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| Audit Report Number 2009-AT-1012 |
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TO: José R. Rivera, Director, Community Planning and Development, San Juan Field Office, 4ND

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

SUBJECT: The Municipality of Río Grande, Puerto Rico, Needs to Improve Administration of Its Community Development Block Grant Program and Its Recovery Act Funds

HIGHLIGHTS

What We Audited and Why

We audited the Municipality of Río Grande's (Municipality) Community Development Block Grant (Block Grant) program. We selected the Municipality for review as part of our strategic plan. The objectives of the audit were to determine whether the Municipality complied with U.S. Department of Housing and Urban Development (HUD) regulations, procedures, and instructions related to the administration of the Block Grant program and whether the Municipality had the capacity to administer additional funds allocated under the American Recovery and Reinvestment Act of 2009 (Recovery Act).

What We Found

The Municipality awarded 110 contracts totaling more than \$1 million without following HUD and local procurement requirements. As a result, it could not ensure that quality goods and services were obtained at the most advantageous terms. In addition, the Municipality did not support the reasonableness of more than \$1 million in Block Grant contracts.

The Municipality's financial management system did not fully comply with applicable HUD requirements. The system did not support the allowability of more than \$57,000 in program disbursements; could not support the allocability of more than \$218,000 in administrative costs charged to the Block Grant program; and did not maintain accurate, current, and complete accounting records.

The Municipality's management controls over its housing rehabilitation activities were inadequate. The Municipality improperly used Block Grant funds for deficient housing rehabilitation work and new housing construction. In addition, it did not provide assistance to correct health and safety hazards. Therefore, the related program funds of more than \$20,000 were ineligible, and more than \$7,000 is considered unsupported pending an eligibility determination by HUD.

The Municipality lacked sufficient capacity to administer additional funds allocated under the Recovery Act. It had not developed and implemented adequate controls to ensure compliance with HUD financial management systems requirements and the purposes of the Recovery Act. As a result, HUD lacked assurance that Recovery Act funds would be adequately accounted for, safeguarded, and used for authorized purposes and in accordance with the Recovery Act and HUD requirements.

What We Recommend

We recommend that the Director of the San Juan Office of Community Planning and Development require the Municipality to repay more than \$20,000 in ineligible expenditures. The Director should also require the Municipality to provide all supporting documentation showing the reasonableness and eligibility of more than \$1 million in Block Grant contracts and more than \$276,000 in Block Grant disbursements. We also recommend that the Director require the Municipality to develop and implement an internal control plan to ensure that the Block Grant program has (1) procurement procedures which ensure that goods and services are obtained at the most advantageous terms and in a manner providing full and open competition, (2) a financial management system that complies with HUD requirements, (3) controls and procedures which ensure that the housing rehabilitation activities meet the program objectives, and (4) policies and procedures to ensure that Recovery Act funds are effectively and efficiently used and in accordance with applicable requirements. In addition, we recommend that the Director increase monitoring of the Municipality's performance in the administration of its Block Grant and Recovery Act funds.

For each recommendation 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 findings with HUD and the Municipality during the audit and at the exit conference on September 8, 2009. The Municipality provided its written comments to our draft report on September 8, 2009. In its response, the Municipality generally disagreed with the findings.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B 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 OBJECTIVES

The Municipality of Río Grande (Municipality) has been an entitlement recipient since 1998. It currently administers more than \$7.7 million in Community Development Block Grant (Block Grant) funds approved by the U.S. Department of Housing and Urban Development (HUD) during the last five years ending June 30, 2009. HUD's Integrated Disbursement and Information System reflected Block Grant expenditures exceeding \$5.5 million during fiscal years ending June 30, 2007 and 2008, for the following activities:

| Block Grant activity | Fiscal year 2007 | Fiscal year 2008 |
|---|-------------------------|-------------------------|
| Public facilities and improvements | \$2,572,446 | \$1,363,098 |
| Planning and administration | 287,064 | 265,058 |
| Housing rehabilitation and preservation | 465,917 | 280,427 |
| Public services | <u>140,884</u> | <u>126,781</u> |
| Total | <u>\$3,466,311</u> | <u>\$2,035,364</u> |

HUD allocated more than \$1.4 million in Block Grant funds to the Municipality for the fiscal year ending June 30, 2010. On March 6, 2009, HUD allocated more than \$971,000 in additional funds pursuant to the American Recovery and Reinvestment Act of 2009 (Recovery Act), consisting of \$587,542 under the Homelessness Prevention and Rapid Re-housing Program (Homelessness Program) and \$384,198 under the Block Grant Recovery Act program. At the time of our review, the Municipality had only performed preaward activities on the Block Grant Recovery Act program and had not started Homelessness Program activities.

The Municipality's External Resources (federal programs) Department was responsible for administering Block Grant and Recovery Act funds. Its books and records were maintained at 37 Pimentel Street, Río Grande, Puerto Rico.

We audited the Municipality's Block Grant program as part of the HUD Office of Inspector General's (OIG) strategic plan. The Municipality was selected for review based on the amount of HUD funding provided.

The objectives of the audit were to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Block Grant program and whether it had the capacity to administer additional funds allocated under the Recovery Act.

RESULTS OF AUDIT

Finding 1: The Municipality Did Not Fully Comply with Procurement Requirements

The Municipality awarded 110 contracts totaling more than \$1 million without following HUD and local procurement requirements. This noncompliance occurred because the Municipality did not have in place adequate internal controls and procedures and disregarded applicable Block Grant and local requirements. As a result, HUD lacked assurance that the Municipality obtained goods and services at the most advantageous terms. In addition, the Municipality did not support the reasonableness of more than \$1 million in Block Grant contracts.

Procurement Standards Not Followed

Program regulations provide that recipients shall comply with HUD procurement standards contained in 24 CFR (*Code of Federal Regulations*) 85.36. The standards include conducting procurements using full and open competition, fully documenting all procurement activities, and performing price or cost analyses. In addition, local procurement regulations require the Municipality to obtain at least three quotations or cost proposals for services that do not exceed \$40,000.

We found procurement deficiencies in 110¹ contracts awarded between July 2006 and December 2008. For example, the Municipality did not

- Prepare independent cost estimates before receiving proposals,
- Maintain adequate specifications of the scope of the services to be performed,
- Obtain price or rate quotations from an adequate number of qualified sources,
- Maintain support showing that price or cost analyses were performed and the basis used to determine the reasonableness of the contracted amount, and
- Ensure that contracts included all provisions required by 24 CFR 85.36(i). For example, it did not include provisions related to (1) the retention of all

¹ A total of 108 housing rehabilitation contracts, one basketball court construction contract, and one water heaters and cisterns installation contract.

required records for three years after the final payment and all other matters are closed; and (2) providing HUD, the Comptroller General of the United States, or any of their duly authorized representatives access to any books, documents, papers, and records of the contractor, which are directly pertinent to the specific contract for the purpose of making audit, examination, excerpts, and transcriptions. A similar deficiency was identified in the 2006 Single Audit report; however, the deficiency continued to exist.

