



The Municipality of Ponce, PR

HOME Investment Partnerships Program



Issue Date: November 30, 2012

Audit Report Number: 2013-AT-1001

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

//signed//

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

SUBJECT: The Municipality of Ponce, PR, Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the Municipality of Ponce's, HOME Investment Partnerships Program.

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

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

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



November 30, 2012

The Municipality of Ponce, PR, Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements

Highlights

Audit Report 2013-AT-1001

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) annual plan and based on the large amount of funds approved, we audited the Municipality of Ponce's HOME Investment Partnerships Program. Our objectives were to determine whether the Municipality maintained its financial management system in compliance with HUD requirements and met HOME program objectives.

What We Recommend

We recommend that HUD (1) determine the eligibility of more than \$3.8 million disbursed for unsupported HOME program costs and an activity that showed signs of slow progress and (2) deobligate and put to better use more than \$286,000 in overstated obligations.

What We Found

The Municipality's financial management system (1) did not properly identify the source and application of more than \$3.5 million in HOME funds, (2) did not support the eligibility of more than \$454,000 in program charges, and (3) failed to disburse HOME funds within HUD-established timeframes. As a result, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for requested and eligible purposes and in accordance with HOME requirements.

The Municipality disbursed more than \$327,000 for an activity that showed signs of slow progress without assurance that the activity would generate the intended benefits. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

The Municipality reported to HUD more than \$2.5 million in HOME commitments without executing a written agreement or identifying the property in accordance with HUD requirements. Further, it failed to report more than \$11,000 in program income and recaptured funds. As a result, HUD had no assurance that the Municipality met HOME program objectives, commitments, and disbursement requirements.

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BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships Program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act as amended. The U.S. Department of Housing and Urban Development (HUD) allocates funds by formula to eligible State and local governments for the purpose of increasing the supply of decent, safe, sanitary, and affordable housing to low- and very low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, new housing construction, and tenant-based rental assistance.

Participating jurisdictions are required to commit HOME funds within 24 months and expend them within 5 years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement. Participating jurisdictions draw down HOME funds through HUD's Integrated Disbursement and Information System.¹ HUD's information system is also used to monitor and track HOME commitments, program income, repayments, and recaptured funds, among other things.

The Municipality of Ponce was founded in 1692, and its governing system consists of an executive and legislative body: a mayor and 16 members of the municipal legislature elected for four-year terms. The municipal government provides a full range of services, including public health and safety, urban and economic development, education, and others. The Municipality of Ponce is the third largest local participating jurisdiction in Puerto Rico, for which HUD has approved more than \$4.4 million in HOME funds during the past 3 fiscal years. HUD's information system reflected expenditures exceeding \$800,000 during the fiscal year ending June 30, 2011, for the following activities:

Activity type	Amount expended
Home-buyer assistance	\$186,100
Home-buyer acquisition and new construction	263,304
Homeowner rehabilitation	119,487
Planning and administration	<u>234,555</u>
Total	<u>\$803,446</u>

The Municipality's Secretariat of Housing and Socioeconomic Development is responsible for administering HOME funds. Its books and records are maintained at 76 Cristina Street, Ponce, PR.

We audited the Municipality's HOME 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

¹ HUD's Integrated Disbursement and Information System (IDIS) is the drawdown and reporting system for the four CPD formula grant programs. The system allows grantees to request their grant funding from HUD and report on what is accomplished with these funds.

maintained its financial management system in compliance with HUD requirements and met HOME program objectives.

RESULTS OF AUDIT

Finding 1: The Municipality's Financial Management System Did Not Comply With HUD Requirements

The Municipality's financial management system did not properly identify the source and application of more than \$3.5 million in HOME funds and did not support the eligibility of more than \$454,000 in program charges. In addition, it failed to disburse more than \$84,000 in HOME funds within HUD-established timeframes. These deficiencies occurred because the Municipality disregarded HUD financial requirements and instructions. As a result, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for requested and eligible purposes and in accordance with HOME requirements.

Inadequate Accounting Records

The Municipality's accounting records did not reflect complete and accurate financial information on HOME program activities and did not permit the adequate tracing of program receipts and expenditures. Regulations at 24 CFR (Code of Federal Regulations) 85.20(b) require participating jurisdictions to maintain financial records that are accurate, current, and complete and that adequately identify the source and application of funds provided for assisted activities. However, the Municipality's accounting records did not comply with HUD requirements and were not adequate for the preparation of reports. For example, the Municipality's financial management system did not allow the tracing of expenditures by individual HOME activity; it instead commingled the transactions of various activities into the same account. A program official also indicated that to determine the expenditures associated with a HOME-funded activity, it would be necessary to review each activity file to determine the amount disbursed. The Municipality also did not properly account for capital assets.

In addition, the expenditures shown in the Municipality's general ledger for the fiscal years ending June 30, 2009, and 2010, and the period ending October 31, 2011, did not agree with amounts reflected in HUD's information system.

HOME expenditures			
Fiscal year ending June 30, 2009			
Activity type	General ledger	HUD's information system	Difference
Home-buyer - acquisition and new construction	\$1,375	\$40,000	(\$38,625)
New construction - CHDO*	\$184,385	\$0	\$184,385
Home-buyer - acquisition	\$716,832	\$627,897	\$88,935
Home-buyer - rehabilitation	\$56,497	\$54,747	\$1,750
Rental - acquisition and rehabilitation	\$409,980	\$395,734	\$14,246
Administration	\$140,007	\$46,750	\$93,257
Fiscal year ending June 30, 2010			
Home-buyer - acquisition and new construction	\$88,060	\$263,304	(\$175,244)
Home-buyer - acquisition	\$133,100	\$186,100	(\$53,000)
Homeowner - rehabilitation	\$37,983	\$119,487	(\$81,504)
Administration	\$133,150	\$234,555	(\$101,405)
July 1, 2010, through October 31, 2011			
Acquisition of real property	\$107,408	\$0	\$107,408
Home-buyer - acquisition	\$116,180	\$223,241	(\$107,061)
Home-buyer - acquisition and new construction	\$0	\$43,161	(\$43,161)
Homeowner - rehabilitation	\$0	\$4,500	(\$4,500)
Administration	\$41,267	\$6,515	\$34,752

* community housing development organization

The Municipality also provided conflicting information on the total amount disbursed for HOME-funded activities. For example, the expenditures shown in the Municipality's records for six activities did not agree with amounts reflected in HUD's information system.

