



Issue Date
November 15, 2007

Audit Report Number
2008-AT-1002

TO: Jose R. Rivera, Director, Community Planning and Development, San Juan Field Office, 4ND

James D. McKay

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

SUBJECT: The Municipality of Canovanas, PR, Needs to Improve Administration of Its Community Development Block Grant Program

HIGHLIGHTS

What We Audited and Why

We audited the Municipality of Canovanas' (Municipality) Community Development Block Grant (Block Grant) program. We selected the Municipality for review as part of our strategic plan. The objective of the audit was 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.

What We Found

The Municipality's financial management system did not fully comply with applicable HUD requirements. The system did not support the allowability of more than \$885,000 in program disbursements, could not account for more than \$501,000 in Block Grant receipts, allowed the use of more than \$23,000 for ineligible program expenditures, and did not disburse Block Grant program funds in a timely manner.

Table of Contents

The Municipality's management controls over its housing rehabilitation activities were inadequate. It improperly used Block Grant funds for new housing construction, and lacked adequate documentation to support program accomplishments. Therefore, the related program expenditures of more than \$36,000 are ineligible, and more than \$324,000 are considered unsupported pending an eligibility determination by HUD.

The Municipality awarded six contracts totaling more than \$1 million without following HUD procurement requirements. As a result, it cannot 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 \$109,000 in Block Grant disbursements and paid more than \$70,000 for excessive expenditures.

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 \$59,000 in ineligible expenditures and \$70,374 in excessive costs. The director should also require the Municipality to provide all supporting documentation showing the appropriateness and eligibility of more than \$1.82 million 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) a financial management system that complies with HUD requirements, (2) controls and procedures which ensure that the housing rehabilitation activities meet the program objectives, and (3) procurement procedures which ensure that goods and services are obtained at the most advantageous terms and in a manner providing full and open competition. In addition, we recommend that the director require the Municipality to ensure that Block Grant expenditures are properly accounted for, reconciled with HUD's disbursement system, and in compliance with HUD requirements.

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 provided a copy of the draft report to Municipality officials on October 4, 2007, for their comments. We discussed the findings with the Municipality during the audit and at the exit conference on October 11, 2007. The Municipality provided its written comments to our draft report on October 19, 2007, and generally disagreed with the findings.

The complete text of the Municipality'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.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Municipality’s Financial Management System Did Not Fully Comply with HUD Requirements	5
Finding 2: Management Controls over the Housing Rehabilitation Activities Were Inadequate	10
Finding 3: The Municipality Did Not Comply with Procurement Requirements	13
Scope and Methodology	16
Internal Controls	18
Follow-up on Prior Audits	19
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	20
B. Auditee Comments and OIG’s Evaluation	21
C. Criteria	37
D. Schedule of Procurement Deficiencies	38

BACKGROUND AND OBJECTIVES

The Municipality of Canovanas (Municipality) is an entitlement recipient administering more than \$6.1 million in Community Development Block Grant (Block Grant) funds approved by the U.S. Department of Housing and Urban Development (HUD) during the past four years. HUD's Integrated Disbursement and Information System reflected Block Grant expenditures exceeding \$3.2 million during fiscal years 2005 and 2006 for the following activities:

Block Grant activity	Fiscal year 2005	Fiscal year 2006
Public facilities and improvements	\$ 531,908	\$ 453,909
Planning and administration	331,442	510,984
Section 108 loan repayment	625,401	110,421
Public services	98,736	263,477
Housing rehabilitation	<u>202,661</u>	<u>168,848</u>
Total	<u>\$1,790,148</u>	<u>\$1,507,639</u>

The Municipality's External Resources Office was responsible for administering the Block Grant program. Its books and records for the Block Grant program are maintained at 25 Palmer Street, Canovanas, Puerto Rico.

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

The objective of the audit was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Block Grant program.

RESULTS OF AUDIT

Finding 1: 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 \$885,000 in program disbursements, could not account for more than \$501,000 in Block Grant receipts, allowed the use of more than \$23,000 for ineligible program expenditures, and did not disburse Block Grant program funds in a timely manner. The noncompliance occurred because the Municipality did not develop and implement policies and procedures to ensure compliance with financial requirements of HUD programs. Consequently, the Municipality's internal controls were not sufficient to safeguard assets or ensure their use for authorized purposes and in accordance with HUD requirements.

Unsupported Program Disbursements

HUD requires the Municipality to maintain sufficient records that properly support charges made to the Block Grant program. However, the Municipality did not provide adequate documentation supporting the reasonability, allowability, and allocability of more than \$885,000 charged to the Block Grant program associated with its street resurfacing activities.¹

Between August 2005 and November 2006, the Municipality disbursed \$885,617 from its Block Grant account for street resurfacing. However, it did not maintain cost estimates or work specifications detailing the scope of the work to be performed. The supporting documentation maintained by the Municipality did not clearly identify the scope of the street resurfacing work, which would have permitted assessing the actual work done and amount of asphalt needed. As a result, it lacks assurance of the reasonableness, allowability, and allocability of \$885,617 it charged to the Block Grant program.

Inaccurate Accounting Records

HUD requires recipients of Block Grant funds to maintain financial records that are accurate and current and that adequately identify the source and application of funds provided for assisted activities. The Municipality's accounting records were not accurate, current, or complete.

The Municipality's accounting records did not reflect complete and accurate financial information on program activities. For example, its accounting records

¹ Total disbursements of \$979,547 were adjusted to consider \$23,556 ineligible in recommendation 1C and \$70,374 excessive in recommendation 3B.

did not include Block Grant fund balance accounts and did not account for capital assets acquired or constructed with HUD funds. The accounting records also contained several instances of incorrect ending balances, adjustments without proper journal entries, and transactions not recorded.

In addition, the expenditures shown in the Municipality's general ledger for the fiscal years ended June 30, 2005, and 2006 did not agree with amounts reflected in HUD's Integrated Disbursement and Information System.

