

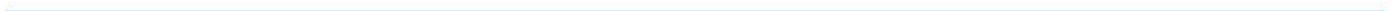


Municipality of Yauco, PR

Community Development Block Grant

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

**Audit Report Number: 2019-AT-1005
August 9, 2019**





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

//signed//

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

Subject: The Municipality of Yauco, PR, Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Municipality of Yauco's Community Development Block Grant (CDBG) program.

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

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

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



Audit Report Number: 2019-AT-1005

Date: August 9, 2019

The Municipality of Yauco, PR, Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the Municipality of Yauco's Community Development Block Grant (CDBG) program as part of our strategic plan. We selected this auditee because the U.S. Department of Housing and Urban Development (HUD) classified the Municipality as a high-risk grantee in its 2017 risk assessment review. Our objective was to determine whether the Municipality complied with HUD regulations, procedures, and instructions related to the administration of the CDBG program.

What We Found

The Municipality did not properly identify the source and application of CDBG funds. In addition, it inappropriately transferred CDBG proceeds to its general fund account, did not disburse program funds in a timely manner, and paid ineligible bank penalties. As a result, HUD lacked assurance that more than \$1 million in CDBG drawdowns was adequately accounted for, safeguarded, and used for eligible purposes.

The Municipality did not properly support the scope of its street resurfacing efforts, paid for work done before a contract was awarded, and improperly completed street resurfacing work on private properties. As a result, HUD lacked assurance that more than \$469,000 in CDBG funds was used for eligible purposes and in accordance with the program requirements.

What We Recommend

We recommend that the Director of the San Juan Office of Community Planning and Development require the Municipality to (1) develop and implement a financial management system in accordance with HUD requirements, (2) submit all supporting documentation showing the eligibility and propriety of more than \$1.5 million in CDBG funds, (3) return to its line of credit and put to better use \$1,641 associated with unspent program funds, (4) reimburse the CDBG program \$106 paid for ineligible penalties, and (5) develop and implement adequate controls and procedures to permit proper accountability for all program funds.

Table of Contents

Background and Objective.....	3
Results of Audit	4
Finding 1: The Municipality’s Financial Management System Did Not Comply With HUD Requirements	4
Finding 2: The Municipality Did Not Properly Support Its Street Resurfacing Activities’ Allowability and Allocability	8
Scope and Methodology.....	11
Internal Controls.....	13
Appendixes.....	15
A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....	15
B. Auditee Comments and OIG’s Evaluation.....	16

Background and Objective

The Community Development Block Grant (CDBG) program is funded by the U.S. Department of Housing and Urban Development (HUD). It provides annual grants on a formula basis to entitled cities, urban counties, and States to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low- and moderate-income persons.

The Municipality of Yauco is an entitlement recipient administering more than \$4 million in CDBG funds approved by HUD during the last 6 years. HUD's Integrated Disbursement and Information System¹ reflected CDBG expenditures exceeding \$1.5 million from July, 2015, through October, 2018, for the following activities:

Activity type	Amount
Section 108 loan repayment	\$586,683
Street resurfacing	477,465
Planning and administration	196,156
Housing rehabilitation	176,924
Home care program	35,007
Counseling and rehabilitation	22,740
Eye care program	11,090
Educational program	9,100
Total	1,515,165

The Municipality's Federal Affairs division is responsible for administering the CDBG program.

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

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

Results of Audit

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

The Municipality did not properly identify the source and application of CDBG funds drawn from HUD. In addition, it inappropriately transferred CDBG proceeds to its general fund account, did not disburse program funds in a timely manner, and paid ineligible bank penalties. These deficiencies occurred because the Municipality did not have an adequate accounting system and did not develop and implement adequate policies and procedures to ensure compliance with HUD financial requirements. As a result, HUD lacked assurance that more than \$1 million in CDBG drawdowns was adequately accounted for, safeguarded, and used for eligible purposes.