Activity number	Municipality's records	HUD's information system	Difference
753	\$554,870	\$529,513	\$25,357
802	\$236,670	\$389,620	(\$152,950)
1013	\$88,060	\$41,782	\$46,278
1151	\$101,968	\$141,329	(\$39,361)
1154	\$15,882	\$49,923	(\$34,041)
1158	\$0	\$58,179	(\$58,179)

The Municipality did not maintain a financial management system that permitted 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. As a result,

HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for eligible purposes. The Municipality could not explain the discrepancies among the accounting records. A Municipality official informed us that establishing a financial management system that could provide the needed information would complicate the accounting process. This is not a valid reason for not meeting HUD requirements. Therefore, more than \$3.5 million in HOME funds drawn from HUD between July 1, 2009, and July 31, 2012, was unsupported.

Unsupported Program Disbursements

Project costs - The Municipality did not support the reasonableness and allowability of more than \$224,000 in HOME program funds disbursed. Regulations at 24 CFR 92.206 and 92.508(a) allow disbursements for reasonable and allowable costs associated with HOME-funded projects that are supported with records that enable HUD to determine that HOME requirements were met. It paid more than \$184,000 to a community housing development organization (CHDO)² without adequate evidence that the costs were incurred or eligible. Further, the Municipality disbursed \$40,000 for rehabilitation performed directly by the assisted family without evidence that the costs claimed by the participant were the costs paid for materials and labor. The responsible official indicated that the Municipality did not verify whether the costs were incurred by the participant.

Administrative costs - The Municipality did not provide documentation supporting the reasonableness, allowability, and allocability of more than \$230,000 charged to the HOME program, associated with administrative salaries. Although it charged the HOME program a portion of the payroll costs associated with six 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. Regulations at 2 CFR 225, appendix B, item 8.h.(4), require that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation. 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. Therefore, HUD lacked assurance of the reasonableness, allowability, and allocability of more than \$230,000 in administrative payroll costs charged to the HOME program between July 2010 and October 2011.

² A CHDO is a private nonprofit, community-based service organization whose primary purpose is to provide and develop decent, affordable housing for the community it serves.

HOME Funds Not Disbursed in a Timely Manner

The Municipality failed to disburse HOME funds totaling more than \$84,000 within HUD-established timeframes.

Program income and recaptured funds - Contrary to HUD's regulations at 24 CFR 92.502(c)(3), the Municipality received more than \$21,000 associated with program income and recaptured funds that were not used before the Municipality made additional drawdowns from HUD. The Municipality drew down more than \$480,000 in HOME funds from July 1, 2010, through February 9, 2011, before other funds in its bank account were used.

HOME withdrawals - The Municipality withdrew from its treasury account more than \$1 million in HOME funds between July 1, 2010, and October 31, 2011. Contrary to HUD's regulations at 24 CFR 92.502(c)(2), the Municipality failed to disburse drawdowns totaling more than \$63,000 in HOME funds within 15 days. The Municipality did not return more than \$54,000 in unexpended drawdowns to HUD. Contrary to HUD's instructions in a memorandum dated April 5, 2011, the drawn funds were used to pay for other expenditures 42 to 48 days after the original draw date.³ Further, the Municipality did not provide evidence of the final disposition of more than \$8,000 in funds drawn from its treasury account. As a result, there was no assurance that HOME funds were used for eligible purposes.

Disregard for Requirements

The Municipality disregarded HUD requirements and instructions to ensure that it had a financial system that met program requirements. For example, the 2009 and 2010 independent public accountant reports disclosed deficiencies with the Municipality's financial management system; however, the deficiency continued to exist. Further, a Municipality budget official informed us that she was aware that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation. However, the Municipality had not implemented measures to ensure compliance with this HUD requirement.

³ The HUD memorandum provided guidance to participating jurisdictions on returning funds drawn down from their treasury account in advance or excess of need instead of revising vouchers in HUD's information system. We applied this criteria only to drawdowns made after April 2011.

Conclusion

The Municipality maintained a financial management system that (1) did not reflect the full history of all financial transactions, (2) did not properly identify the source and application of HOME funds, (3) permitted program charges for unsupported costs, and (4) did not ensure that HOME funds were disbursed within HUD-established timeframes. This condition occurred because the Municipality disregarded HUD requirements and instructions. As a result, HUD lacked assurance that funds were used only for requested and eligible purposes. The Municipality must improve its internal controls to safeguard, use, and properly account for HOME program funds.

Recommendations

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

- 1A. Develop and implement a financial management system in accordance with HUD requirements.
- 1B. Ensure that \$3,105,923⁴ in HOME funds drawn from HUD between July 1, 2009, and July 31, 2012, are reconciled with the accounting records and provide support which ensures that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes or reimburse the HOME program from non-Federal funds.
- 1C. Submit supporting documentation showing the eligibility, reasonableness, and allocability of \$454,942 charged to the HOME program for payroll and project costs or reimburse the program from non-Federal funds.
- 1D. Track its employees' time by program activity or implement a cost allocation plan to distribute its payroll costs among HUD programs, and ensure that the distribution of salaries or wages is supported by personnel activity reports or equivalent documentation.
- 1E. Submit all supporting documentation showing the eligibility and propriety of \$8,756 drawn from its treasury account that is unaccounted or reimburse the HOME program from non-Federal funds.
- 1F. Implement internal controls to ensure that it uses funds in its local bank account before withdrawing additional funds from its treasury account, and drawdowns are disbursed within the HUD-established timeframes.

⁴ Total drawdowns of \$3,544,830 were adjusted to consider \$438,907 questioned in recommendation 1C.

Finding 2: HOME-Funded Activity Did Not Meet Program Objectives

The Municipality disbursed more than \$327,000 for an activity that showed signs of slow progress without assurance that the activity would generate the intended benefits. This condition occurred because the Municipality did not take appropriate monitoring measures to ensure that its activities met HOME objectives. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

Slow Progress Activity

The Municipality disbursed more than \$327,000 for an activity that reflected slow progress without taking appropriate monitoring measures to ensure the timely completion of the activity and that program objectives would be met. In October 2001, the Municipality committed more than \$1.2 million in HOME funds for property acquisition and the construction of nine housing units and a city street (Belgica Ward - phase III, IDIS #600,). Although more than \$327,000 in HOME and Community Development Block Grant funds had been disbursed and four properties had been acquired, no housing units had been developed.

More than 10 years had elapsed since HOME funds were committed for the project, and the intended benefits had not materialized. The four properties acquired were vacant, and no housing units had been built.



Based on this condition, HUD had no assurance that this activity would fully meet HOME program objectives and provide the intended benefits. Therefore,

\$240,961 in HOME and \$86,200 in Community Development Block Grant disbursements was unsupported.