Fiscal year ended June 30, 2006			
Activity	General ledger	IDIS*	Difference
Administration and planning	\$349,856	\$510,984	<\$161,128>
Public facilities and improvements	\$360,781	\$453,909	<\$93,128>
Public services	\$173,549	\$263,477	<\$89,928>
Housing rehabilitation	\$209,033	\$168,848	\$40,185
Section 108 Loan Guarantee Repayment	\$110,376	\$110,421	<\$45>
Fiscal year ended June 30, 2005			
Section 108 Loan Guarantee Repayment	\$654,339	\$625,401	\$28,938
Public facilities and improvements	\$665,007	\$531,908	\$133,099
Administration and planning	\$244,433	\$331,441	<\$87,008>
Housing rehabilitation	\$132,367	\$202,661	<\$70,294>
Public services	\$98,293	\$98,736	<\$443>

*Integrated Disbursement and Information System

The Municipality could not explain the discrepancies between the accounting records and could not account for \$501,974 drawn from HUD for various Block Grant program activities.

Ineligible Program Disbursements

In June 2007 we performed site inspections of various street resurfacing projects funded with Block Grant funds. The Municipality improperly paid more than \$23,000 in Block Grant funds for resurfacing work at private properties. During our visit, Municipality inspectors showed us at least 40 private properties that were paved with HUD funds.

Table of Contents



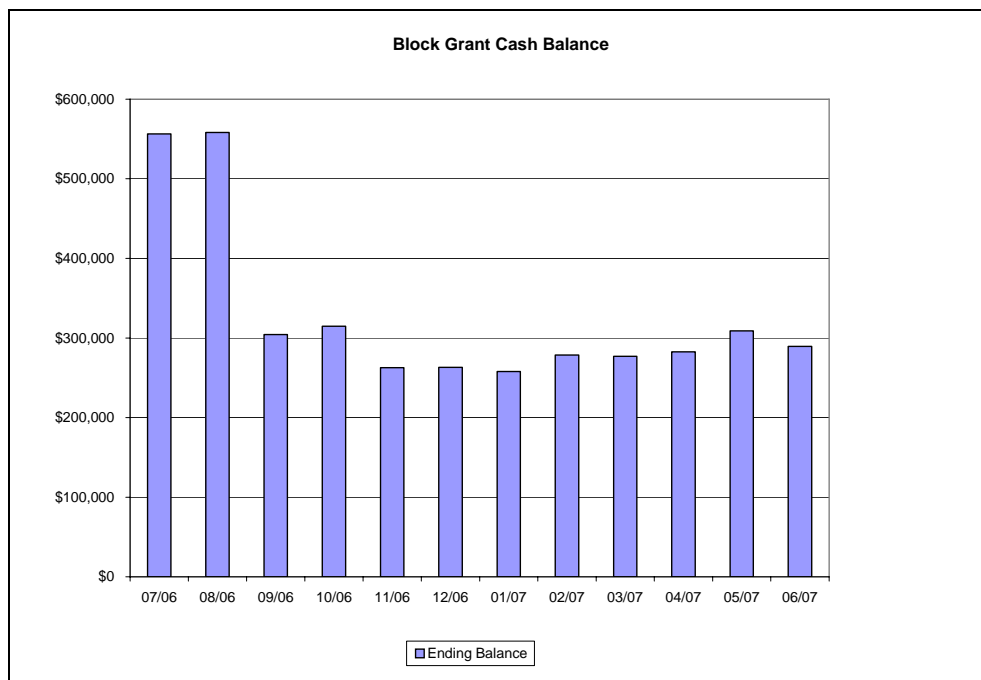
The above pictures show paved driveways. A municipality official indicated that these properties were resurfaced as instructed by the public works director and/or the mayor.

A Municipality official informed us that the private properties were resurfaced as instructed by the mayor and/or the public works department director, and that the resurfacing was paid for with local funds. However, the Municipality did not provide us with evidence to support this claim. As a result, Block Grant funds totaling \$23,556 were improperly used for costs not related to the program goals and objectives.

High Block Grant Fund Balance

Contrary to HUD requirements, the Municipality did not disburse Block Grant program funds in a timely manner and consistently maintained a high cash balance in its bank account. The Municipality's June 2007 bank statement reflected a cash balance of more than \$289,000, and the Municipality maintained a monthly average balance of \$329,469 during the 12-month period ending June 2007.

Table of Contents



The federal programs office director could not explain the reason for maintaining high cash balances in its Block Grant bank account. This condition was reported in the 2006 independent public accountant report as a recurrent and unresolved finding; however, the deficiency continues to exist.

Conclusion

The Municipality did not maintain a financial management system that adequately identified the source and application of Block Grant funds, that permitted the disbursement of funds in a timely manner, and that permitted only charges for allocable and allowable costs. The Municipality's Block Grant program accounting records were incomplete since they did not reflect the complete and full history of all financial transactions. The noncompliance occurred because the Municipality did not develop and implement policies and procedures to ensure compliance with financial requirements of HUD programs. As a result, the Municipality lacks assurance that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

Table of Contents

Recommendations

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

- 1A. Require the Municipality to submit all supporting documentation showing the eligibility and propriety of \$885,617 in street resurfacing costs or reimburse the Block Grant program from nonfederal funds.²
- 1B. Require the Municipality to submit all supporting documentation showing the eligibility and propriety of \$501,974 drawn from HUD or reimburse the Block Grant program from nonfederal funds.
- 1C. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$23,556 paid for ineligible resurfacing work at private properties.
- 1D. Require the Municipality to develop and implement a financial management system that permit the tracing of funds to a level which ensures that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes, and that permit the disbursement of funds in a timely manner.
- 1E. Require the Municipality to ensure that grant expenditures from July 2004 through June 2007 are properly accounted for, reconciled with HUD's Integrated Disbursement and Information System, and in compliance with HUD requirements.
- 1F. Increase monitoring of the Municipality's performance over the administration of its Block Grant program. If the Municipality fails to improve and fulfill its administrative responsibilities, consider imposing sanctions in accordance with 24 CFR [*Code of Federal Regulations*] 570.910.