The Municipality awarded 108 housing rehabilitation contracts totaling \$641,630 between July 1, 2006, and December 31, 2008, to seven contractors. We reviewed a statistical sample of 42 contracts totaling \$249,353 and found that the Municipality awarded the 42 contracts without evidence that it prepared cost estimates before receiving proposals, solicited quotations from an adequate number of sources, and performed price or cost analyses. In addition, the Municipality used noncompetitive procurement to obtain housing rehabilitation services without requesting required HUD approval. Based on the results of our statistical sample, we determined that the awarded contracts for the entire population had procurement deficiencies and the reasonableness of the contracts was not supported.

In addition, the Municipality did not support the reasonableness of two additional contracts totaling \$481,731 awarded for the re-construction of a basketball court and installation of water heaters and cisterns because it did not provide evidence that it performed a price or cost analysis, or an independent cost estimate.

The Municipality did not ensure that procurement of Block Grant-funded goods and services complied with HUD and local procurement requirements. It did not provide evidence that it created an environment that permitted full and open competition as required by HUD. Appendix D contains a list of the procurement deficiencies found during the review.

Excessive Expenditures

The Municipality awarded through formal bid the supply of housing rehabilitation materials during the fiscal years ending June 30, 2008 and 2009. We reviewed invoices that the Municipality paid for materials it granted for four housing rehabilitation activities between February and August 2008. In all four activities, the Municipality paid for materials in excess of the approved price. The overpayments were related to 6 of 12 invoices paid. As a result, the Block Grant program was charged \$174 for excessive expenditures.

Conclusion

The Municipality did not provide evidence showing that it created an environment that permitted full and open competition as required by HUD. It did not provide adequate support showing the reasonableness of more than \$1 million in Block Grant funds. This noncompliance occurred because the Municipality did not have in place adequate internal controls and procedures and disregarded applicable Block Grant and local requirements. As a result, HUD lacked assurance that goods and services were obtained at the most advantageous terms and in a manner providing full and open competition or in accordance with HUD requirements.

Recommendations

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

- 1A. Require the Municipality to provide support showing the eligibility and reasonableness of \$1,096,061 awarded regarding Block Grant contracts for housing rehabilitation activities and the reconstruction of a basketball court.²
- 1B. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$174 for excessive payments and review housing rehabilitation invoices related to housing rehabilitation materials grants awarded between June 2007 and May 2009 to identify additional instances of materials paid in excess. Any amounts overpaid must be reimbursed to the program from nonfederal funds.
- 1C. Require the Municipality to develop and implement procurement procedures and controls that comply with HUD requirements to ensure that goods and services are obtained at the most advantageous terms and in a manner providing full and open competition.

² Total contracts for \$1,123,361 were adjusted to consider \$17,300 ineligible in recommendation 3A, \$7,166 unsupported in recommendation 3B, and \$2,834 ineligible in recommendation 3C.

Finding 2: The Municipality’s Financial Management System Did Not Fully Comply with HUD Requirements

The Municipality’s financial management system did not support the allowability of more than \$57,000 in program disbursements; could not support the allocability of more than \$218,000 in administrative costs charged to the Block Grant program; and did not maintain accurate, current, and complete accounting records. These deficiencies occurred because the Municipality did not develop and implement policies and procedures to ensure compliance with HUD financial requirements. As a result, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

Unsupported Program Disbursements

Federal regulations at 24 CFR 570.506 require the Municipality to maintain sufficient records that properly support charges made to the Block Grant program. However, the Municipality did not provide source documentation supporting the allowability of more than \$57,000 charged to the Block Grant program associated with administrative payroll costs. Specifically, it did not provide payroll records evidencing costs charged to the program. These costs were associated with 16 of 62 disbursements between January 2006 and May 2009 for the payment of administrative payroll charges. As a result, HUD lacked assurance of the allowability of more than \$57,000 in administrative payroll costs charged to the Block Grant program between January 2006 and May 2009.

Unsupported Allocated Costs

Regulations at 24 CFR 570.206 and 24 CFR 570.506 only allow disbursements for reasonable expenditures associated with the planning and execution of community development activities that are supported by source documentation. However, the Municipality could not demonstrate that administrative costs allocated to the program were reasonable.

The Municipality did not track its employees’ time by program activity or implement a cost allocation plan to distribute its payroll costs among HUD programs. Although it charged the Block Grant program a portion of payroll costs associated with three employees who performed additional functions not related to the program, it did not maintain documentation to support the basis of the allocation and the reasonableness of the costs as required by HUD. The

Municipality's federal programs director informed us that she did not know the basis for these percentages and that this allocation practice was in place before she became director in July 2005. A similar deficiency was identified with other Municipality administrative costs associated with professional services paid for performing the Municipality's single audits. Therefore, HUD lacked assurance of the reasonableness, allowability, and allocability of more than \$218,000 in administrative payroll and professional services costs charged to the Block Grant program between January 2006 and May 2009.

Inaccurate Accounting Records

Federal regulations at 24 CFR 85.20 state that recipients of Block Grant funds must maintain financial records that are accurate and current and that adequately identify the source and application of funds provided for assisted activities. However, the Municipality's accounting records were not accurate and complete and were not adequate for the preparation of reports.

The Municipality's accounting records did not reflect complete and accurate financial information on program activities. For example, they did not properly account for Block Grant receipts and expenditures by grant and activity. The Municipality did not maintain a general ledger for the Block Grant program. The accounting record it maintained was basically a check register that did not reflect disbursements by grant and activity and contained incomplete and inaccurate financial information. For example, the Municipality's disbursements register did not reflect more than \$80,000 in program disbursements, including one cancelled check that the Municipality improperly recorded as void. The Municipality's Block Grant accounting records also did not account for capital assets acquired or constructed with HUD funds, income receipts, and fund balances. There were other instances in the Municipality's accounting records of incorrect and missing check amounts, check numbers, and ending balances. The Municipality also did not locate one check that it had indicated was void. Therefore, it did not maintain a financial management system to permit the tracing of funds to a level which ensured that such funds had not been used in violation of the restrictions and prohibitions of applicable statutes.

In addition, the disbursements shown in the Municipality's disbursements register for the fiscal years ending June 30, 2007, and 2008 did not agree with amounts it reported to HUD in consolidated annual performance and evaluation reports. Total disbursements shown in the Municipality's disbursements register also did not agree with amounts reflected in bank statements for the same period.

| Period | CAPER* | Municipality's disbursements register | Difference |
|----------------------------------|-------------|---------------------------------------|-------------|
| Fiscal year ending June 30, 2007 | \$3,407,949 | \$3,460,163 | <\$52,214> |
| Fiscal year ending June 30, 2008 | \$1,750,429 | \$2,080,397 | <\$329,968> |

*Consolidated annual performance and evaluation report

A Municipality official informed us that the Municipality did not maintain written procedures for accounting for Block Grant program funds. Therefore, the Municipality's internal controls were not adequate to ensure that program funds were properly accounted for, safeguarded, and used only for authorized purposes. Consequently, HUD lacked assurance that funds were used only for eligible purposes since there was no basis for reliance on the Municipality's accounting records and financial information it reported to HUD on its program activities.