Lack of Adequate Monitoring Procedures

The Municipality did not establish and implement adequate monitoring procedures to ensure the timely completion of activities and that funds were used in accordance with all program requirements. A Municipality official informed us that there were no monitoring procedures and that except for the monitoring of a CHDO, no reviews were performed to verify the progress of HOME-funded activities. The last monitoring of a CHDO was performed in March 2010.

The Municipality's 2011 annual action plan assigned the responsibility for monitoring the HOME program to the internal auditor and the engineering department.⁵ However, the monitoring efforts described in the annual plan were general and vague and did not schedule the monitoring of HOME-funded activities, except for an unidentified CHDO.

Conclusion

The Municipality did not adequately manage the Belgica Ward project to ensure that it was carried out in a timely manner and that funds were used to meet HOME program objectives. This condition occurred because the Municipality did not take appropriate monitoring measures to ensure the timely completion of the activities and that program objectives would be met. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

Recommendations

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

- 2A. Determine the eligibility of the \$327,161 disbursed for the Belgica Ward - phase III project and reevaluate the feasibility of the activity. The Municipality must reimburse its HOME program from non-Federal funds and deobligate any committed funds that remain unexpended if HUD determines the activity to have been terminated.

⁵ The annual action plan provides a concise summary of the actions, activities, and the specific federal and non-federal resources that will be used each year to address the priority needs and specific goals identified by the grantee.

- 2B. Require that the Municipality develop detailed monitoring procedures and controls for its HOME program to ensure that HUD requirements and objectives are met.

Finding 3: The Municipality Did Not Have Adequate Controls Regarding Information Entered Into HUD’s Information System

The Municipality reported to HUD more than \$2.5 million in HOME commitments without executing a written agreement or identifying the property in accordance with HUD requirements, and with inaccurate commitment dates. It also failed to report more than \$11,000 in program income and recaptured funds. These deficiencies occurred because the Municipality did not properly monitor the accuracy of commitments and other information reported in HUD’s information system. As a result, HUD had no assurance that the Municipality met HOME program objectives, commitments, and disbursement requirements.

Unsupported Commitments

HUD’s information system reflected that the Municipality committed more than \$1.95 million in HOME funds between July 1, 2010, and October 31, 2011. We examined commitments totaling more than \$690,000 that the Municipality entered into HUD’s information system. In addition, we examined five activities with commitments totaling more than \$2.07 million that were funded between October 2001 and May 2010.

The Municipality reported in HUD’s information system that it had committed more than \$2.4 million in HOME funds, although it did not have executed agreements supporting the commitments as required by 24 CFR 92.2. The actual obligation occurred between 36 and 779 days after the commitment date. Therefore, the funds were improperly reported as committed and not in accordance with HUD requirements. A program official informed us that before 2011, HOME projects were committed in HUD’s information system based on the amounts budgeted in accordance with the Municipality’s annual consolidated plan.

Activity number	Reported commitment amount in HUD’s information system	Initial commitment date in HUD’s information system	Actual agreement date	Days elapsed between reporting and agreement dates
1127	\$29,060	Apr. 27, 2011	June 2, 2011	36
1127	11,688	Apr. 27, 2011	June 21, 2011	55
1127	15,781	Apr. 27, 2011	June 21, 2011	55
1127	41,913	Apr. 27, 2011	July 19, 2011*	83
1127	52,345	Apr. 27, 2011	July 19, 2011	83
1127	29,991	Apr. 27, 2011	July 19, 2011	83
1127	48,620	Apr. 27, 2011	July 19, 2011*	83
1127	48,620	Apr. 27, 2011	July 19, 2011*	83
1127	54,208	Apr. 27, 2011	July 19, 2011*	83

1127	54,208	Apr. 27, 2011	July 19, 2011*	83
1127	52,904	Apr. 27, 2011	July 19, 2011	83
802	389,620	July 20, 2006	Nov. 8, 2006	111
1127	28,687	Apr. 27, 2011	Aug. 18, 2011	113
753	529,514	Sept. 23, 2004	July 5, 2006	650
600	<u>1,101,410</u>	Oct. 3, 2001	Nov. 21, 2003	779
	<u>\$2,488,569</u>			

*Home-ownership activity without identifiable property.

The Municipality also reported in HUD’s information system that it had committed more than \$247,000 in HOME funds for five home-ownership activities, although there were no identifiable properties as shown in the above table. In another activity the Municipality executed an agreement and reported more than \$38,000 as committed; however, there was no identifiable property.⁶ Regulations at 24 CFR 92.2 provide that no HOME funds can be committed for a rental or home-ownership project until address information is available. A program official informed us that grant agreements for home-ownership activities were executed using a preliminary assistance determination before a property had been identified. As a result, more than \$286,000 in commitments reviewed was overstated and must be deobligated.

Inaccurate Commitment Dates

We found seven activities in which the Municipality reported in HUD’s information system the commitment of more than \$278,000 in HOME funds between 14 and 441 days after the grant agreement was executed. Therefore, the actual commitment data was reported into HUD’s information system with significant delays and inaccurate commitment dates.

Program Income and Other Receipts Not Properly Reported

The Municipality failed to report in HUD’s information system program income and recaptured funds totaling \$11,126 that were received between June and October 2011 as required by Chapter 13 of HUD’s information system manual.⁷ The Municipality records also showed that receipts totaling \$70,834 were not reported in a timely manner in HUD’s information system. These HOME proceeds were reported to HUD between 31 and 241 days after they were received. Consequently, HUD had no assurance of the accuracy of the amount

⁶ The home-ownership activity (number 1197) had an executed agreement; therefore, it was not included in the above table.

⁷ Program income and recaptured funds may result from the resale and recapture requirements imposed by HUD and the Municipality on the participants to ensure affordability during predetermined periods, depending on the assistance amount provided.

that the Municipality received from such receipts and its compliance with HUD requirements.

Lack of Adequate Monitoring Procedures

The Municipality did not develop written procedures providing guidance to its personnel regarding the accuracy and monitoring of information reported in HUD's information system, including compliance with HUD reporting requirements, commitment of funds, and establishing responsibility among its personnel. Further, the Municipality had not implemented a system for monitoring the accuracy of data entered into the system. Therefore, its internal controls were not sufficient and adequate to provide HUD assurance that information entered into HUD's information system was accurate and that the Municipality met HOME program objectives, commitments, and disbursement requirements.

Conclusion

Because the Municipality did not properly monitor, it did not ensure the accuracy of commitments and other information entered into HUD's information system. There was no assurance that the Municipality met HUD commitment and disbursement requirements and that program objectives were met. The inaccurate data compromised the integrity of HUD's information system and the degree of reliability that could be placed on the data for monitoring commitments and compiling national statistics on the HOME program. Management must develop and implement internal controls to ensure the accuracy of its reported accomplishments and that it complies with HUD requirements.