² Total disbursements of \$979,547 were adjusted to consider \$23,556 ineligible in recommendation 1C and \$70,374 excessive in recommendation 3B.

Finding 2: Management Controls over the Housing Rehabilitation Activities Were Inadequate

The Municipality improperly used Block Grant funds for new housing construction and lacked adequate documentation to support program accomplishments. These deficiencies occurred because the Municipality lacked effective management and controls over its housing rehabilitation activities. As a result, it can not ensure that program objectives were met. Therefore, program expenditures of more than \$36,000 are ineligible, and more than \$324,000 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 approved more than \$36,000 in Block Grant funds for new housing construction in violation of HUD requirements. It approved Block Grant assistance to build or complete the construction of 12 new dwelling units.



Block Grant funds were used to complete the construction of new dwelling units above an existing unit. This violation was not reported by the Municipality during its August 13, 2005, inspection.



Block Grant funds were used to complete the construction of a new dwelling unit. This violation was not reported by the Municipality during its July 8, 2005, inspection.

This practice is in violation of HUD requirements in 24 CFR [*Code of federal Regulation*] 570.207.

Unsupported Housing Rehabilitation Accomplishments

According to the Municipality's records, it disbursed more than \$324,000 for housing rehabilitation efforts between July 2004 and December 2006. However, Municipality management did not maintain adequate internal controls to track and support the accomplishments of its housing rehabilitation activities. As a result, it lacks assurance that program objectives were met and that funds were used only for eligible purposes.

The Municipality did not have in place an adequate tracking system to show the total assistance provided to each participant, the status of the repair work, the cases with due inspections, or participants with undelivered materials. The Municipality's housing rehabilitation coordinator informed us that the Municipality would have to review each individual case file to extract or obtain the above mentioned data.

The Municipality also did not prepare detailed work write-ups or specifications of the rehabilitation work needed. The files only contained a general statement from the Municipality's inspector. The files did not clearly demonstrate the type of repair or the amount of assistance needed to bring the unit up to program standards. As a result, the files did not properly support the needed repairs, and the completed work assisted with Block Grant funds could not be determined. A similar deficiency was identified in the 2000 and 2003 HUD monitoring reports; however, the deficiency continues to exist.

Conclusion

Because the Municipality did not implement adequate internal controls, it improperly used Block Grant funds for new housing construction, and did not properly support program accomplishments. Therefore, expenditures of more than \$36,000 are ineligible, and more than \$324,000 are 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

- 2A. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$36,040 approved for ineligible housing rehabilitation activities/assistance.
- 2B. Require the Municipality to submit supporting documentation showing the current status of the repair work and the eligibility and propriety of \$324,854 disbursed between July 1, 2004 and December 31, 2006 for housing rehabilitation activities, or reimburse the Block Grant program from nonfederal funds.
- 2C. Require the Municipality to establish and implement management controls and procedures to ensure that its housing rehabilitation activities meet program objectives, Block Grant funds are only used for eligible purposes, and rehabilitation work is performed in accordance with standards and to permit proper tracking of program accomplishments.

Finding 3: The Municipality Did Not Comply with Procurement Requirements

The Municipality awarded six contracts totaling more than \$1 million without following HUD procurement requirements. This noncompliance occurred because the Municipality did not have in place adequate internal controls and procedures and was not familiar with applicable Block Grant requirement standards. As a result, it cannot ensure that quality goods and services were obtained at the most advantageous terms. In addition, the Municipality did not support the reasonableness of \$109,581 in Block Grant disbursements, and paid more than \$70,000 for excessive expenditures.³

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. Office of Management and Budget Circular A-87 provides that rental costs are allowable to the extent that the rates are reasonable.

We analyzed six contracts awarded between April 2005 and August 2006. There were procurement deficiencies in all six contracts reviewed. For example, the Municipality did not

- Perform public solicitation in one procurement,
- Award to the lowest bidder,
- Maintain adequate support showing that price or cost analyses were performed and the basis used to determine the reasonableness of the contracted amount,
- Provide potential contractors with complete and adequate specifications of the scope of the services to be performed, and
- Ensure that contracts included all provisions required by 24 CFR [*Code of Federal Regulations*] 85.36(i). For example, it did not include provisions related to (1) the retention of all required records for three years after the final payment and all other matters are closed; (2) administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may

³ Total disbursements of \$813,321 were adjusted to consider \$633,366 questioned in recommendation 1A and the excessive \$70,374 in recommendation 3B.

be appropriate; and (3) 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.

The Municipality's bid board secretary informed us that she was not familiar with HUD procurement standards. Thus, the Municipality did not ensure that procurement of Block Grant funded goods and services complied with HUD 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.

The Municipality paid \$109,851 to four contractors for engineering design, program administration, consulting services, and office space rent without evidence that it performed a cost/price analysis. Therefore, the reasonableness of the costs is not supported.

Excessive Expenditures

The Municipality awarded a contract and paid \$703,740 for street resurfacing work at various sites within the Municipality. Although the services were procured through formal bid, the Municipality did not award the procurement to the lowest bidder. It did not provide documentation explaining why the lowest bidder was not selected or the basis used to determine the reasonableness of the contracted amount. As a result, the Block Grant program was charged \$70,374 for excessive expenditures.

Conclusion

The Municipality did not provide evidence 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 \$109,581 in Block Grant disbursements, and paid more than \$70,000 for excessive expenditures. This noncompliance occurred because the Municipality did not have in place adequate internal controls and procedures and was not familiar with applicable Block Grant procurement requirements. As a result, the Municipality lacks assurance that services were obtained at the most advantageous terms and in a manner providing full and open competition or in accordance with HUD requirements.

Table of Contents

Recommendations

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

- 3A. Require the Municipality to provide support showing the eligibility and reasonableness of \$109,581 spent on engineering services, administrative rental costs, and consulting services or reimburse this amount to the Block Grant program from nonfederal funds.⁴
- 3B. Require the Municipality to reimburse the Block Grant program from nonfederal funds \$70,374 paid for excessive street resurfacing expenditures.
- 3C. 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

⁴ Total disbursements of \$813,321 were adjusted to consider \$633,366 questioned in recommendation 1A and the excessive \$70,374 in recommendation 3B.