Conclusion

The Municipality did not maintain a financial management system that permitted program charges only for supported costs and that adequately identified the source and application of Block Grant funds. The Municipality's Block Grant program accounting records were inaccurate and incomplete since they contained several instances of incorrect financial information and did not reflect the full history of all financial transactions. The noncompliance occurred because the Municipality did not implement effective controls to ensure compliance with financial requirements of HUD programs. As a result, HUD lacked assurance that funds were only used for eligible purposes. Similar deficiencies were identified in the 2000 HUD monitoring report; however, the deficiency continued to exist. The Municipality must improve its internal controls to safeguard, use, and properly account for Block Grant program funds.

Recommendations

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

- 2A. Require the Municipality to submit supporting documentation showing the reasonableness of \$218,331 charged to the Block Grant program for administrative costs associated with payroll and professional services or reimburse the Block Grant program from nonfederal funds.

- 2B. Require the Municipality to submit all supporting documentation showing the eligibility and propriety of \$57,683 paid for administrative payroll costs or reimburse the Block Grant program from nonfederal funds.³
- 2C. Require the Municipality to develop and implement a financial management system that permits the tracing of Block Grant funds to a level which ensures that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- 2D. Increase monitoring of the Municipality's performance in the administration of its Block Grant program and if the Municipality fails to improve and fulfill its administrative responsibilities, consider imposing sanctions in accordance with 24 CFR 570.910.

³ Total disbursements of \$62,391 were adjusted to consider \$4,708 unsupported in recommendation 2A.

Finding 3: Management Controls over Housing Rehabilitation Activities Were Inadequate

The Municipality improperly used Block Grant funds for deficient housing rehabilitation work and new housing construction. In addition, it did not provide assistance to correct health and safety hazards. These deficiencies occurred because the Municipality lacked effective management and controls over its housing rehabilitation activities. As a result, HUD lacked assurance that program objectives were met and that Block Grant funds were used solely for authorized purposes. Also, program funds of more than \$20,000 were ineligible, and more than \$7,000 is considered unsupported pending an eligibility determination by HUD.

Deficient Housing Rehabilitation Work

The Municipality's housing rehabilitation program guidelines provide that the main objective of the activity is to improve families' quality of life by creating adequate living conditions. However, the Municipality did not ensure that program objectives and/or guidelines were met.

From the Municipality's 246 units that received housing rehabilitation assistance payments between July 2006 and December 2008, we selected seven units for inspection. Our inspections in March 2009 found that in three units the rehabilitation work was deficient. The Municipality paid a private contractor \$17,300 with Block Grant funds to repair the roofs of the three housing units to eliminate water leaks. However, in March 2009, we inspected the units and found that the water leaks still existed.



The above pictures show deficient rehabilitation work paid for with Block Grant funds. Water leaks still existed in the dwelling units when we conducted our inspections.

The Municipality's inspector informed us that the purpose of follow-up and final inspections was to determine whether the housing rehabilitation was performed as

agreed upon in the contract and that materials were used as intended. Therefore, the Municipality's management controls over its housing rehabilitation activities were inadequate to ensure that rehabilitation work was properly completed, and Block Grant funds were used for deficient work. As a result, \$17,300 was considered ineligible.

Health and Safety Hazards Not Considered

The Municipality's housing rehabilitation program guidelines provide that the financial assistance will subsidize housing rehabilitation work to make substantial improvements that will remove health and safety hazards to the Municipality's low-income families. However, the Municipality did not ensure that program objectives and/or guidelines were followed.

From the Municipality's 246 units that received housing rehabilitation assistance payments between July 2006 and December 2008, we reviewed 11 cases. In eight of the cases reviewed, the Municipality did not provide assistance for all of the health and safety hazards identified by its inspector. Improper electrical connections and water leaks were some of the health and safety hazards for which the Municipality did not provide housing rehabilitation assistance.

Further, in two housing rehabilitation activities totaling \$7,166, the work could have been in violation of local building codes.



Assistance in the amount of \$3,215 was approved for the construction of a new bedroom on the second floor of the existing dwelling unit. However, the scope of the rehabilitation work did not include the construction of a protecting wall or fence to avoid falls from the second floor.



Assistance in the amount of \$3,951 was approved for the construction of a new bedroom in the back of the existing dwelling unit. However, the entrance to the new bedroom would be through an existing bedroom.

The Municipality did not maintain written procedures or guidance for conducting housing inspections to ensure that housing rehabilitation activities complied with program requirements. The Municipality's inspector indicated that he relied on his judgment and common sense in conducting housing rehabilitation inspections

and did not inspect units to ensure that they were free of health and safety hazards or ensure compliance with local building codes. Therefore, management controls were not adequate to ensure that health and safety hazards were removed from units and to promote the welfare of the participants. As a result, \$7,166 is considered unsupported pending an eligibility determination by HUD.

Ineligible New Housing Construction

The Block Grant program allows disbursements to finance the rehabilitation cost of existing residential property. However, the cost associated with new housing construction and the creation of a secondary housing unit attached to a primary unit is not an allowable expense under the Block Grant program. The Municipality's housing rehabilitation regulations also prohibit new housing construction.

The Municipality awarded more than \$2,800 in Block Grant funds in August 2006 to one participant to provide materials for the rehabilitation of her residence. Our inspection of the dwelling unit on May 22, 2009, disclosed that donated materials were used for the construction of a new housing unit in violation of HUD requirements. Although the Municipality's inspector reported this violation during its March 12, 2009, inspection, no corrective action was taken. This deficiency occurred because the Municipality did not have adequate management controls over its housing rehabilitation activities.



The Municipality approved the assistance for a room addition to the existing wooden house. However, the participant changed the scope of the work, and Block Grant funds were used to complete the construction of a new dwelling unit. Our inspection disclosed that the wooden house had not been demolished.

The use of Block Grant funds for new housing construction is in violation of HUD requirements at 24 CFR 570.207.

Other Deficiencies

We identified other deficiencies related to the administration of the housing rehabilitation activities.

Slow progress – The Municipality’s management controls over its housing rehabilitation activities were not adequate to ensure that housing rehabilitation activities were performed in a timely manner. For example, in three of seven housing units inspected, the Municipality awarded Block Grant funds between November 2006 and August 2008 for the rehabilitation of the units. However, our inspections conducted during March 2009 disclosed that the rehabilitation work had not been completed. Between 221 and 881 days had elapsed since the Municipality awarded the assistance to the participants.

Missing work specifications – The Municipality did not prepare detailed work write-ups or specifications of the rehabilitation work needed as required by section (17) of the Municipality’s housing rehabilitation program guidelines. The files contained only a general statement from the Municipality’s inspector. The type of repair needed to bring the unit up to program standards was not clearly demonstrated. As a result, the files did not properly support the needed repairs, and the work completed with Block Grant funds could not be properly determined.

