

### **Inaccurate Information Reported to HUD**

The Municipality reported inaccurate information to HUD. Regulations at 2 CFR 200.302(b)(2) require the Municipality's financial management system to provide an accurate, current, and complete disclosure of the financial results of each Federal award. We compared expenditures in the Municipality's financial management system to data reported to HUD through the 2015 CAPER. We found five activities in which the amount reported to HUD as spent did not agree with the Municipality's accounting records. The table below shows the details of the activities with inconsistent balances.

ESG expenditures for program years 2014 and 2015			
Activity type	Municipality records	CAPER	Difference
Administration	\$81,590	\$95,888	\$14,298

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<sup>1</sup> Fiscal year ending June 30, 2016

<sup>2</sup> Per the grant agreement the matching requirements were \$520,312.

Homeless Management Information System	24,091	15,649	(8,442)
Homelessness prevention	114,002	106,843	(7,159)
Rapid rehousing	183,744	185,681	1,937
Emergency shelter	642,500	601,147	(41,353)

A Municipality official stated that the data reported to HUD were not reconciled with the Municipality’s accounting records. In addition, the information the Municipality reported as program accomplishments originated from HUD’s information system. The Municipality could not explain the discrepancies with the accounting records. As a result, the Municipality’s inaccurate data could compromise the degree of reliability HUD could place on the Municipality’s reported program accomplishments.

**Recommendations**

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

- 1A. Submit all supporting documentation showing the eligibility and propriety of the \$47,720 in unsupported matching contributions towards the ESG program or reimburse the ESG program from non-Federal funds.
- 1B. Reconcile the data included in its CAPER with the data in its financial management system and correct any inaccurate information reported to HUD.
- 1C. Develop and implement policies and procedures to ensure that its required matching contributions are properly supported.
- 1D. Develop and implement policies and procedures to ensure that it reports data through its CAPERs using data from its own financial management system instead of data from HUD’s information system.

# Scope and Methodology

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The objective of the audit was to determine whether the Municipality administered its ESG program in accordance with HUD requirements.

To accomplish our audit objective, we

- Interviewed HUD and Municipal officials.
- Reviewed applicable laws, regulations, and relevant HUD program requirements and agreements.
- Reviewed HUD's and the Municipality's program files and records.
- Reviewed program expenditures, both program delivery costs and administrative costs.
- Conducted a site inspection of an activity.
- Reviewed the Municipality's financial management system and compared the data to the data reported to HUD.
- Reviewed the Municipality's matching contributions.

In its 2015 CAPER, the Municipality reported to HUD that it made \$510,676 in matching contributions pertaining to its 2014 ESG. We selected for review transactions totaling \$495,322, about 97 percent of the reported matched expenditures.<sup>3</sup>

We also compared expenditure amounts of all five activity types reported in the 2015 CAPER with the Municipality's accounting records.<sup>4</sup>

To achieve our audit objective, we relied in part on computer-processed data provided by the Municipality. 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. We did not select 100 percent of the transactions for testing as the selection made provided sufficient evidence for the findings presented. The results of the audit apply only to the items selected for review and cannot be projected to the universe or population.

The audit generally covered the period January 1, 2014, through March 31, 2017. We performed our onsite fieldwork from April through June 2017 at the Municipality's offices located at 160 Carlos F. Chardon Avenue, San Juan, PR.

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<sup>3</sup> The three highest activity type items (payroll expenses, rent payments for the emergency shelter, and food purchases) were selected.

<sup>4</sup> Pertaining to the period July 1, 2014, through June 30, 2016

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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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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:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial information - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- 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.

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 lacked policies and procedures regarding its matching contributions and did not reconcile the data reported to HUD with its accounting records (finding).