SCOPE AND METHODOLOGY

The audit objective was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the Block Grant program. To accomplish our objective, 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 general ledgers;
- Performed site inspections of Block Grant activities; and
- Reviewed the Municipality's controls related to the administration of its Block Grant program.

The Municipality's check register reflected \$2.2 million in Block Grant disbursements between July 1, 2005, and December 31, 2006. We selected disbursements from the Municipality's check register with a value greater than \$25,000, resulting in 15 disbursements totaling \$1,388,704.⁵ We selected 10 additional disbursements totaling \$46,666 based on the vendor 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 obtained a list of housing rehabilitation grants the Municipality awarded between July 1, 2004, and May 21, 2007. During this period the Municipality awarded 145 housing rehabilitation grants totaling \$220,012. From this list, we selected and reviewed grants with amounts greater than \$2,000, resulting in 37 grants totaling \$98,339. We reviewed each file to verify the status of the rehabilitation work and the appropriateness of the assistance provided. From these cases, we inspected 14 dwelling units with grants totaling \$36,398. We inspected three additional dwelling units with grants totaling \$9,120 awarded between October 2002 and March 2004. The units selected for inspection were those for which the assistance provided appeared to be for ineligible housing rehabilitation activities.

We also obtained a list of the Municipality's Block Grant procurement efforts performed between July 1, 2005 and December 31, 2006. The Municipality conducted six significant procurement actions totaling \$1,016,027. We selected and reviewed four procurement activities totaling \$967,388. The procurement activities reviewed were two with a value greater than \$40,000 and two based on the vendor and purpose of the service. We reviewed two additional procurement efforts totaling \$68,600 that were conducted prior to our audit period. We reviewed each file to determine whether the procurement process followed by the Municipality met HUD standards.

⁵ We excluded six disbursements totaling \$518,445 associated with payroll expenditures.

To achieve our audit objectives, we relied in part on computer-processed data contained in the Municipality's database. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The results of the audit apply only to the items selected and cannot be projected to the universe or population.

The audit generally covered the period July 1, 2005, through December 31, 2006, and we extended the period as needed to accomplish our objectives. We conducted our fieldwork from January through July 2007 at the Municipality's offices in Canovanas, Puerto Rico.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined 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 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 the following items are significant weaknesses:

- The Municipality's financial management system did not fully comply with applicable HUD requirements (see finding 1).
- The Municipality's management controls over its housing rehabilitation activities were inadequate (see finding 2).
- The Municipality did not follow HUD procurement requirements when awarding six contracts totaling more than \$1 million (see finding 3).

FOLLOW-UP ON PRIOR AUDITS

This was the first OIG audit of the Municipality of Canovanas' Block Grant program.

The Municipality's independent public accountant audit report for the fiscal year ending June 30, 2006, was issued on November 10, 2006. The report expressed an unqualified opinion on the Municipality's financial statements but also reported nine findings concerning the Block Grant program. The material weaknesses applicable to the Block Grant program included (1) inadequate accounting system and financial management controls and procedures, (2) no control or procedures to use funds within the required time period, and (3) inadequate controls over equipment and real property management. As of September 25, 2007, all of the findings remained open, and the HUD field office had not received the Municipality's response.

We considered the reported findings in planning our audit and identified additional deficiencies as discussed in the Results of Audit section of this report.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Unreasonable or unnecessary 3/</u>
1A		\$885,617	
1B		501,974	
1C	\$23,556		
2A	36,040		
2B		324,854	
3A		109,581	
3B			<u>\$70,374</u>
Total	<u>\$59,596</u>	<u>\$1,822,026</u>	<u>\$70,374</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 polices 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 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.

3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



José R. Soto Rivera
Alcalde

Estado Libre Asociado de Puerto Rico
Gobierno Municipal
de Canóvanas

PO Box 1612
Canóvanas PR 00729-1612
Tel.: (787) 876-2328
Fax: (787) 256-7269

October 19, 2007

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: The Municipality of Canóvanas CDBG Activities

Dear Mr Mckay.

This is in response to your letter dated October 4, 2007 related to the Audit of the Municipality of Canóvanas CDBG program performed by the member of OIG Office in San Juan. We reviewed the draft audit report and we have prepared the following comments addressing the issues in which the Municipality understands it is in compliance with the applicable regulations. The following are our comments to the draft report.

Finding #1- The Municipality's Financial Management System did not Fully Comply with HUD requirements

Comments to Finding #1

Unsupported Program Disbursements

The auditors concluded incorrectly that the Municipality did not provided adequate documentation supporting the reasonability, allowability, and allocability of more than \$885,000 used with the street resurfacing program. We disagree with the auditor's determination that the documentation maintained by the Municipality did not permit the identification of the scope of the work to be performed, the material needed and that the actual work was performed.

The questioned disbursements were part of an activity included in the 2004 and 2005 annual action plan approved by HUD. Both activities were created into IDIS as activities

No descansaré hasta lograr el verdadero cambio!

#68 and #62 As required by the regulation the annual action plan, approved by HUD, described the sectors to be benefited from the activity. The Federal Program division prepared an environmental assessment that included, as required by the regulations, each street to be repaved and its length. Although the Municipality did not prepare an estimate of the material needed for the work to be performed, the records available has sufficient amount of information that allowed the preparation of such analysis. Following the local procurement requirements the Municipality requested vendors to present proposals for the paving material and related labor. The proposals included cost by square meters. When the bid was awarded the Municipality estimated the total number of meters of the work to be performed and the unit cost and includes the information in the contractor agreement (see attached agreement **appendix 1**).

The repavement work was initiated and with each invoice each contractor presented a map of the areas repaved indicating the streets and square meters used for the work. The Federal Program Director evaluated the information and certified the invoices. (enclosed you will find an example of maps included with the invoices, **appendix 2**).