Conclusion

Because the Municipality did not implement adequate internal controls, it improperly used Block Grant funds for deficient rehabilitation work and new housing construction and did not ensure that units met program standards and that rehabilitation activities were performed on a timely basis. Therefore, program funds of more than \$20,000 were ineligible, and more than \$7,000 is considered unsupported pending an eligibility determination by HUD. Management must implement policies and procedures to ensure that it complies with HUD requirements and that program objectives are met.

Recommendations

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

- 3A. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$17,300 paid for deficient housing rehabilitation work.

- 3B. Require the Municipality to submit supporting documentation showing the eligibility and reasonableness of \$7,166 awarded for two housing rehabilitation activities with possible violations of local building codes or reimburse the Block Grant program from nonfederal funds.
- 3C. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$2,834 paid for ineligible new housing construction.
- 3D. Require the Municipality to improve management controls and procedures to ensure that its housing rehabilitation activities meet program objectives, Block Grant funds are only used for eligible purposes, the rehabilitation work is performed properly and on a timely basis, and detailed write-ups or specifications are properly maintained.

Finding 4: The Municipality Lacked Sufficient Capacity to Administer Its Recovery Act Funds

The Municipality did not develop and implement adequate controls to ensure compliance with HUD financial management systems requirements and the purposes of the Recovery Act. These deficiencies occurred because the Municipality lacked sufficient capacity to administer additional funds allocated under the Recovery Act. As a result, HUD lacked assurance that Recovery Act funds would be adequately accounted for, safeguarded, and used for authorized purposes and in accordance with the Recovery Act and HUD requirements.

Inadequate Financial Management System

Regulations at 2 CFR 176 state that to maximize the transparency and accountability of funds authorized under the Recovery Act, recipients must maintain records that adequately identify the source and application of Recovery Act funds. Section 1512 of the Recovery Act requires recipients to periodically report to HUD accurate financial information, including Recovery Act funds obligated and expended. However, as described in finding 2, the Municipality did not have a financial management system that fully complied with HUD requirements. For example, the Municipality's accounting records for its Block Grant program did not adequately identify the source and application of HUD funds. The Municipality did not properly account for Block Grant receipts and expenditures by grant and activity. The Municipality's accounting records also contained several instances of inaccurate financial information. In addition, its financial management system permitted program charges for unsupported costs.

The above deficiencies in the Municipality's financial management system demonstrated that management controls in place during our review were not sufficient to safeguard federal funds and preclude inaccurate reporting to HUD. If the financial management system is not promptly corrected to comply with HUD requirements, the accountability of more than \$971,000 in Recovery Act funds allocated to the Municipality will be negatively impacted. Therefore, the Municipality must improve its internal controls to ensure adequate safeguarding, use, and accountability of Recovery Act funds in accordance with applicable statutes. It must also improve its internal controls to ensure the reporting of accurate information.

Inadequate Program Controls

Section 1602 of the Recovery Act requires that funds be used in a manner that maximizes job creation and economic benefit. However, the Municipality's controls were not adequate to ensure compliance with the purposes of the Recovery Act.

In June 2009, the Municipality awarded two contracts for street improvements within various sites totaling more than \$384,000 in Block Grant funds allocated under the Recovery Act.⁴ The Municipality reported to HUD in its substantial amendment to the 2008 action plan that this activity would create or preserve approximately 10 to 15 jobs related to the construction industry. However, the Municipality's federal programs director could not explain the basis for the estimated number of jobs to be created or preserved and how the Municipality would ensure that Recovery Act funds would be used in a manner that maximizes job creation/preservation. The Municipality did not require the contractor to create or retain jobs in the awarded contracts. Therefore, its controls were not adequate to ensure compliance with the purposes of the Recovery Act.

Insufficient Planning

HUD Notice FR-5307-N-01 state that recipients should ensure that sufficient planning is in place to begin expending Recovery Act funds on eligible activities shortly after the grant agreement is finalized. HUD allocated more than \$587,000 to the Municipality under the Recovery Act for Homelessness Program activities. On May 15, 2009, HUD received from the Municipality the substantial amendment to the 2008 action plan. Although the Municipality's federal programs director indicated that Municipality officials had attended training associated with the administration of the Homelessness Program, the Municipality had not developed written policies and procedures for the administration of the program. The Municipality official indicated that the Municipality was awaiting HUD approval of the substantial amendment to the 2008 action plan before developing program policies and procedures.

Subject to HUD approval, this will be the first time the Municipality will administer the Homelessness Program. Although the Municipality has prior experience with other community planning and development activities, it has no experience with a similar program, such as the HUD Emergency Shelter Grant program. The Municipality must develop controls and procedures on a timely

⁴ The two contracts totaled \$1,777,711, which includes \$384,198 in Block Grant funds allocated under the Recovery Act. More than \$1.3 million will be funded with 2008-2009 Block Grant and local funds.

basis to ensure that the Homelessness Program will be effectively and efficiently administered and in compliance with the Recovery Act and HUD requirements.

Conclusion

The Municipality's lack of adequate controls to ensure compliance with the purposes of the Recovery Act and the deficiencies identified in the administration of the Block Grant program demonstrate that the Municipality lacked sufficient capacity to administer its Recovery Act funds. As a result, HUD lacked assurance that Recovery Act funds would be adequately accounted for, safeguarded, and used for authorized purposes and in accordance with the Recovery Act and HUD requirements. The Municipality must improve its internal controls to safeguard, account for, use, and report, in accordance with the applicable statutes, more than \$971,000 in Block Grant and Homelessness Program funds allocated to the Municipality under the Recovery Act.

Recommendations

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

- 4A. Require the Municipality to develop and implement a financial management system that permits the tracing of Recovery Act funds to a level which ensures that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- 4B. Require the Municipality to develop and implement policies and procedures to ensure that Recovery Act funds are effectively and efficiently used and in accordance with applicable requirements. These policies and procedures should include controls to ensure the Municipality's compliance with the creation and preservation of jobs in accordance with the purposes of the Recovery Act.
- 4C. Increase monitoring of the Municipality's performance in the administration of its Recovery Act funds.

SCOPE AND METHODOLOGY

The audit objectives were to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Block Grant program and whether it had the capacity to administer additional funds allocated under the Recovery Act. To accomplish our objectives, we

- Obtained and reviewed relevant HUD regulations and Municipality guidelines;
- Interviewed HUD, Municipality, and contractor officials;
- Reviewed monitoring and independent accountant reports;
- Reviewed the Municipality's files and records, including accounting records;
- Performed site inspections of Block Grant activities; and
- Reviewed the Municipality's controls related to the administration of its Block Grant program and the Recovery Act funds.

We obtained a list of the Municipality's Block Grant procurement efforts performed between July 1, 2006, and December 31, 2008. The Municipality conducted six significant procurement actions (requiring public solicitation) totaling \$2,578,232. We selected and reviewed the two procurement activities with the highest contract amount totaling \$957,125 (\$500,000 for street resurfacing and \$457,125 for a basketball court). In addition, we selected and reviewed the procurement of a contract totaling \$25,960 for installation of water heaters and cisterns. We reviewed each procurement action to determine whether the procurement process followed by the Municipality met HUD standards.