Recommendations

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

- 3A. Require the Municipality to deobligate, reprogram, and put to better use \$286,502 in commitments that were overstated in HUD's information system.
- 3B. Require the Municipality to reconcile its program income and recaptured funds with the information entered into HUD's information system to ensure that all receipts were properly recorded.

- 3C. Reassess the Municipality's annual commitment compliance and recapture any amounts that have not been committed within HUD-established timeframes.
- 3D. Require the Municipality to establish and implement adequate controls and procedures to ensure the timely and accurate reporting in HUD's information system of commitment and activity information and receipts associated with program income and recaptured funds.

SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether the Municipality met HOME program objectives, reported accurate and supported information in HUD's information system, and maintained its financial management system in compliance with HUD requirements. The financial requirements include (1) the expenditure of HOME funds for eligible and supported costs and (2) maintaining accounting records in accordance with HUD requirements.

To accomplish our objectives, we

- Reviewed applicable HUD laws, regulations, and other HUD program requirements;
- Reviewed the Municipality's controls and procedures as they related to our objectives;
- Interviewed HUD and Municipality officials;
- Reviewed monitoring, independent public accountant, and HUD's information system reports;
- Reviewed the Municipality's files and records, including activity files and financial records;
- Traced information reported in HUD's information system to the Municipality's records, including executed agreements; and
- Performed site inspections of the activities.

HUD's information system reflected that the Municipality committed more than \$1.95 million in HOME funds between July 1, 2010, and October 31, 2011. We selected for review three activities with commitments totaling more than \$694,000 (35 percent). We reviewed five additional activities funded between October 3, 2001, and May 27, 2010, with commitments totaling more than \$2.07 million. We reviewed these eight activities to determine whether the information reported to HUD, including commitments, was accurate and supported.

HUD's information system reflected that the Municipality had 21 open HOME-funded activities as of September 30, 2011. We selected and reviewed three activities for which the last draw was more than 300 days earlier with commitments totaling more than \$1.3 million.⁸ We reviewed four additional activities for which the funding date was before July 2011 with commitments totaling more than \$1.2 million. We reviewed the seven activities to determine the status of activities for which HOME funds had been disbursed but which reflected slow progress.⁹

⁸ We excluded from the review two activities that were reviewed during the 2006 and 2010 HUD monitoring and a third one that pertained to administrative costs.

⁹ One of the activities reviewed also had more than \$86,000 in Community Development Block Grant funds assigned.

HUD's information system reflected that the Municipality drew down from its treasury account more than \$1 million in HOME funds between July 1, 2010, and October 31, 2011. We selected and reviewed withdrawals greater than \$40,000, which resulted in six withdrawals totaling more than \$502,000 (50 percent), to determine whether HOME funds were disbursed within HUD-established timeframes.

The Municipality's records reflected that between July 1, 2010, and October 31, 2011, it disbursed more than \$1.18 million in HOME funds. We selected for review the largest disbursement from the top five vendors, which resulted in five disbursements totaling more than \$335,000. We also reviewed 15 additional disbursements totaling more than \$203,000 based on the vendor and activity type. Further, we reviewed more than \$235,000 in payroll and administrative expenditures. More than \$773,000 in HOME program expenditures was reviewed to determine whether funds were used for supported and eligible efforts.

We also selected for review 37 additional disbursements totaling more than \$916,000 between August 26, 2005, and June 17, 2010, based on deficiencies noted regarding the allocability of the charges. The disbursements were reviewed to determine whether HOME funds were used for supported and eligible costs.

To achieve our audit objectives, we relied in part on computer-processed data contained in the Municipality's database and HUD's information system. 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 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, 2010, through October 31, 2011, and was extended as needed to accomplish our objectives. We conducted our fieldwork from November 2011 through June 2012 at the Municipality's offices in Ponce, PR.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations - Policies and procedures that management has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Relevance and reliability of information - Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.
- Safeguarding of assets - Policies and procedures that management has implemented to reasonably prevent and promptly detect unauthorized acquisition, use, or disposition of assets and resources.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in

financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

- The Municipality did not develop and implement a financial management system that complied with HUD requirements (see finding 1).
- The Municipality did not implement adequate controls and procedures to ensure that HOME activities met program objectives (see finding 2).
- The Municipality did not have adequate controls to ensure that accurate information was reported to HUD (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation number</u>	<u>Unsupported 1/</u>	<u>Funds to be put to better use 2/</u>
1B	\$3,105,923	
1C	454,942	
1E	8,756	
2A	327,161	
3A		<u>\$286,502</u>
Total	<u>\$3,896,782</u>	<u>\$286,502</u>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Municipality implements recommendation 3A, funds will be available for other eligible activities consistent with HOME requirements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



GOBIERNO DE PUERTO RICO
MUNICIPIO AUTONOMO DE PONCE
OFICINA DE LA ALCALDESA
E-mail: www.vici@ponce.com

October 29, 2012

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: Comments to Draft Audit Report
The Municipality of Ponce, PR HOME Investment Partnerships Program**

Dear Mr. McKay:

We appreciate the opportunity to comment on the subject draft report your office submitted to our attention on October 16, 2012. As requested by your office we completed the review of the draft report and have prepared the following comments addressing each of the findings and recommendations. Our comments are based on the information included in the report and additional information provided during the exit conference. We request that you consider our comments and include them in the final report.

Our comments follow the order of the report and for the benefit of the auditors we include the Finding, subject and page number.

Finding 1, Inadequate Accounting Records, Page 4 and 5

The report concludes that the accounting records of the Municipality did not reflect complete and accurate financial information on HOME program and that this condition violates 24 CFR 85.20(b). A simple review of the tables included in Page 6 shows differences between the general ledger and the IDIS number and, as established the data was obtained from the records of the Municipality. We agree with the fact that the financial reports of the Municipal Financial System evaluated by the auditors differs from the information in IDIS.

Apartado 331709 Ponce, Puerto Rico 00733-1709 Tel. (787) 284-4141



Comment 1

Comment 1

When the auditors initiated their data collection effort they requested Trial Balance of the HOME program Account. Unfortunately the use of the Trial Balance report created the differences between the systems. A trial balance is a listing of general ledger account balances at a certain date. Summing the individual account balances results in a value of zero since asset and expense accounts exist as positive (or debit) balances in the general ledger, and equity and revenue accounts exist as negative (or credit) balances. When the auditors compared the trial balance with the IDIS system report they used only the accounts and expenditures for that program year in specific. On the other side IDIS uses funding for multiple program year. This discrepancies can explain why the difference between both systems. For example IDIS activity 874 (CHDO) is an activity created for program year 2003 with a total allocation of \$1,841,951, but with funding from program years 1994, 2001, 2003, 2004 and 2006. The following IDIS print shows how the funding was allocated.