We understand that all the information required to evaluate the reasonability, allowability, and allocability of the disbursement made for the repavement activity was available at different offices and departments of the Municipality. Unfortunately all the information was not available at only one location.

We concur with the auditors that the Municipality need to maintain all the related information in one file. Unfortunately this was not the case and the Municipality will take corrective actions to avoid the recurrence of the situation.

Due to the time limits to respond to your letter the Municipality cannot produce all of the documentation needed to clear this finding. All the documents that prove that the disbursements made by the municipality were reasonable, allowable, allocable will be presented to the field office as part of the preparation of the management decision.

Inaccurate account records

We agree with the auditors in this issue and we have initiated the process of updating and correcting the data in the IDIS system and the financial records of the Municipality to avoid the recurrence of the situation. It is important to recognize that the IDIS data problem is not the sole responsibility of the Municipality. The problem with IDIS data and its complexity has been recognized by the Congress, the GAO, the OIG, and even by the Deputy Secretary of Housing Roy Bernadi. Mr. Bernadi in a recent report (May 2005) to the U.S. House of Representative indicated that:

“Obtaining consistency in reporting and improving the quality of the data on CDBG activities in IDIS has taken years because of both the large number of grantees and the large number of activities that may be assisted under the CDBG program. The flexibility of CDBG is of great importance to grantees because it allows them to use the funds in so many different ways to address their needs.

¡No descansaré hasta lograr el verdadero cambio!

Ref to OIG Evaluation

Auditee Comments

However, that flexibility also created difficulty in getting consistency in accomplishments reported by individual grantees”.

As of today various activities has been revised, corrected and closed out but more work is needed to complete this task. During the following months the Municipality will continue the clean up and reconciliation effort.

In order to implement your recommendations and to correct this situation the Municipality will undertake the reconciliation of the CDBG program. The work being performed includes the reconciliation of the projects, activities and expenditures of the Federal System “Integrated Disbursement and Information System” (IDIS) with the expenditures and balances of the Financial system of the Municipality. The intervention period included in the reconciliation is 1998-2006. The objectives of reconciliation are.

- Conciliate the initial assignments of the IDIS activities with the Municipality’s Financial system;
- Conciliate the expenditures of the IDIS activities with those of the Municipality’s Financial system,
- Conciliate the available balance of the IDIS activities with those of the Municipality’s Financial system,
-

After the reconciliation is completed the Municipality will proceed to undertake the following:

- Update the activity budgets – This will reconcile the assigned amounts with the Consolidated Plan, Financial System and the IDIS System.
- Adjust all of the necessary “drawdowns” allowing for the conciliation of activities in IDIS with the Finance system.

The reconciliation itinerary is as follows:

Task	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8
Finance Department Activity Identification								
Activity Identification in IDIS								
Transfer Identification								
Expenditure Analysis (“drawdowns”)								
Preparation of the comparative voucher and expenditure analysis								
Update the activity budgets								

¡No descansaré hasta lograr el verdadero cambio!

Table of Contents

Comment 1

Adjust the "drawdowns"									
Complete of the adjustment and entries into IDIS									

After all of the entries are entered into IDIS a report will be presented certified by a CPA.

Ineligible Program Disbursement

We disagree with the OIG determination that the Municipality used CDBG funds to resurface entrance roads of private residence in violation of the grant program regulation. It is a fact that the Municipality resurfaced the entrance roads of various private properties. But this work is allowable by the applicable laws and regulation as we explain further. The work performed by the Municipality was in accordance with the local law and regulation and in full compliance with the CDBG regulations.

The Puerto Rico Autonomous Municipalities Law (Ley 81) declares as private space (servidumbre) the entrances of private properties occupied by low income families (Article 2 04 (o))(See **appendix 3**) The same law allows the Municipality to undertake repavement works in such properties when the units are occupied by low income families. Taking that into consideration the Municipal Legislature enacted an Ordinance (#1 Serie 2003-2004) authorizing the mayor to undertake such work (see **appendix 4**)

The repavement activity is eligible under 24 CFR 570 201 (c) Public Facilities and Improvements. This section of the regulation requires that the work to be performed benefit low and moderate income families. As required by the CDBG regulations all the sectors where the activity was undertaken are considered predominately low income(Census Tracts. 1007 00 Block 1 LMI% 65.3, 1006 00 Block 3 LMI% 66 3)

We understand that the activity undertaken is eligible due to the fact that it was an eligible activity, undertaken in an eligible area and benefited low and moderate income person. We request that this section of the finding is removed from the report.

High Block Grant Funds balance

As established by the auditors the Municipality June 2007 bank statement reflects a cash balance of \$289,000. This amount corresponds in part to account payable to the finance Department of the Municipality. The Municipality completed an evaluation of the reasons of the large cash balance and prepared a report that concluded that the CDBG program owes the Municipal Finance Department a total of \$215,044 64. The Municipality will proceed to reimburse the Municipal finance department and the remaining amount will be returned to the line of credit of the CDBG program. As accorded in the exit conference this situation will be corrected by October 31, 2007.

¡No descansará hasta lograr el verdadero cambio!

Comment 2

We understand that the Municipality needs to implement some additional controls that will result in a better administration of the CDBG program and my administration is committed to implement those controls. The Municipality will address the additional control to be implemented during the preparation of the Management Decision.

Finding 2- Management Controls Overt the Housing Rehabilitation Activities were inadequate

Comments to Finding #2

Ineligible New Housing Construction

The OIG concluded in the draft report that \$36,000 from CDBG funds were used for the new construction of 12 housing units. We disagree with the OIG determination. It appears that the OIG conclusion is based on an interpretation of the regulations as to what is considered *new construction*, and the Municipality's actions are based on a reasonable interpretation of the regulations on what is *reconstruction*. It is well to emphasize that in all 12 cases, the activity benefited very low income persons with extreme poverty and need. In addition we want emphasize that it will be impossible to undertake the construction of 12 housing units with \$36,000 thus the CDBG funds were understand that the funds were used to support the rehabilitation of existing units

The OIG reviewed 12 cases in which they determined that new construction occurred. The municipality understands that the actions taken by the homeowners constitute reconstruction and not new construction as identified by the OIG. Housing reconstruction became explicitly eligible for CDBG assistance as a result of a legislative change under section 225 Public Law 104-234, enacted April 26, 1996. This change broadened the CDBG grantees' ability to use CDBG funds for "reconstruction" of Housing. Although this eligibility provision was not codified in the CDBG regulations, grantees have been able to make use of this provision since approval of the legislative change. The following is an analysis of some of the cases questioned by the OIG and the justification for the work performed in accordance with the Law.