We statistically selected a sample of the housing rehabilitation service contracts from the 108 contracts awarded between July 1, 2006, and December 31, 2008, totaling \$641,630 to determine whether the Municipality complied with procurement requirements. We used the U.S. Army Audit Agency's Statistical Sampling software to calculate the sample size. Based on a confidence level of 90 percent, a precision level of 10 percent, and an assumed error rate of 50 percent, the software returned a statistical sample of 42 cases. We used Audit Command Language (ACL) software to select a random sample from the 108 housing rehabilitation contracts and to generate 10 additional sample units to be used as replacements if needed.

We used statistical sampling because each sampling unit was selected without preconceptions from the audit population, thereby allowing the results to be projected to the population.

Our sampling results indicated that for the 42 housing rehabilitation service contracts, the Municipality did not evidence that it prepared cost estimates before receiving proposals, solicited quotations from an adequate number of sources, and performed price or cost analyses. Projecting our sampling results to the population, there are indications that 108 contracts (100

percent of the population) were also awarded without following HUD's and/or the Municipality's own procurement requirements. Therefore, we estimated that the Municipality awarded 108 contracts totaling \$641,630 for housing rehabilitation services without support showing the reasonableness of contracted services.

The Municipality prepared a Microsoft Excel software list of Block Grant disbursements made between July 1, 2006, and December 31, 2008, totaling more than \$6.3 million. Disbursements were classified in seven categories including planning and administration costs, public services, housing rehabilitation and preservation, public facilities, and improvements. We selected and reviewed disbursements with the highest amount in each category, resulting in seven disbursements totaling \$590,159. We selected 92 additional disbursements vouchers totaling \$933,129 based on the vendor name or purpose of the payment. We reviewed the expenditures and related supporting documents to determine whether the payments met Block Grant requirements, including allowability and allocability of the costs.

We also obtained a list of housing rehabilitation activities for which the Municipality disbursed Block Grant funds between July 1, 2006, and December 31, 2008. During this period, the Municipality made disbursements totaling \$841,742 associated with 246 housing rehabilitation activities. From this list, we selected 10 activities with disbursements totaling \$43,174, which included five grants for labor and materials rehabilitation services and five grants for rehabilitation materials only. We selected an additional activity in which more than two years had elapsed since the grant was awarded and no funds had been disbursed. We reviewed each activity to verify participant eligibility, the status of the rehabilitation work, and the appropriateness of the assistance provided. From these cases, we inspected seven dwelling units with disbursements totaling \$32,115. We inspected one additional dwelling unit with disbursements totaling \$2,834 because the assistance provided appeared to be ineligible new housing construction.

We did not consider the Municipality's accounting records reliable for our purposes because they did not reflect complete and accurate financial information on program activities. To achieve our audit objectives, we relied in part on computer-processed data prepared 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. Except for the results associated with the review of housing rehabilitation procurements, 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, 2006, through December 31, 2008, and we extended the period as needed to accomplish our objectives. We conducted our fieldwork from February through July 2009 at the Municipality's offices in Río Grande, Puerto Rico.

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 objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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 objectives:

- Compliance with 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 ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following items are significant weaknesses:

- The Municipality did not follow HUD procurement requirements when awarding 110 contracts totaling more than \$1 million (see finding 1).

- The Municipality's financial management system did not fully comply with applicable HUD requirements (see finding 2).
- The Municipality's management controls over its housing rehabilitation activities were inadequate (see finding 3).
- The Municipality did not develop and implement adequate controls to ensure compliance with the purposes of the Recovery Act (see finding 4).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

| <u>Recommendation number</u> | <u>Ineligible <u>1/</u></u> | <u>Unsupported <u>2/</u></u> |
|----------------------------------|-----------------------------|------------------------------|
| 1A | | \$1,096,061 |
| 1B | \$174 | |
| 2A | | 218,331 |
| 2B | | 57,683 |
| 3A | 17,300 | |
| 3B | | 7,166 |
| 3C | <u>2,834</u> | <u> </u> |
| Total | <u>\$20,308</u> | <u>\$1,379,241</u> |

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ 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



Estado Libre Asociado de Puerto Rico
Municipio de Río Grande

Hon. Eduard Rivera Correa
ALCALDE

September 4, 2009

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: DRAFT AUDIT REPORT OF THE MUNICIPALITY OF RÍO GRANDE
CDBG ACTIVITIES**

Dear Mr. McKay:

This is in response to your draft audit report dated August 25, 2009 related to the Audit of the Municipality of Río Grande CDBG program. We reviewed the draft audit report and we have prepared our comments addressing the issues regarding this report:

FINDING 1

The Municipality Did Not Fully Comply with Procurement Requirements:

A. Procurement Standards Not Followed

- In reference to the contracts of the Housing Rehabilitation Program that include labor, we have to mention that during the first year of implementing the program we published a public notice in a regional circulation newspaper inviting local minority contractors to submit proposals for the development of this program. Up until the final date to submit their intention letters, as indicated in the notice, only one contractor comply with this requirement. Since there weren't any more candidates we proceeded to implement the program, as established in the appropriate Annual Plan. In the following years we continue with the practice of publishing public notices in local newspapers in order to give an equal opportunity of participation to all minority contractors and at the same time ensure the purity in all processes that involve the use of CDBG Funds. The outcome of this effort has been that several contractors submitted their intention of participating in this program and we use their quotes as basis for a cost estimate. The proposals or quotes presented by the different

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Comment 1

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Auditee Comments

Comment 2

contractors have confirmed that the costs have been the most favorable for the program. Also, we have to mention that the independent firms that have audited the records of this program have not identified any findings. (See appendix 1)

- In regards to the reasonableness of two additional contracts, we must clarify that: in the file of the Municipal Clerk's Office you can find evidence of the cost estimate for the contract of the reconstruction of a basketball court, prepared by an independent contractor. This estimate represents a point of reference of the estimated costs for the development of this project. Also, in the analysis made of the contract number 2007-000045 from August 15th, 2006 we could observe that it complies with the required clauses. (See appendix 2 and 3)

Comment 3

- Concerning the contract for the installation of water heaters and water reserve tanks: the Municipality of Río Grande submitted a communication to diverse providers requesting their proposals for the acquisition and installation of the equipment mention before. In the Program's file you can find the proposals submitted by four of the five providers that were contacted. This documentation was used as basis for our cost analysis of the program; this is also located in the file of the program, demonstrating that we hired the company that represented the best alternative for the Municipality, the CDBG Funds and the participants of the program. (See appendix 4)

B. Excess Expenditures

Comment 4

- The amount mentioned in this finding is irrelevant taking into consideration the volume of transactions conducted under this activity. However, the Municipality will initiate an action of recovery from the supplier for the amount of \$174.00. In addition, we informed the Finance Department Director of the deficiency pointed out in this draft report requesting from him to instruct the personnel in charge of pre-intervention to be more thorough in the analysis of documents and make sure situations like this won't be repeated. (See appendix 5)

Comment 5

- We disagree with expressions made by your auditors about the Director of the External Resources Department, also a member of the Auction Board, reporting that she informed them that she wasn't familiar with the procedures and with federal and local requirements. We wish to make sure is very clear that this words were never mention by the Director. For this reason we request that these comments are excluded from the final report.