Activity Funding
View Funding Line Item

[Return to View Funding](#)

Activity Owner: PONCE, PR Program Year/Project: 2003/31
 IDIS Activity ID: 874 Total Funded: \$1,841,951.95
 Activity Name: FRANCES APARTMENTS Total Drawn: \$1,841,951.95

Funding Source

Program	Fund Type	Source Name	Source Type	Recipient Name	Available for Funding	Drawn Amount	Funded Amount
HOME	CR	FORCE, PR	MC	TIME COMMUNITY BUSINESS & DEV., PR	50.00	\$1,841,951.95	\$1,841,951.95

Current Funding for This Source

Grant Year (FY)	Funded Amount	Drawn Amount
2006	\$217,567.35	\$217,567.35
2004	\$178,666.00	\$178,666.00
2003	\$1,200,882.50	\$1,200,882.50
2001	\$180,000.00	\$180,000.00
1994	\$54,836.10	\$54,836.10

[Return to View Funding](#)

IDIS does not maintain funding records for individual program year and the disbursement is accumulated for all program year. For example if we obtain information from the trial balance for program year 2006 it will show that the total disbursement was \$217,567.35, but IDIS will show a total disbursement of \$1,841,951.95. This discrepancies requires the revision of the accounts in the trial balance for the other program year.

The following report obtained from the MIP system of the Municipality show all the disbursements (from the different program years) for this activity:

DEPT VIVIENDA, INFR Y DES COM - MUNICIPIO AUTONOMO DE PONCE
 Poned Unencumbrance Transactions
 ENC

Account ID	Document Number	Voucher ID	Voucher Name	Effective	FU Code	Gr. Code	SUB Obj. Code	VE. Code	PR. Code	Increase	Decrease
08070102	070102	TIME COMMUNITY	TIME COMMUNITY BUSINESS & DEVELOPMENT CORPORATION	1/19/2007	04	6012C	000 03	044		1,031,338.00	
08070102	070102	TIME COMMUNITY	TIME COMMUNITY BUSINESS & DEVELOPMENT CORPORATION	1/19/2007	04	6013C	000 04	044		138,665.00	
08070102	070102	TIME COMMUNITY	TIME COMMUNITY BUSINESS & DEVELOPMENT CORPORATION	1/19/2007	04	6012C	000 05	044		277,547.35	
Total 070102										1,477,597.35	0.00
08070201	070102A	TIME COMMUNITY	TIME COMMUNITY BUSINESS & DEVELOPMENT CORPORATION	2/12/2007	04	6013C	000 01	044		180,000.00	
Total 070102A										180,000.00	0.00
081004...	MPP000001	TIME COMMUNITY	TIME COMMUNITY BUSINESS & DEVELOPMENT CORPORATION	02/09/07	04	0012C	000 03	044		110,548.50	
Total MPP000001										110,548.50	0.00
081004...	300069-076	TIME COMMUNITY	TIME COMMUNITY BUSINESS & DEVELOPMENT CORPORATION	6/18/2006	04	6012C	000 04	031		64,856.17	
Total 300069-076										64,856.17	0.00
Report Total										1,841,952.02	0.00

879

04,856.17 0.00
1,841,952.02 0.00

Page: 1

As the report show the total disbursement for the activity in the MIP system was \$1,841,952.02 with a difference of \$7 cents. As this example show the accounts in IDIS and the Financial system of the Municipality are conciliated.

Comment 1

We will evaluate each of the activities identified in the report and will present to HUD Field Office all the documentation that evidences that the financial system of the Municipality produce complete and accurate financial information as required by the regulations.

Finding 1, Unsupported Program Disbursements, Page 6

Comment 2

The report establishes that the Municipality did not support the reasonableness and allowability of more than \$224,000 in HOME program funds disbursed. According to the document the Municipality disbursed \$184,000 to a community housing development organization and \$40,000 for a rehabilitation performed by an owner. We disagree with this statement.

The Municipality requires and maintains record for all disbursements made. Before the payment was made to the CHDO we consulted with the San Juan Field Office. Following HUD's recommendation we eliminated the items that were determined to be ineligible by HUD.



U. S. Department of Housing and Urban Development
San Juan Field Office
Community Planning and Development
Region IV

September 11, 2009

Honorable Maria Melendez Aldieri
Mayor
Municipality of Ponce
P.O. Box 1709
Ponce, PR 00731



Dear Mayor Melendez:

**SUBJECT: Home Investment Partnerships Program (HOME)
HOME Assisted Project Frances I and II**

The following is in response to letter from Mr. Hector A. Gracia Colon, Supervisor from the City's Engineering Department, where he is requesting HUD's review and opinion regarding the use of HOME funds in the amount of \$260,581.53 to cover costs by TIME Community Business, Inc. in reference to subject project.

It is the City's responsibility in the management of the HOME program to determine, prior to committing HOME funds to a project, what costs are eligible and can be funded under the HOME program. In addition, the City must also determine the sources that will be available other than HOME funds for the development of the project to cover cost otherwise ineligible under the HOME program but necessary for the project including added amenities. Ineligible costs or amenities to make the project attractive may be covered through other project financing such as the owner's equity or contribution to the project or other leveraging sources.

The information provided shows that TIME Community Business, Inc. paid for the cost incurred and is now requesting reimbursement under the HOME program. Many of the costs incurred and paid by the developer are not eligible costs that can be charged to the HOME program. Some examples are the return of unused construction material to the City, the purchase of trees and the cost of maintaining green areas, the construction of recreational areas, purchase of playground equipment, fencing and other cost paid of items: evidence by the checks and invoices. These costs are justified by the City as site improvements to the project.

HUD's mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination.