Case Number 2005-052

In this case an existing unit existed and was occupied by a low income family. The Municipality provided assistance for the construction of the roof.

¡No descansaré hasta lograr el verdadero cambio!

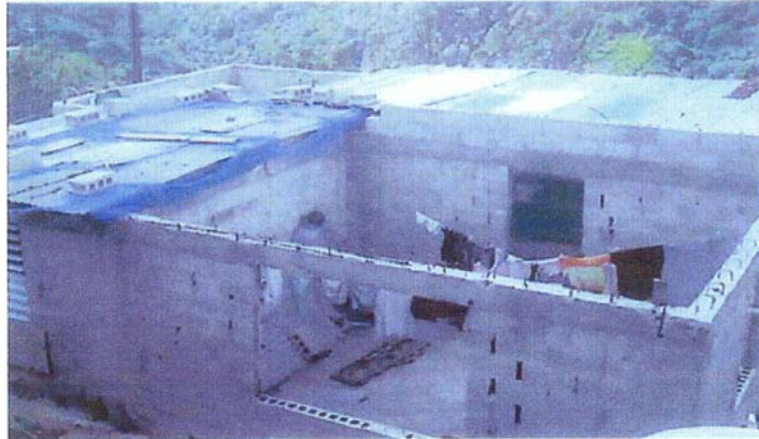


Figure 1: Case # 2005-052 photo before the rehabilitation

Case Number 2004-003

In this case an existing unit existed and was occupied by a low income family. The case file shows that the family requested funding for the reconstruction of the second story due to the fact that the first story get flooded by a small creek located near the unit.



Figure 2: Case Number 2004-003 photo before the rehabilitation

¡No descansaré hasta lograr el verdadero cambio!

Case Number 2004-012

In this case an existing unit existed that was unoccupied. The participant requested funding to rehabilitate the unit. The unit was completed and is occupied by a low income family.



**Figure 3: Case Number 2004-012
Case Number 2000-607**

In this case an existing unit existed and the participant requested funding for the rehabilitation of the unit. The following photos show the unit before and after the rehabilitation work:

¡No descansaré hasta lograr el verdadero cambio!



Figure 4: Case Number 2000-607- Before Rehab



Figure 5: Case Number 2000-607 – After Rehab

Case Number 2002-099

In this case a housing unit existed and was rehabilitated to be occupied by a low income family. The following photos show the unit before and after the rehabilitation work:

No descansaré hasta lograr el verdadero cambio!

Ref to OIG Evaluation

Auditee Comments



Figure 6: Case Number 2002-099- Before Rehab



Figure 7: Case Number 2002-099- After Rehab

No descansaré hasta lograr el verdadero cambio!

Table of Contents

Ref to OIG Evaluation

Auditee Comments

Case Number 2000-587

In this case a housing unit existed and the family was living in the basement. CDBG funds were provided for the roofing of the unit. The following photos show the unit before and after the rehabilitation work:



Figure 8: Case Number 2000-587 Before rehab



Figure 9: Case Number 2000-587 after work performed

¡No descansaré hasta lograr el verdadero cambio!

Table of Contents

Comment 3

Unsupported Housing Rehabilitation Accomplishments

We disagree with the statement that the Municipality did not maintain an adequate tracking that shows the accomplishments of the Housing Rehabilitation program. CDBG program regulation requires that for each housing unit that receives assistance the Municipality maintain the following records.

- A copy of the written agreement with each landlord or developer receiving CDBG assistance indicating the total number of dwelling units in each multi-unit structure assisted and the number of those units which will be occupied by L/M income households after assistance
- Total cost of the activity, including both CDBG and non-CDBG funds
- For each unit claimed to be occupied by an L/M income household, the size and combined income of the household

All of the required information was available at each participant file. Unfortunately this information was not available as a list or table. To correct this situation the Municipality prepared a table that included all the required information. After the auditors completed the audit the Federal Program director provided instruction to the staff to maintain the required information. The following table shows the housing rehabilitation accomplishments for program year 2006 as maintained in the Municipality.

Municipality of Canóvanas CDBG Housing Rehabilitation Program Cumulative Report							
Case #	Address	Sector	Fam Size	Income Level	Date	Amount	Status
2005-002	Bo. Palma Sola Canóvanas PR	Palma Sola	4	VL	December 5, 2006	\$ 1,194.72	Cerrado
2005-003	C/1 Parc. 373 Central	La Central	6	VL	December 5, 2006	\$ 987.50	Denegado
2005-004	Bo. Cubuy	Los Café	1	VL	December 19, 2006	\$ 528.90	Open
2005-005	Pueblo Indio	La Central	1	VL	October 1, 2006	\$ 3,622.12	Open
2005-006	Bo. Cubuy	Bo. Cubuy	4	VL	October 1, 2006	\$ 1,121.82	Open
2005-007	Villa Conquistador	San Isidro	1	VL	October 5, 2006	\$ 942.80	Open
2005-008	Parc. 745 Villa San Isidro	San Isidro	3	VL	December 5, 2006	\$ 1,628.63	Denegado
2005-009	Bo. Cubuy	Peniel	4	VL	December 19, 2006	\$ 1,269.15	Open
2005-010	Villa Santa	La Central	2	VL	December 5, 2006	\$ 1,393.50	Open
2005-011	Monte Verda	San Isidro	1	VL	November 1, 2006	\$ 1,054.46	
2005-012	Bo. Campo Rico	Campo Rico	1	VL	October 1, 2006	\$ 557.70	Cerrado
2005-013	Quebrada Prieta	Bo. Lomas	1	VL	December 19, 2006	\$ 433.40	Open
2005-014	Bo. La Central	La Central	1	VL	December 5, 2006	\$ 840.56	Open

¡No descansaré hasta lograr el verdadero cambio!