Incomplete and Inaccurate Accounting Records

The Municipality's accounting records did not reflect complete and accurate financial information on program activities and were not adequate for the preparation of reports. Regulations at 2 CFR (Code of Federal Regulations) 200.302(a) and (b) provide that a grantee's financial management system must be accurate, current, and complete and records must be sufficient to permit the preparation of reports required by general terms and conditions of the Federal award to establish whether the funds were used in accordance with the award requirements. However, the Municipality did not maintain a general ledger for the CDBG program, which would have allowed us to determine whether program funds were used in accordance with HUD requirements. The accounting system maintained was a disbursements register that did not reflect disbursements by grant, activity, and funding type and did not properly account for assets, liabilities, and program income. In addition, the Municipality's register contained instances of unrecorded transactions, duplicate entries, and transactions with incorrect project numbers and charged to incorrect activities.

The disbursements shown in the Municipality's register for the period July 1, 2015, through October 31, 2018, did not agree with the amounts reported as drawn in HUD's system. As of October 31, 2018, HUD's system reflected that the Municipality had withdrawn more than \$1.5 million in CDBG funds, but Municipality records showed less than \$1.3 million in disbursements.

Activity type	Amount drawn from HUD	Disbursement register amount	Difference
Section 108 loan repayment	\$586,683	\$311,450	(\$275,233)
Street resurfacing	477,465	524,463	46,998
Planning and administration	196,156	177,778	(18,378)
Housing rehabilitation	176,924	176,359	(565)
Home care program	35,007	35,007	-
Counseling and rehabilitation	22,740	22,807	67
Eye care program	11,090	10,591	(499)
Educational program	9,100	9,723	623
Unidentified	-	16,973	16,973
Total	1,515,165	1,285,151	

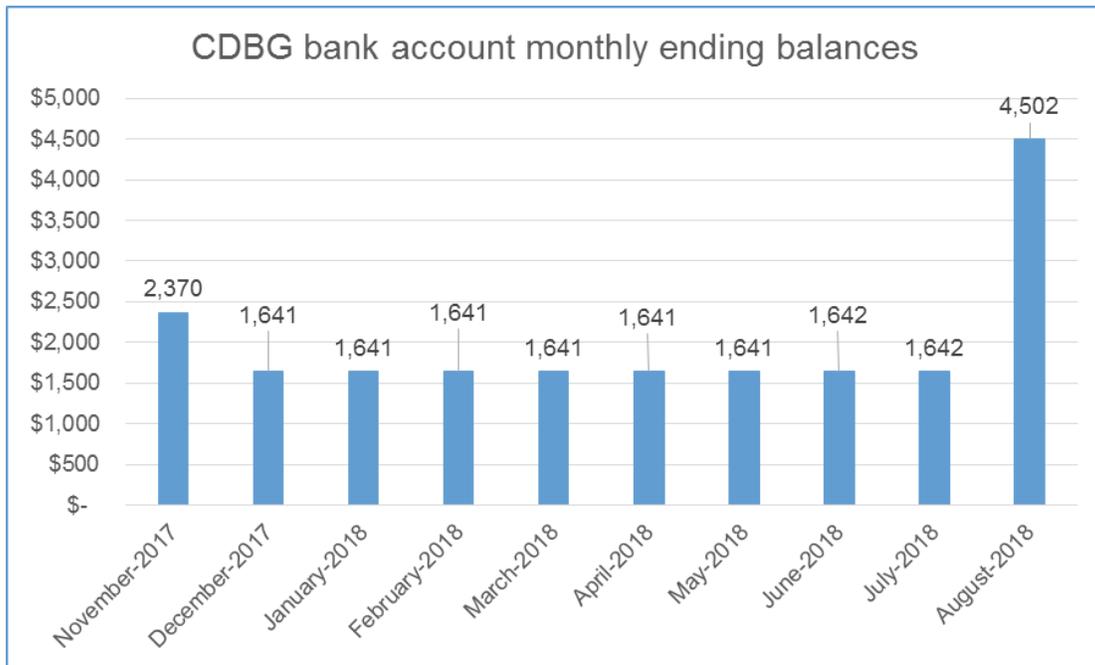
Improper Transfers

The Municipality inappropriately transferred CDBG proceeds to its general fund account. Between March 2015 and February 2016, the Municipality made three electronic transfers to the general fund totaling \$45,000. However, it did not provide supporting documents showing the purpose and eligibility of the transfers. Two of the transfer receipts included a description stating that the mayor authorized the transfer of CDBG funds. As a result, the Municipality improperly used \$45,000 in CDBG funds to finance its operating expenses. Regulations at 24 CFR 570.207(a)(2) provide that expenses required to carry out the regular responsibilities of the unit of general local government are not eligible for assistance. Although the Municipality did not have a general ledger for the CDBG program, bank records suggested that it had returned the funds to the CDBG funds account.