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• espanol@hud.gov

The following table shows the payment made to the CHDO (\$184,000) after applying HUD's recommendation for the Frances I and II projects:

Concept	Disbursed Amount	Eligibility Criteria
Lighting installation	\$2,228.54	24 CFR 92.206(a)
Fire Extinguishers	\$394.13	24 CFR 92.206(a)
Awning	\$1,055.00	24 CFR 92.206(a)
Legal Costs	\$8,800.00	24 CFR 92.206 (d)(2)
Impact Fee DACO	\$3,700.00	24 CFR 92.206 (d)(7)
Insurance	\$3,700.00	24 CFR 92.206(d)
Engineering Services	\$12,000.00	24 CFR 92.206(d)(6)
Impact Fee (AAA)	\$36,707.00	24 CFR 92.206 (d)(7)
Impact Fee (AEE)	\$22,400.00	24 CFR 92.206 (d)(7)
Impact Fee (Municipal)	\$59,000.00	24 CFR 92.206 (d)(7)
Inspection	\$14,000.00	24 CFR 92.206(d)(6)
Project Supervision	\$3,000.00	24 CFR 92.206(d)(6)
Appraisal	\$1,700.00	24 CFR 92.206(d)(2)
Real Estate Agent	\$18,000.00	24 CFR 92.206(d)(6)

Comment 2

As the table shows the cost incurred are eligible under the different eligibility categories. All the documentation evidencing that evidences the reasonability and allocability of the costs incurred will be presented to the field office during the audit resolution process.

Regarding the case of the homeowner the following table shows how the HOME funds were used for eligible costs:

Item	Description	Disbursement	Eligibility Criteria
1	Concrete and Foundation	\$8,227.00	24 CFR 92.206(a)
2	Concrete Blocks	\$9,994.00	24 CFR 92.206(a)
3	Wood and Metal Work	\$5,650.00	24 CFR 92.206(a)
4	Kitchen	\$4,080.00	24 CFR 92.206(a)
5	Plumbing and Bathroom	\$2,993.00	24 CFR 92.206(a)
6	Doors and Windows	\$3,733.00	24 CFR 92.206(a)
7	Electrical Systems	\$2,421.00	24 CFR 92.206(a)
8	Change Order	\$1,500.00	24 CFR 92.206(a)
9	Insurance	\$1,400.00	24 CFR 92.206(d)

Comment 2

As the table shows the cost incurred are eligible under the different eligibility categories. . All the documentation evidencing that evidences the reasonability and allocability of the costs incurred will be presented to the field office during the audit resolution process.

The report states that the Municipality did not provide documentation supporting the reasonableness, allowability, and allocability of more than \$230,000 charged to the HOME program, associated with administrative salaries. We want to clarify that the \$234,555 used for

administration includes administrative salaries and other eligible administrative cost as show in the following table:

VOUCHER DATE	VOUCHER NUMBER	PURCHASE ORDER (COMPROBANTE)	LOCAL ACCOUNT	ELIGIBLE COST	AMOUNT
7/2/2010	5132182	10-26-0064	04-81202-09-001	FRINGE BENEFITS	\$ 834.87
9/3/2010	5159653	11-26-0002	04-81472-09-001	FRINGE BENEFITS	\$ 10.00
9/3/2010	5159653	11-26-0003	04-81472-10-001	FRINGE BENEFITS	\$ 114.00
9/21/2010	5166234	11-26-0007	04-81472-10-001	FRINGE BENEFITS	\$ 78.00
9/30/2010	5171272	11-26-0008	04-81500-10-001	PUBLICATIONS	\$ 825.60
10/22/2010	5180798	11-26-0011	04-81472-10-001	FRINGE BENEFITS	\$ 10.00
10/5/2010	5172769	11-26-0012	04-81100-09-001	SALARIES	\$ 49,000.00
10/5/2010	5172769	11-26-0013	04-81201-09-001	FRINGE BENEFITS	\$ 6,976.19
10/5/2010	5172769	11-26-0014	04-81202-09-001	FRINGE BENEFITS	\$ 1,276.14
10/5/2010	5172769	11-26-0015	04-81203-09-001	FRINGE BENEFITS	\$ 2,400.00
10/5/2010	5172769	11-26-0016	04-81204-09-001	FRINGE BENEFITS	\$ 2,400.00
10/5/2010	5172769	11-26-0017	04-81210-09-001	FRINGE BENEFITS	\$ 200.00
10/22/2010	5180798	11-26-0018	04-81500-09-001	PUBLICATIONS	\$ 1,341.60
11/4/2010	5186090	11-26-0019	04-81100-09-001	SALARIES	\$ 39,592.85
12/3/2010	5198378	11-26-0022	04-81310-10-001	SUPPLIES	\$ 23.00
3/21/2011	5246341	11-26-0027	04-81100-08-001	SALARIES	\$ 35,104.75
3/21/2011	5246341	11-26-0028	04-81201-08-001	FRINGE BENEFITS	\$ 2,685.66
3/21/2011	5246341	11-26-0029	04-81204-08-001	FRINGE BENEFITS	\$ 1,800.00
3/21/2011	5246341	11-26-0030	04-81208-08-001	FRINGE BENEFITS	\$ 3,144.90
3/21/2011	5246341	11-26-0031	04-81210-08-001	FRINGE BENEFITS	\$ 1,200.00
3/11/2011	5242361	11-26-0032	04-81300-10-001	MATERIALS	\$ 534.36
3/11/2011	5242361	11-26-0033	04-81310-07-001	SUPPLIES	\$ 1,320.00
3/11/2011	5242361	11-26-0036	04-81461-10-001	OFFICE EQUIPMENT	\$ 2,964.00
3/11/2011	5242361	11-26-0038	04-81411-10-001	PROFESSIONAL SERVICES	\$ 255.75
3/11/2011	5242361	11-26-0039	04-81411-10-001	PROFESSIONAL SERVICES	\$ 19.25
6/6/2011	5280772	11-26-0052	04-81100-10-001	SALARIES	\$ 79,821.38
6/13/2011	5283992	11-26-0053	04-81472-10-001	FRINGE BENEFITS	\$ 436.69
6/13/2011	5283992	11-26-0054	04-81472-10-001	FRINGE BENEFITS	\$ 186.00
TOTAL					\$234,554.99

We certify that the staff paid with HOME funds was carrying out eligible activities of the HOME program as permitted by program regulation. The documentation evidencing each of the disbursement will be provided to the field office during the audit resolution process.

Finding 1, HOME Funds Not Disbursed in a Timely Manner, Page 7

Comment 3

According to the report the Municipality requested additional funds from the HOME program line of credit before using the available program income. Due to interpretation errors by the municipal staff the condition identified by the OIG is correct. The Municipality will prepare a new Program Income Procedures that will address the condition identified. The application of this procedure will prevent the recurrence of the situation.

Comment 4

Another situation identified by the report is that the Municipality drawdown \$63,000 in HOME funds to pay for one activity but the funds were used to pay for other expenditures. According to the report the action taken by the Municipality is contrary to the instruction provided by the Yolanda Chavez memorandum dated April 5, 2011. We disagree with HUD's determination on this issue.