Ref to OIG Evaluation

Auditee Comments

Municipality of Canóvanas CDBG Housing Rehabilitation Program Cumulative Report							
Case #	Address	Sector	Fam Size	Income Level	Date	Amount	Status
2005-015	Quebrada Grande	Bo Cubuy	2	VL	December 19, 2006	\$ 1,495.70	Open
2005-016	Ext. Terra Alta	San Isidro	4	VL	December 5, 2006	\$ 880.55	Open
2005-017	Villa Sin Miedo	Bo Cubuy	4	VL	December 5, 2006	\$ 565.42	Open
2005-018	Bo. Campo Rico Jardines de Palmarejo	Campo Rico	1	VL	December 5, 2006	\$ 618.60	Open
2005-019		San Isidro	5	VL	December 5, 2006	\$ 2,170.85	Open
2005-020	Bo. Palma Sola Jardines de Palmarejo	Palma Sola	2	VL	December 5, 2006	\$ 1,373.62	Open
2005-021		San Isidro	2	VL	February 7, 2007	\$ 488.70	Open
2005-022	Bo La Central	La Central	2	VL	December 5, 2006	\$ 545.15	Open
2005-023	Pueblo Indio	La Central	5	VL	December 19, 2006	\$ 1,268.16	Open
2005-024	Bo Cubuy	Bo Cubuy	1	VL	December 5, 2006	\$ 1,081.30	Open
2005-025	Parcelas Viejas	San Isidro	5	VL	December 5, 2006	\$ 1,764.00	Denegado
2005-026	Las Yayas	Bo. Lomas	2	VL	December 5, 2006	\$ 552.65	Open
2005-027	Finca Pozo	Campo Rico	2	VL	December 5, 2006	\$ 767.30	Open
2005-028	Bo Cambalache	Cambalache	9	VL	December 5, 2006	\$ 714.70	Open
2005-029	Bo La Central	La Central	2	VL	January 16, 2007	\$ 849.85	Open
2005-030	Alturas de Campo Rico	Campo Rico	4	VL	December 5, 2006	\$ 2,155.85	Open
2005-031	Bo. Campo Rico	Campo Rico	1	VL	December 5, 2006	\$ 290.00	Open
2005-032	Alturas de Campo Rico	Campo Rico	3	VL	December 5, 2006	\$ 1,210.93	Open
2005-033	Las Vegas	Campo Rico	4	VL	January 16, 2007	\$ 1,961.60	Open
2005-034	Villa Conquistador	San Isidro	2	VL	October 1, 2006	\$ 1,344.00	Open
2005-035	C/954 Km 4.4 Fincas Pozo	Campo Rico	3	VL	March 14, 2007	\$ 914.75	Open
2005-036	Monte Verda	San Isidro	1	VL	October 1, 2006	\$ 1,932.60	Open
2005-037	Urb Loiza Valley	Loiza Valley	2	VL	December 15, 2006	\$ 1,661.00	Open
2005-038	La Central	La Central	1	VL	January 15, 2007	\$ 673.20	Open
2005-039	Jardines de Palmarejo	San Isidro	1	VL	December 5, 2006	\$ 481.12	Open
2005-040	Villa Conquistador	San Isidro	3	VL	December 5, 2006	\$ 1,055.90	Open
2005-041	Bo. Cubuy	Bo. Cubuy	2	VL	October 1, 2006	\$ 1,596.00	Denegado
2005-042	Penial	Palma Sola	9	VL	October 1, 2006	\$ 2,754.00	Cerrado
2005-043	Canovanillas	Canovanillas	1	VL	December 5, 2006	\$ 534.35	Open
2005-044	Bo. Campo Rico Jardines de Palmarejo	Campo Rico	5	VL	December 5, 2006	\$ 4,023.00	Open
2005-045		San Isidro	2	VL	October 1, 2006	\$ 643.70	Open

¡No descansaré hasta lograr el verdadero cambio!

Municipality of Canóvanas CDBG Housing Rehabilitation Program Cumulative Report							
Case #	Address	Sector	Fam Size	Income Level	Date	Amount	Status
2005-046	Bo. Cubuy	Bo. Cubuy	2	VL	March 14, 2007	\$ 914.75	Open
2005-047	Urb. Las Vegas	Campo Rico	1	VL	December 5, 2006	\$ 1,245.35	Open
2005-048	Bo. La Central	La Central	2	VL	December 5, 2006	\$ 2,804.93	Open
2005-049	C/ Zumbador #50	Brisas de Canóvanas	4	VL	October 1, 2006	\$ 1,544.90	Open
2005-049A	Bo. Cubuy	Bo. Cubuy	3	VL	February 27, 2006	\$ 1,489.90	Open
2005-050	Parcela #322	San Isidro	2	VL	November 6, 2006	\$ 2,079.00	Open
2005-050A	C/4 Parcela 30A	Campo Rico	3	VL	August 23, 2005	\$ 3,191.00	Denegado
2005-051	C/11 U-9 Ext Jardines	San Isidro	4	VL	November 18, 2007	\$ 989.65	Open
2005-052	C/186 Km 5.4	Bo. Lomas	3	VL	October 31, 2006	\$ 2,675.00	Cerrado
2005-053	C/186 Km 7.2	Bo. Cubuy	2	VL	November 6, 2006	\$ 3,115.45	Open
2005-054	C/12 Parcela 241	San Isidro	2	VL	November 6, 2006	\$ 1,735.04	Open
2005-055	C/10 Parcela 50	San Isidro	4	VL	November 6, 2006	\$ 840.00	Open
2005-056	C/1 Parcela H15	San Isidro	5	VL	December 5, 2006	\$ 1,074.30	Open
2005-057	Bo. Lomas	Bo. Lomas	5	VL	January 16, 2007	\$ 1,525.75	Open
2005-058	Alturas de Campo Rico	Campo Rico	4	VL	December 5, 2006	\$ 1,696.75	Open

As the table shows the municipality has already taken action to comply with the documentation requirements and we request the modification of the finding to reflect this action. For the remaining years the Municipality will provide the documentation during the preparation of the management decision.