# Appendixes

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## Appendix A

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### Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$47,720
<b>Total</b>	<b>47,720</b>

- 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

  
**Municipality of San Juan**  
Department for Social Community Development

November 27, 2017

Ms. Nikita N. Irons  
Regional Inspector General for Audit  
Department of Housing and Urban Development  
Office of Audit (Region IV)  
75 Ted Turner Drive, Room 330  
Atlanta, GA 30303

**SUBJECT: MUNICIPALITY OF SAN JUAN ESG PROGRAM, OIG AUDIT DRAFT REPORT**

Dear Ms. Irons:

This is in response to your letter dated November 12, 2017, transmitting subject document and requesting our review and written comments. The OIG report clearly stated that no instances of fraud or unlawful situations were found in the Municipality of San Juan related to the management of its Emergency Solutions Grant Program. The following are our comments to the recommendations included in the report:

- 1. Recommendation 1A. Submit all supporting documentation showing the eligibility and propriety of the \$47,720 in unsupported matching contributions towards the ESG program or reimburse the ESG program from non-Federal funds.**

*[Handwritten signature]*

Comment: The Municipality of San Juan is in compliance with the Match Requirements established by the ESG Regulations. Indeed, the Municipality exceeded the required match and provided a total of \$510,676 to leverage the ESG funded activities. We are including as **Attachment 1** of this letter documentation showing that during program year 2014 the municipality provided (expended) a match of \$317,666.46 in personal expenses and \$193,209.64 in non-personal expenses. The unsupported match of \$47,720 corresponds to manual adjustments made by the Finance Department and evidenced in **Attachment 2** of this letter.- 2. Recommendation 1B. Submit documentation to support that costs were incurred during the grant performance period or reimburse the ESG program from non-Federal funds the \$7,129 drawn after the extended expenditure deadline.**

Comment: The report concluded that the Municipality incurred in obligations after the performance period of the grant, disregarding the instructions provided by HUD. It is correct that the Municipality drawn the funds after the grant performance period, but the disbursement was made following HUD's authorization.

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Comment 1

Comment 2

**Ref to OIG  
Evaluation**

**Auditee Comments**

Municipality of San Juan  
Response to ESG Program's  
OIG Audit Draft Report  
November 27, 2017  
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Indeed, the same letter, dated March 11, 2015, mentioned on the OIG report established the following: *"Upon submission of the internal controls and procedures for the 24-month expenditure deadline, HUD would be willing to provide the Municipality of San Juan until May 30, 2015 to expend all remaining balances of Program Years 2011 and 2012 Emergency Solutions Grant funds."* (Attachment 3)

After this letter, the Municipality provided the requested documentation to CPD Representative [REDACTED]. On June 16, 2015 after reviewing the documentation presented by the Municipality [REDACTED] authorized the disbursement of the funds. A copy of the emails between the Municipality and HUD are included as **Attachment 4** of this letter.

**From:** [REDACTED]  
**Sent:** Tuesday, June 16, 2015 1:35 PM  
**To:** Sara I. Benítez Delgado  
**Subject:** RE: Fondos ESG año fiscal 2011, 2012 y 2013  
Sara: Ok. Está bien. Gasten esos fondos!  
Sincerely,  
[REDACTED]  
Senior CPD Representative  
HUD San Juan Field Office  
[\(787\) 274-5883](tel:787-274-5883)

Figure 1: Email from HUD authorizing disbursement

Before establishing economic sanctions, the CPD program monitoring handbook take into consideration the situations that led to programmatic and financial finding. We understand that in this situation the non-compliance resulted from the Municipality grantee having been improperly advised in writing by a cognizant HUD official and that the monetary sanction should not be imposed. In addition, a review of this situation in other jurisdictions disclose that HUD frequently waiver the provisions of 24 CFR 576.203(b) formally and informally.

- 3. **Recommendation 1C. Reconcile the data included in its CAPER with the data in its financial management system and correct any inaccurate information reported to HUD.**

Comment: The Municipality corrected the situation and the information presented on the 2016-2017 CAPER is reconciled. We request HUD to verify the action taken during the review of the CAPER.