Comment 4

HUD's memorandum clearly establishes that "HOME regulations do not specifically permit PJs to revise vouchers in IDIS to transfer draws for ineligible HOME costs or activities to eligible HOME activities". This was not the case of the Municipality. In the condition identified by the auditors the Municipality drawdown the funds for an eligible activity(IDIS 1157) and due to inconvenience with the bank the closing was not completed on that day. Due to the fact that the funds were available and that 24 CFR 95.502 (c)(3) establishes that HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury the funds were used in the other eligible activities (IDIS 1205, 600, and 1207). The condition that must be addressed by the Municipality is the use of the funds within 15 days of the drawdown not the reuse of funds from one eligible activity to another eligible activity. The following IDIS print screen show how the vouchers were revised from one activity to another:

Voucher Details													
Line Item #	IDIS Acct ID	Activity Name	Program	Grant Year	Fund Type	Source Name	Source Type	Recipient Name	Prior Year	Drawdown Amount	Line Item Status	Submission Date	Action
1	600	PHASE III BELGICA SECTOR	HOME	2008	EN	HUD	MC	PONCE, PR	N/A	\$36,387.16	Completed	03/15/2012	View
2	1156	DPA: B.P.	HOME	2008	EN	HUD	MC	PONCE, PR	N/A	\$33,090.00	Completed	03/16/2012	View
3	1157	DPA: CA. VT.	HOME	2006	EN	HUD	MC	PONCE, PR	N/A	\$54,767.00	Revised	02/15/2012	View
4	1157	DPA: CA. VT.	HOME	2006	EN	HUD	MC	PONCE, PR	N/A	\$10,618.00	Revised	03/15/2012	View
5	1205	DPA: R.T.S.	HOME	2008	EN	HUD	MC	PONCE, PR	N/A	\$44,149.00	Completed	03/15/2012	View
6	1157	DPA: CA. VT.	HOME	2006	EN	HUD	MC	PONCE, PR	N/A	\$887.64	Revised	03/15/2012	View
7	600	PHASE III BELGICA SECTOR	HOME	2008	EN	HUD	MC	PONCE, PR	N/A	\$9,730.36	Completed	03/15/2012	View
8	1207	REHA: N.R.T./J.H.D.	HOME	2008	EN	HUD	MC	PONCE, PR	N/A	\$887.64	Completed	03/16/2012	View

A cash management procedure will be prepare and adopted to avoid the recurrence of the situation.

Finding 1, Disregard for Requirements, Page 7

Comment 5

With disagree with the statement that "the Municipality disregarded HUD requirements and instructions to ensure that it had a financial system that met program requirements". The use of disregard means that the Municipality intentionally ignored the requirement and with the intention of non compliance. This statement is not true or correct. We request that the statement be removed from the report because it implies that intentionally the Municipality disregarded HUD's instruction and that such observation is inaccurate. The OIG auditor concluded this in reference to previous single audits for which the Municipality has not completed the corrective actions, yet this certainly does not mean that the management had "disregard" HUD's recommendation.

We request that HUD provide us with additional technical assistance to implement the required corrective actions.

Finding 1, Conclusion, Page 8

Comment 6

In this section of the report the OIG make a conclusion based on a series of inaccurate facts. As we have demonstrated in the previous paragraphs the Municipality financial Management System reflect the full history of all financial transactions, properly identify the source and application of HOME funds, registered eligible program charges with supporting documentation. The only condition that is correct in this section is that the Municipality did not ensure that HOME funds were disbursed within HUD-established timeframes, although this situation is isolated.

We request that the section be revised to reflect the facts and documents presented with this letter. Again the not completion of corrective actions does not mean that the management had "disregard" HUD's requirements and instructions.

Finding 2, Slow Progress Activity, Page 9 & 10

Comment 7

We concur with the statement that the Belgica III project reflected slow progress but we disagree with the statement that the municipality has not taken appropriate monitoring measures to ensure the timely completion of the activity. This project was conceptualized in 2001 and was stalled until 2009 when the current administration reinitiated its development. As of today the project is under construction and expected to be completed by year end. The following photo demonstrates the status of the construction work.



As the photo demonstrates significant actions were taken to correct the situation identified in the report.

We request that that paragraph 3 of the report is changed to reflect the actual status of the project. We recommend the following text:

"For a period of 10 years the project was stalled and no benefit from the use of the federal funds was obtained. After the completion of the field work the Municipality completed the construction of the four units."

Due to the fact that the construction has been completed we request that the first sentence of page 10 be eliminated.

Finding 2, Lack of Adequate Monitoring Procedures, Page 10

The Municipality is working we a technical assistance provider and expect to complete the monitoring procedures by December 21, 2012.

Finding 2, Recommendations , Page 10

Due to the fact that the construction of the Project is completed we understand that recommendation 1A must be changed to the following:

"The Municipality must present acost certification that demonstrate the eligibility of the \$327,161 used for the Belgica Ward Phase III project".

Comment 7

Comment 7

Finding 3, Unsupported Commitments , Page 12-13

We certify that for all disbursements made with HOME funds an agreement between the participant and the Municipality is executed. Regarding the cases indentified by the report each one has a different justification for the differences between the initial funding date in IDIS and the agreement execution date.

Comment 8

According to the report more than \$286,000 in commitments reviewed were overstated and must be deobligated. The required corrective action was taken. The following table summarizes how the \$286,000 were used for eligible purpose:

Funds Put to Better Use Unsupported Commitment Total Amount \$286,000		
IDIS Activity Number	Amount	Program Year
1198	52,345.00	2010
1204	42,276.00	2010
1205	44,149.00	2009
1221	54,767.00	2010
1233	40,844.00	2009
Total	\$234,381.00	
Available to Commit	\$52,121.00	
Total	\$286,502.00	

We request HUD to verify that the information is correct and accurate by using IDIS PR02 report.

Finding 3, Inaccurate Commitment Dates, Page 13

We concur with this finding but to correct this deficiency is necessary the support of the San Juan Field Office. we request HUD's technical assistance to address this condition.

Finding 3, Program Income and Other Receipts Not Properly Reported, Page 13 &14

Comment 9


We certify that all program income has been accounted for in the IDIS system. Enclosed you will find a copy of IDIS PR09 report that shows the receipts of program income. We need to clarify that the Municipality receive program income in a monthly basis. As a standard procedure the program income will be recognized every 15 days. The Municipality will prepare a new Program Income Procedures that will address the condition identified. The application of this procedure will prevent the recurrence of the situation.

Finding 3, Lack of Adequate Monitoring Procedures, Page 14

The Municipality is working with a technical assistance provider and expects to complete the monitoring procedures by December 21, 2012.