FINDING 2

The Municipality's Financial Management System Did Not Fully Comply with HUD Requirements:

A. Unsupported Program Disbursements

- Concerning your reference about the Municipality not providing source documentation supporting the administrative payroll costs we would like to make clear that the procedure to

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Comment 6

follow in this type of transaction is that the Department of External Resources emits a reimbursement for the payroll of the CDBG employees to the Municipality right after the Finance Department submits an invoice with an employee detail. All the necessary documents needed to justify this reimbursement are included in the payment Voucher that is generated for the payment of the payroll for all the employees of the Municipality. This and all fiscal documents are kept in the archives of the Finance Department, as required by the Puerto Rico Comptroller's Office. Nevertheless, the Department of External Resources submits all the required documentation as part of the Voucher. We must mention that this information was requested and was available for your auditors, but it wasn't evaluated. We include a breakdown of the payroll periods included as part of the sample taken by your auditors but wasn't evaluated. We include evidence of the payroll periods not audited. (See appendix 6)

B. Unsupported Allocated Costs

- About the payroll costs: While it is true that until the moment the audit was conducted we didn't have a record that demonstrated the distribution of tasks for the mentioned employees, in order to identify the reasonableness of costs assumed by the CDBG Funds, it is also true that the Municipal Administration absorbs other costs related to operational costs of the program, such as: State Insurance Funds, Disability and Unemployment, Summer Bonus, other fringe benefits and utilities payments, among others. Conclusively, the Municipal Administration each year has been contributing more to reduce administrative costs paid with the CDBG funds.
- In addition, instructions were given to the employees whose salaries are paid with combination of funds to keep a calendar of tasks and time spent in each program. (See appendix 7)

C. Inaccurate Accounting Records

- The inaccurate information that the auditor point out wasn't registered in the books, was detected immediately by our employees and we proceeded to make the necessary adjustments in the bank reconciliation demonstrating that this situation was involuntary and isolated. (See appendix 8)
- The Municipality had a perpetual inventory of the equipment acquired with federal funds. In addition, we had a property inventory of all Municipal projects. (See appendix 8)
- We must clarify that the discrepancy in the information submitted in the CAPER corresponds to a involuntary error in the wording used at the time of writing this document. The guides used for the preparation of this report establish that we have to include the total of funds expended and in our report we wrote disbursed. (See appendix 9)

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Auditee Comments

Comment 7

- In addition to ensure compliance with HUD regulations, the Municipality implemented through OCAM, since July 1st. 2009, the financial system that will allow the accurate tracing of CDBG funds and will reflect the full history of all financial transactions.

FINDING 3

Management Controls over Housing Rehabilitation Activities Were Inadequate:

Comment 8

A. Deficient Housing Rehabilitation Work

- In the seventh section of the clauses establish in all contracts given to the Housing Rehabilitation Program we estipulate that: "Also, it will be responsibility of the "Contractor" to pass on to "The Beneficiary" of the program all guarantees received for the materials or equipments acquired for installation as part of the improvements to be made, if it applies". This process is given between contractor and the beneficiary. This is the reason why this document is can't be found in the participant's file. After analyzing the files of these participants we can say that these participants never communicated to this office the deficiencies or the problems confronted after the rehabilitation of their homes. Is important to mention that the participants received orientation at the time of signing the contract about the procedure to follow in case of claims for defects in the rehabilitation. About the questionable costs, the program complied with the inspections required and there was no complaint from the participants. From now on we will amend the existing clause in the contracts and in the future it will be required from the contractor to provide copies of the warranty to the Municipality, signed by the participant in compliance with the orientation given by him. (See appendix 10)
- With relation to the Health and Safety hazard not considered: although the Municipality is aware of the need to bring these units to standard conditions, but due to the amount of funds available and the amount of families in needed, the Municipality donated materials for the repair of those elements which are most in need of repair.
- Related to missing work specifications, we had to mention that is our understand that this type of minimal rehabilitation do not required detailed work specification.

Comment 9

FINDING 4

The Municipality Lacked Sufficient Capacity to Administer Its Recovery Act Funds:

Comment 10

A. Inadequate Financial Management System

- We find that it's academic what is mentioned in this finding, because if the Municipality hadn't comply with every and each one of the procedures and requirements established by Federal Regulations, ARRA funds hadn't been approved. (See appendix 11).

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- The assertions and comments made by your auditors about our accounting system are inappropriate and far away from reality since our records demonstrate its accuracy. The fact that our accounting records are not identified the way that the auditors believe is more convenient doesn't mean that it's wrong or incorrect. With the existing records we were able to reconcile all the activities from 2006 to 2008 with the information supplied by IDIS.
- Also, the Municipality opened the two bank accounts that will be used for the management of these funds and created separate accounts in our books, where we will keep its accounting. (See appendix 11)
- In addition, if we evaluate the period for this audit that was from July 1st 2006 to December 31st 2008, we'll see that the Municipality administered more than 6.3 millions of dollars from Federal Funds and only \$20,000 were questioned in this draft report for situations that were out the hands of the External Resources Department. It is our understanding that the administration of these funds has been efficient and adequate.

B. Inadequate Program Controls

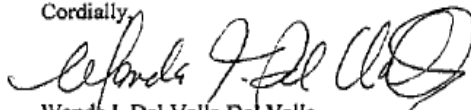
- To maintain a better control of the financial area we are supervising it more efficiently, in order to comply with ARRA Regulations.

C. Insufficient Planning

- The employees are been trained through orientations offered by HUD and for data collection with the East Coalition. Also, at the moment the audit took place we already had prepared a draft of a Regulation for the Administration of the HPRP Program. We'll be supplying it to HUD for their recommendations. (See appendix 11)

If your staff need additional information regarding this document, please call (787) 887-2084 or (787) 887-0330.

Cordially,



Wanda I. Del Valle Del Valle
Acting Mayor

Enclosures

cc: Mr. José R. Rivera
Mr. Michael A. Rivera

- Ciudad de El Lunque -

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Estado Libre Asociado de Puerto Rico
Municipio de Río Grande

Hon. Eduard Rivera Correa
ALCALDE

September 8, 2009

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
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Atlanta, GA, 30303-3388

**SUBJECT: DRAFT AUDIT REPORT OF THE MUNICIPALITY OF RÍO GRANDE
CDBG ACTIVITIES**

Dear Mr. McKay:

Enclose you will find the final comments related to the Finding 4, as discussed in the Exit Conference that took place during this morning in which Mr. Michael A. Rivera and Mr. José R. Rivera were present.