- 4. **Recommendation 1D. Develop and implement policies and procedures to ensure that its required matching contributions are properly supported.**

Comment: The required documentation is included as **Attachment 5** of this letter.

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Comment 3

Comment 1

**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 4

Comment 5

Comment 6

Municipality of San Juan  
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5. **Recommendation 1E. Develop and implement policies and procedures to ensure that it spends program funds within HUD-established timeframes.**

Comment: The Municipality will develop the procedures and will present it to the Field Office by March 30, 2018.

6. **Recommendation 1F. Develop and implement policies and procedures to ensure that it reports data through its CAPERs using data from its own financial management system instead of data from HUD's information system.**

Comment: The Municipality corrected the situation and the information presented on the 2016-2017 CAPER is reconciled. We request HUD to verify the action taken during the review of the CAPER.

The Municipality is in appreciation of the professional work performed by Mr. Michael Rivera, and the audit team members. It is acknowledged that the implementation of the recommendations included in the draft report will result in improvement to the management and operation of the Emergency Solutions Grant Program.

Sincerely,



José Cerra-Castañer  
Director

Enclosures

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## OIG Evaluation of Auditee Comments

Comment 1 The Municipality stated that it complied with the match requirements. It further stated that it exceeded the required match amount. It also explained that the unsupported match of \$47,720 corresponded to manual adjustments made by its finance department and that it provided a copy of the adjustments. In addition, it stated that it had developed and implemented appropriate procedures.

We reviewed the supporting documentation pertaining to the manual adjustments the finance department made. However, the information provided was not sufficient to fully support the questioned costs as it was basically a printout of the adjustments. The Municipality did not provide additional information to support the nature of the adjustments and when they were made. It will need to provide HUD with sufficient information to demonstrate its compliance with the matching requirements of the ESG program. HUD also must review the developed procedures during the audit resolution process and verify their implementation to ensure that all corrective actions have been completed and effectively address the recommendations.

Comment 2 The Municipality stated that it drew down funds after the grant performance period according to HUD's instructions. It provided an email from HUD, dated June 16, 2015, authorizing the disbursement of funds.

We reviewed the additional documentation provided and discussed the matter with HUD officials. The drawdowns were made in accordance with HUD's instructions. We modified the report and eliminated the finding and related recommendations.

Comment 3 The Municipality stated that it had corrected the situation and the information presented on the 2016-2017 CAPER had been reconciled. In addition, it requested that HUD verify the action taken during the review of the CAPER.

We acknowledge the Municipality's efforts in reconciling the data in its CAPER with the data in its financial management system. The Municipality must provide HUD sufficient information during the audit resolution process to show that the data in its accounting records are consistent with reported program accomplishments and have been reconciled to ensure that all corrective actions have been completed and effectively address the recommendations.

Comment 4 The Municipality stated that it will develop the procedures and will present them to the field office by March 30, 2018.

We acknowledge the Municipality's efforts regarding the future development of the procedures to ensure that it spends program funds within HUD-established

timeframes. The new procedures should be presented to HUD for its evaluation and comments during the audit resolution process to ensure that all corrective actions have been completed and effectively address the recommendations.

Comment 5 The Municipality stated that it had corrected the data included on the 2016-2017 CAPER. In addition, it requested that HUD verify the action taken during the review of the CAPER.

We acknowledge the Municipality's efforts in reconciling the data in the CAPER with the data in its financial management system. However, the Municipality did not address the issue of developing and implementing new procedures to ensure the accuracy and correctness of the data included in the CAPER. The Municipality needs to develop and implement policies and procedures to ensure that it reports data through its CAPERs using data from its own financial management system. The Municipality should present the new procedures for HUD's evaluation during the audit resolution process and ensure that all corrective actions have been completed and effectively address the recommendations.

Comment 6 We did not include the Municipality's attachments as part of the report because two attachments were provided during the audit, another one was a system printout that did not provide additional information regarding the required matching contributions, and two attachments were in Spanish. However, the attachments are available if requested.