Finding # 3- The Municipality did not comply with procurement requirements

We believe that we complied with the Procurement Requirements established by HUD in 24 CFR 85.36. The auditors concluded that they encountered deficiencies in the award of six contracts. Although some of the deficiencies identified by the auditors are correct, we understand that the Municipality promoted the procurement process openly and competitively. To accomplish this, the Municipality undertook the following.

- Used newspaper advertising to request the services
- Proposals were evaluated and scores were provided to each contractor

The method used by the Municipality was the Requests for proposals in compliance with 24 CFR 85.36(d) (3). To comply with this requirement the Municipality applied the following requirements.

No descansaré hasta lograr el verdadero cambio!

Comment 4

Ref to OIG Evaluation

Auditee Comments

- Requests for proposals were publicized and identified all evaluation factors. The Municipality only disregarded the relative importance of each factor
- Proposals were solicited from an adequate number of qualified sources
- The municipality applied a method for conducting technical evaluations of the proposals received and for selecting awardees,
- Awards were made to the most responsible firm whose proposals was most advantageous to the program, with price and other factors considered

In Compliance with the OIG recommendation and to avoid the recurrence of this finding the Municipality the Municipality is preparing a Procurement Procedure. This procurement procedure follows the standards and procedures outlined in the following government regulations.

- 24 CFR Part 85. Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments
- 24 CFR Part 84. Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- 24 CFR 570 200(d)
- 24 CFR 92 505
- OMB A-87: Cost Principles For State, Local, and Indian Tribal Governments
- OMB A-102: Grants and Cooperative Agreements with State and Local Governments
- OMB A-110: Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations
- OMB A-122. Cost Principles for Non-Profit Organizations
- OMB A-133. Audits of States, Local Governments and Non-Profit Organizations

The application of the procedure will ensure that purchases of materials and services are obtained efficiently, economically, and in compliance with the provisions of applicable federal law.

We understand that this letter demonstrates that some of the issues questioned by the auditors were supported by documentation in the Municipality and that the report must be modified.

Before ending, I will like to extend my appreciation and thanks to Mr Michael Rivera, and Mr William Davila, Mrs Carmen Torres and Mrs. Luisa Villalón, for the cooperation, guidance and support provided to the staff of the Municipality of Canóvanas during the audit and in the exit

¡No descansaré hasta lograr el verdadero cambio!

Ref to OIG Evaluation

Auditee Comments

conference. We understand that Mr. Rivera's recommendations will result in a significant improvement in our operation of the CDBG Program.

Cordially,



Hon. José R. Soto Rivera
Mayor

Enclosures

¡No descansaré hasta lograr el verdadero cambio!

OIG Evaluation of Auditee Comments

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

Comment 1 The Municipality stated that the resurfacing work was done only to the entrance of the properties and that it was an eligible Block Grant activity (public facility improvement) since its efforts were targeted to low-moderate-income persons; thus, in compliance with the national objective requirement. However, the paving was not limited to the entrance as the Municipality claims in its response. Our inspection showed that the work took place inside the private property, beyond the entrance. The HUD field office informed us that the paving could be an eligible activity if it was done in conjunction with housing rehabilitation work of the dwelling unit but that the Municipality would have to demonstrate the income eligibility of the recipients. The Municipality did not provide additional support that could demonstrate that the expenses were eligible or that recipients were low-moderate income persons.

Comment 2 The Municipality stated the actions taken by the homeowners constitute reconstruction and not new housing construction. According to the supporting documentation the Municipality provided us during the audit and our interviews with program participants, Block Grant funds were improperly used to build or complete the construction of new dwelling units and not for reconstruction of existing housing units as the Municipality claims in its response. Our review found that Block Grant funds were used for the creation of a secondary housing unit attached to a primary unit and/or new detached units that is not allowable under the program. The Municipality did not provide additional support that could demonstrate that the expenses were eligible.

Comment 3 The Municipality stated that it maintained appropriate supporting documentation, and that it has taken action to resolve the finding. However, the additional support provided to us was not sufficient to address the deficiencies found during our audit. The information provided by the Municipality was too general and did not include names of participants, the description of the rehabilitation work needed and its status, cases with due inspections, or participants with undelivered materials. In addition, the Municipality did not address in its response the fact that it did not prepare detailed work write-ups or specifications of the rehabilitation work needed.

Comment 4 The Municipality stated that it complied with HUD procurement requirements. According to the supporting documentation the Municipality provided us during the audit, it awarded six contracts without following HUD procurement requirements. Thus, the Municipality did not provide evidence it created an environment that permitted full and open competition. 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.

Appendix C

CRITERIA

Federal Regulations at 24 [*Code of Federal Regulations*] 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 [*Code of Federal Regulations*] 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 [*Code of Federal Regulations*] 570.207(b)(3)

New housing construction is an activity that may not be assisted with Block Grant funds unless authorized under provisions of §570.203 or when carried out by an entity under the provisions of §570.204.

Table of Contents

Appendix D

SCHEDULE OF PROCUREMENT DEFICIENCIES

Contracted services	Amount	Missing contract provisions	No cost or price analysis	Missing or inadequate specifications of services solicited	Lowest proposal not selected	No public solicitation
Street resurfacing August - November 2006	\$716,388	X	X	X	X	
Basketball court improvements March - August 2006	195,000	X				
Engineering services April 2005 - April 2006	40,000	X	X	X		
Engineering services February - March 2006	36,000	X	X	X		X
Office space lease June 2005 - June 2006	23,231	X	X	X		
Consulting services February- June 2006	20,000	X	X			
Total	\$1,030,619	6	5	4	1	1

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