Comment 10

FINDING 4

The Municipality Lacked Sufficient Capacity to Administer Its Recovery Act Funds:

At the moment of conducting this audit, the Municipality was processing the paperwork with the Housing and Urban Development Agency (HUD) for the final approval of the CDBG-R (agreement signed on August 6th, 2009) and HPRP funds (agreement signed on July 31st, 2009).

We submitted, on the stipulated time, the necessary amendments to the Action Plan 2008-09 and the Consolidated Plan 2005-09 for these funds, as required by Federal Regulations. Also, we have been working with the elaboration of the procedures and requirements for the implementation of the HPRP Program. As part of this process the Municipality established a collaboration agreement with the Coalition of the East in order to have access to the HMIS system for the collection of data, as required per HPRP regulations. With this agreement the Municipality will have the necessary equipments and trainings needed for the administration of

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Ref to OIG Evaluation

Auditee Comments


this system allowing us to generate and submit the required reports. We should also mention that at the moment of this audit personnel from the External Resources Department had already started with the training process. Another fact that we must mention is that the Municipality had already drafted a regulations guide for the administration of this program at the time of this audit.

Related to CDBG-R, the amendment submitted to HUD for these funds establishes that these funds would be use for the continuation of an activity already approved in the Action Plan 2008-09. We must mention that this activity has been worked by the Municipality in previous years, it has been audited by the Office of the Comptroller of Puerto Rico and Independent Auditors and the Municipality has never received any finding related to it. Since this is an extension of a previous activity from Program Year 2008-09 it already had all the required endorsements, permits, Environmental Review Report and the auction adjudication

To establish that the Municipality does not have sufficient capacity to manage funds for this program is distant from reality. This together with the fact that when this audit took place the Municipality had not received any official notification related to the approval of these funds. We clearly establish that the finding does not proceed; therefore we request to have it deleted from the report.

If your staff needs additional information regarding this document, please call (787) 887-2084 or (787) 887-0330.

Cordially,



Wanda I. Del Valle Del Valle
Acting Mayor

cc: Mr José R. Rivera
Mr. Michael A. Rivera

OIG Evaluation of Auditee Comments

The Municipality generally disagreed with our recommendations, except for recommendation 1B. The Municipality did not address recommendations 1C, 2D, 3B, 3C, 3D, 4B, and 4C.

Comment 1 The Municipality stated that several contractors submitted proposals or quotes and these reflect that the contracted amounts were the most favorable to the program.

According to the supporting documentation the Municipality provided us during the audit, it did not prepare independent cost estimates, obtain price or rate quotations from an adequate number of qualified sources, and maintain support showing that price or cost analyses were performed to determine the reasonableness of the contracted amount. Thus, the Municipality did not provide evidence it created an environment that permitted full and open competition in compliance with HUD procurement requirements at 24 CFR 85.36(c)(1). The Municipality did not provide us with additional support that could demonstrate that services were obtained at the most advantageous terms and the reasonableness of more than \$641,000 in Block Grant funds.

Comment 2 The Municipality stated that an independent cost estimate was prepared and used as a reference for the development of the basketball court.

Although an independent cost estimate was in file, the Municipality did not explain why it awarded the contract for \$200,000 more than the independent cost estimate or the basis used to determine the reasonableness of the contracted amount. The Municipality did not provide us with additional support that could demonstrate the reasonableness of the contracted amount.

Comment 3 The Municipality stated that contracts awarded for the installation of water heaters and cisterns was the best alternative for the Municipality and the Block Grant program.

According to the supporting documentation the Municipality provided us during the audit, it did not maintain evidence that it performed independent cost estimates before receiving proposals as required by HUD procurement standards contained in 24CFR84.36(f)(1). The Municipality did not provide us with additional support that could demonstrate that services were obtained at the most advantageous terms and the costs were reasonable.

Comment 4 The Municipality stated that it will initiate recovery efforts of the excessive payments and informed the finance department to be more diligent to prevent any recurrence. However, the Municipality did not indicate whether it would review additional invoices to identify other instances of excessive payments.

Comment 5 The Municipality disagreed with statements attributed to the director of the External Resources Department and asked that the statements be removed from the report. At the exit conference the director clarified that she was familiar with federal and local procurement requirements. Therefore, we removed the statement from the report.

Comment 6 The Municipality stated that all the necessary documentation supporting the allowability of payroll charges were maintained with the disbursement vouchers, but it was not reviewed during the audit. It provided additional documents associated with the administrative payroll costs charged to the Block Grant program.

We examined the additional source documents and determined that \$191,208 were supported, but the Municipality did not support the allowability of more than \$57,000 charged to the Block Grant program. We revised the report to reflect the amount that remained unsupported.

Comment 7 The Municipality stated that effective July 1, 2009, it implemented a new financial system that allows the accurate tracing of Block Grant funds.

We acknowledge the Municipality's efforts to implement a financial management system to ensure compliance with HUD requirements. However, it did not provide any information on the efforts that it will take to ensure that Block Grant expenditures incurred prior to July, 1, 2009, comply with requirements contained in 24 CFR 85.20.

Comment 8 The Municipality stated it was not aware of the deficient work. It also said it was aware of the need to bring units to standard conditions, but due to the amount of funds available and amount of families in need, it donated materials for repair of elements most in need of repair.

The objective of the Block Grant program is to provide annual grants to recipients to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding the economic opportunities, principally for low- and moderate-income persons. Block Grant recipients must develop activities consistent with program objectives, including the elimination of conditions which are detrimental to health, safety, and public welfare, through code enforcement, demolition, interim rehabilitation assistance and other related activities. The Municipality did not ensure that its housing rehabilitation activity was consistent with Block Grant objectives and/or its own guidelines. Our inspection found that some of the rehabilitation work was deficient or did not promote the welfare of participants, possibly resulting in a waste of federal funds.

Comment 9 The Municipality stated that the type of minimal rehabilitation performed did not require detailed specifications.

However, Block Grant regulations require recipients to maintain sufficient records that demonstrate that funds were used in an economical and efficient manner and in compliance with HUD requirements. We agree with the Municipality that the installation of a door or a window would not require detail specifications. However, our concern is related to those cases involving substantial rehabilitation work that only contained a general description. Without this information, it would be impossible to determine if the required work was completed or supported the participants' needs. As a result, the files did not properly support the needed repairs and the completed work could not be identified.

Comment 10 The Municipality stated that it has a financial management system that is accurate and consistent with requirements of the Recovery Act. It also stated that it signed collaboration agreements with other entities, and that it drafted program guidelines that will be submitted for HUD review.

As described in finding 2, the Municipality did not have a financial management system that fully complied with HUD requirements. The management controls in place during our review were not sufficient to safeguard federal funds and preclude inaccurate reporting to HUD. The Municipality did not provide us with additional support showing that Recovery Act funds would be adequately accounted for, safeguarded, and used for authorized purposes.

Appendix C

CRITERIA

Federal Regulations at 24 CFR 85.20

Standards for financial management systems require recipients' financial management systems to provide for the following:

- Accurate, current, and complete disclosure of the financial results of financially assisted activities.
- Records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- Effective control and accountability for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- Following applicable Office of Management and Budget cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining the reasonableness, allowability, and allocability of costs.