Should you need additional information regarding this finding please contact Mr. Alejandro Gomez at 787-840-9200 your convenience.

Cordially


María Meléndez Altieri
Mayor

OIG Evaluation of Auditee Comments

Comment 1 The Municipality agreed that the information in the financial reports differs from the information reflected in HUD's information system. However, it claims that the discrepancies exist because the auditors compared the expenditures associated with a specific grant year, without considering that the activities had multiyear funding. Further, the Municipality stated that it will provide HUD all documentation to demonstrate that its financial management system is in compliance with requirements.

Contrary to the Municipality's statement, OIG considered in its analyses all expenditures recorded in the accounting records for the fiscal years ending June 30, 2009, and 2010, and the period ending October 31, 2011, regardless of the program year when HUD approved the funds. The Municipality's accounting records did not comply with HUD requirements and were not adequate for the preparation of reports. Its financial management system did not allow the tracing of expenditures by individual HOME activity; it instead commingled the transactions of various activities into the same account. The accounting supervisor also indicated that to determine the expenditures associated with a HOME-funded activity, it would be necessary to review each activity file to determine the amount disbursed. The Municipality also did not properly account for capital assets. Further, the 2009 and 2010 independent public accountant reports disclosed deficiencies with the Municipality's financial management system; however, the deficiency continued to exist.

The Municipality did not provide additional support that could demonstrate that its financial management system was in compliance with HUD requirements and did not provide additional documentation to clarify the discrepancies among the accounting records.

Comment 2 The Municipality stated that it did not agree with the OIG's finding and believes that all costs were eligible HOME program expenditures. Further, it stated that it will provide HUD with all documentation showing the reasonability and allocability of the costs incurred.

Comment 3 The Municipality understands that changes are required to the existing processes and will undertake a revision to the program income procedures to prevent future recurrences. It will need to provide HUD documentation showing that adequate procedures were established and implemented to ensure that program income and recaptured funds are used before the Municipality makes additional drawdowns from HUD.

Comment 4 The Municipality stated that it did not agree with OIG's finding and believes that the funds were properly used in accordance with 24 CFR 95.502(c)(3) since the funds were used for other eligible activities. In addition, the Municipality stated that the issue is whether the Municipality used HOME funds within 15 days of the

drawdown. Further, it will develop and implement procedures to prevent future recurrences.

Contrary to the Municipality's statement, it did not comply with HOME program requirements and HUD's instructions. The HOME regulations at 92.502(c)(2) require that funds drawn from the HOME Investment Trust Fund Treasury account in advance of need or in excess of need must be returned to the Treasury account. HUD further explained this requirement in the memorandum dated April 5, 2011, which was sent to all HOME participating jurisdictions. The review disclosed that the Municipality failed to return more than \$54,000 in unexpended drawdowns as required by HUD. The Municipality also failed to mention and provide evidence of the final disposition of more than \$8,000 in funds drawn from its treasury account. Therefore, we did not modify the report finding and recommendation.

Comment 5 The Municipality stated that it disagreed with OIG's statement that the cause for not complying with financial requirements was the disregard of HUD requirements and instructions, and requested the removal of the statement from the report. The Municipality requested HUD technical assistance to implement the required corrective actions.

The disregard of HUD requirements and instructions was not limited to the Municipality's lack of proper accounting records. The Municipality also disregarded HUD requirements and instructions when it failed to disburse HOME funds in a timely manner and return funds requested in advance of need or in excess of need. In addition, a Municipality budget official was aware that HUD required that when employees work on multiple activities, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation, but did not take measures to ensure compliance with this requirement. Further, the 2009 and 2010 independent public accountant reports disclosed deficiencies with the financial management system; however, the deficiency continued to exist. The establishment and implementation of a financial management system requires immediate action by the Municipality to permit the proper accountability of HOME funds and ensure that funds were used for authorized purposes. The Municipality did not provide additional documentation that could substantiate its claim. Therefore, we did not modify the report cause of the finding.

Comment 6 The Municipality stated that it did not agree with OIG's conclusion and believes that its financial management system reflected the full history of financial transactions. Further, it stated that the financial system properly identified the source and application of HOME funds and that program expenditures were supported. The Municipality also requested the removal of the statement from the report and states that the financial management system is in compliance with requirements.

As discussed in the report, the Municipality's financial management system did not comply with HUD requirements. The Municipality did not provide us additional documentation that could substantiate its claim. Therefore, we did not modify the report conclusion of the finding.

Comment 7 The Municipality stated that it concurred that the Belgica III project reflected signs of slow progress. However, it disagreed with OIG's statement that it did not take appropriate monitoring measures to ensure the timely completion of the project. Further, it stated that the housing project was planned in 2001 and put on hold until 2009 when the construction was started, and it is expected to be completed by the end of 2012. The Municipality recommended that the following text be added to the report: "For the period of 10 years the project was stalled and no benefit from the use of the federal funds was obtained. After the completion of the field work the Municipality completed the construction of the four units." The Municipality also requested the removal of the first sentence of the finding and a revision of the recommendation because the construction was completed.

More than 10 years had elapsed since HOME funds were committed for the project, and the intended benefits had not materialized. Our December 2011 inspection showed that the properties acquired were vacant, and no housing unit had been built. The fact that more than 10 years had elapsed since funds were committed without construction being completed demonstrates a serious violation of HUD requirements. Contrary to the Municipality's statement, the Belgica III project is not completed, and the picture that the Municipality included is not related to the project we questioned. The Municipality's project engineer informed us that the Belgica III project was not completed and provided us recent photos showing that the project was unfinished. The Municipality did not provide us additional documentation that could substantiate its claim. Therefore, we did not modify the report finding and recommendation.

Comment 8 The Municipality stated that more than \$286,000 was deobligated and that it had reprogrammed \$234,381 to other eligible purposes. The Municipality will need to work with HUD during the audit resolution process to ensure that all funds were deobligated, reprogrammed, and put to better use. The Municipality did not provide us additional documentation that could substantiate its claim. Therefore, we did not modify the report finding and recommendation.

Comment 9 The Municipality stated that all program income was reported in HUD's information system and provided a copy of a program income detail report as support. Further, it will develop and implement procedures to prevent future recurrences.

The program income report does not properly demonstrate that all program income was reported in HUD's information system. The Municipality will need to provide adequate documentation that demonstrates that it has reconciled its

program income and recaptured funds with the information entered into HUD's information system. The Municipality did not provide us additional documentation that could substantiate its claim. Therefore, we did not modify the report finding and recommendation.