Federal Regulations at 24 CFR 85.36(b)(9)

Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Federal Regulations at 24 CFR 85.36 (c) (1)

All procurement transactions will be conducted in a manner providing full and open competition.

Federal Regulations at 24 CFR 85.36(f)(1)

Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

Federal Regulations at 24 CFR 570.202(b)(2)

Block Grant funds may be used to finance certain types of rehabilitation activities including labor, materials, and other costs of rehabilitation of properties.

Federal Regulations at 24 CFR 570.206

HUD allows payment of reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted with Block Grant funds.

Federal Regulations at 24 CFR 570.207(b)(3)

New housing construction is an activity that may not be assisted with Block Grant funds unless authorized under provisions of §570.201 or when carried out by an entity under the provisions of §570.204.

Federal Regulations at 24 CFR 570.502

Recipients and subrecipients that are governmental entities shall comply with the requirements and standards of OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments”, and with 24 CFR part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments”, as applicable. This includes, but is not limited to, compliance with procurement standards contained in 24 CFR 85.36 and standards for financial management systems contained in 24 CFR 85.20.

Federal Regulations at 24 CFR 570.506

The Municipality shall establish and maintain sufficient records to enable HUD to determine whether the recipient has met the requirements of the program. This includes financial records, in accordance with the applicable requirements listed in 24 CFR 570.502.

Recovery Act at Section 1512

Not later than 10 days after the end of each calendar quarter, the Municipality shall submit a report to HUD that contains accurate financial information, including Recovery Act funds obligated and expended.

Recovery Act at Section 1602

The Municipality shall use grant funds in a manner that maximizes job creation and economic benefit.

Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009 [FR-5307-N-01]

Grantees should ensure that sufficient planning is in place to begin to expend funds shortly after the grant agreement is executed.

Municipality's Housing Rehabilitation Program Regulations-Introduction

The intent of the housing rehabilitation program is to correct existing deficiencies caused by normal wear and tare of housing units owned by low income owners. The main purpose of the program is to improve families' quality of life by creating adequate living conditions and improving Rio Grande housing stock.

The financial assistance that the Municipality provides will serve to carry substantial improvements that will remove health and safety hazards to the residents resulting in an improved quality of life to the low income families of Rio Grande.

Municipality's Housing Rehabilitation Program Regulations at Section 17(c)

Each housing rehabilitation activity file shall include a detailed description of the requested improvements and the applicable work specifications.

Appendix D

SCHEDULE OF PROCUREMENT DEFICIENCIES

| Contracted services | Contract number | Amount | No independent cost estimate | No cost or price analysis | Missing contract provisions | No adequate number of quotations | Missing or inadequate specifications of services solicited |
|---|-----------------|-----------|------------------------------|---------------------------|-----------------------------|----------------------------------|--|
| Improvements and re-construction of a basketball court | 2007-000045 | \$455,771 | | X | | | |
| Purchase and installation of water heaters and cisterns | 2009-000027 | 25,960 | X | | X | | |
| Housing rehabilitation | 2008-000250 | 6,000 | X | X | X | X | X |
| Housing rehabilitation | 2008-000125 | 6,000 | X | X | X | X | X |
| Housing rehabilitation | 2008-000066 | 6,000 | X | X | X | X | X |
| Housing rehabilitation | 2008-000062 | 6,000 | X | X | X | X | X |
| Housing rehabilitation | 2009-000104 | 5,999 | X | X | X | X | X |
| Housing rehabilitation | 2008-000060 | 5,999 | X | X | X | X | X |
| Housing rehabilitation | 2007-000285 | 5,999 | X | X | X | X | X |
| Housing rehabilitation | 2008-000127 | 5,998 | X | X | X | X | X |
| Housing rehabilitation | 2007-000149 | 5,997 | X | X | X | X | X |
| Housing rehabilitation | 2009-000123 | 5,995 | X | X | X | X | X |
| Housing rehabilitation | 2009-000126 | 5,994 | X | X | X | X | X |
| Housing rehabilitation | 2008-000065 | 5,992 | X | X | X | X | X |
| Housing rehabilitation | 2009-000053 | 5,990 | X | X | X | X | X |
| Housing rehabilitation | 2008-000243 | 5,990 | X | X | X | X | X |
| Housing rehabilitation | 2007-000091 | 5,989 | X | X | X | X | X |
| Housing rehabilitation | 2007-000101 | 5,988 | X | X | X | X | X |
| Housing rehabilitation | 2007-000283 | 5,986 | X | X | X | X | X |
| Housing rehabilitation | 2007-000146 | 5,985 | X | X | X | X | X |
| Housing rehabilitation | 2007-000100 | 5,983 | X | X | X | X | X |
| Housing rehabilitation | 2009-000057 | 5,982 | X | X | X | X | X |
| Housing rehabilitation | 2008-000086 | 5,982 | X | X | X | X | X |
| Housing rehabilitation | 2009-000062 | 5,980 | X | X | X | X | X |
| Housing rehabilitation | 2009-000052 | 5,980 | X | X | X | X | X |
| Housing rehabilitation | 2008-000160 | 5,980 | X | X | X | X | X |
| Housing rehabilitation | 2007-000096 | 5,978 | X | X | X | X | X |
| Housing rehabilitation | 2009-000125 | 5,975 | X | X | X | X | X |
| Housing rehabilitation | 2007-000117 | 5,975 | X | X | X | X | X |
| Housing rehabilitation | 2007-000094 | 5,970 | X | X | X | X | X |
| Housing rehabilitation | 2007-000148 | 5,967 | X | X | X | X | X |
| Housing rehabilitation | 2008-000069 | 5,960 | X | X | X | X | X |
| Housing rehabilitation | 2009-000121 | 5,950 | X | X | X | X | X |
| Housing rehabilitation | 2007-000105 | 5,949 | X | X | X | X | X |
| Housing rehabilitation | 2008-000133 | 5,945 | X | X | X | X | X |
| Housing rehabilitation | 2007-000102 | 5,941 | X | X | X | X | X |
| Housing rehabilitation | 2009-000084 | 5,940 | X | X | X | X | X |
| Housing rehabilitation | 2008-000161 | 5,937 | X | X | X | X | X |
| Housing rehabilitation | 2008-000112 | 5,935 | X | X | X | X | X |
| Housing rehabilitation | 2008-000115 | 5,932 | X | X | X | X | X |
| Housing rehabilitation | 2008-000247 | 5,907 | X | X | X | X | X |
| Housing rehabilitation | 2009-000061 | 5,790 | X | X | X | X | X |
| Housing rehabilitation | 2008-000130 | 5,737 | X | X | X | X | X |
| Housing rehabilitation | 2007-000098 | 4,778 | X | X | X | X | X |
| Total | | \$731,085 | 43 | 43 | 43 | 42 | 42 |

* The schedule does not indicate all violations noted during the review. We included only the most frequent and serious violations.