The 2016 and 2017 independent public accountant report reflected a similar deficiency pertaining to transfers from the Section 8 Housing Choice Voucher and Neighborhood Stabilization Programs to the Municipality's operating account.

Untimely Use of Program Funds

The Municipality did not disburse CDBG funds in a timely manner. Regulations at 2 CFR 200.305(b) provide that grantees must minimize the time elapsing between the transfer of funds from the United States Treasury and the disbursement of funds. However, the Municipality's December 2017 CDBG bank statement reflected an unused cash balance of \$1,641, which was carried through at least July 2018.



Municipality officials informed us that the unused balance pertained to a February 2016 deposit in the amount of \$1,000 from the Municipality’s operating account and two outstanding checks totaling \$996. However, the Municipality did not provide support regarding the nature of the \$1,000 deposit and the disposition of the outstanding checks.

Ineligible Program Disbursements

Between February 22, 2016, and October 23, 2018, the Municipality’s CDBG bank account was overdrawn and had four returned checks, which resulted in bank charges totaling \$106. These bank charges were paid with CDBG funds. Regulations at 2 CFR 200.441 provide that fines and penalties are unallowable program costs. As a result, a total of \$106 in CDBG funds was used for ineligible expenditures.

Lack of Written Procedures and Inadequate Controls

The lack of written procedures and inadequate program controls also contributed to the deficiencies in the Municipality’s financial management system. For example, the Municipality did not have written procedures for the accounting and disbursing of CDBG funds and establishing responsibilities among its personnel. In addition, a Municipality official informed us that information in HUD’s information system was not reconciled with the Municipality’s accounting records. Therefore, the Municipality’s internal controls were not sufficient and adequate to assure HUD that CDBG funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

Conclusion

The Municipality did not properly identify the source and application of CDBG funds drawn from HUD. These deficiencies occurred because the Municipality did not have an accounting system in place and management did not develop and implement adequate policies and procedures to ensure compliance with HUD requirements. As a result, HUD lacked assurance

that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

Recommendations

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

- 1A. Develop and implement a financial management system in accordance with HUD requirements, including but not limited to permitting the disbursement of funds in a timely manner.
- 1B. Ensure that \$1,045,085 in CDBG funds drawn from HUD between July 1, 2015, and October 31, 2018, can be traced to a level, which ensures that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes, or reimburse the CDBG program from non-Federal funds.²
- 1C. Require the Municipality to return to its line of credit and put to better use \$1,641 associated with the unspent program funds that have been carried over since December 2017.
- 1D. Reimburse the CDBG program from non-Federal funds the \$106 paid for ineligible bank penalties.
- 1E. Establish and implement adequate controls and procedures to permit proper accountability for all CDBG funds to ensure that they are used solely for authorized purposes and properly safeguarded.

² Total drawdowns of more than \$1.5 million were adjusted to consider \$106 questioned in recommendation 1D and \$469,974 in recommendation 2A.

Finding 2: The Municipality Did Not Properly Support Its Street Resurfacing Activities' Allowability and Allocability

The Municipality did not properly support the scope of its street resurfacing efforts, paid for work done before a contract was awarded, and improperly completed street resurfacing work on private properties. These deficiencies occurred because the Municipality did not develop and implement adequate controls and procedures to ensure compliance with HUD requirements. As a result, HUD lacked assurance that more than \$469,000 in CDBG funds was used for eligible purposes and in accordance with the program requirements.

Unsupported Scope of Work

Between July 2015 and October 2018, the Municipality awarded three contracts and withdrew more than \$469,000 of its CDBG grant for street resurfacing activities. However, it did not maintain adequate supporting documentation of the work performed. Regulations at 24 CFR 570.506(a) state that the grantee must keep records, which provide a full description of each activity that is selected for assistance, including its location; the amount of CDBG funds budgeted, obligated, and spent for the activity; and the regulations under which the activity is eligible. The supporting documentation maintained by the Municipality did not clearly identify the scope of the street resurfacing work, which would have permitted assessing the work done and amount of asphalt needed. For example, the files did not contain specifications, plans, or drawings identifying the areas or streets to be resurfaced.

Work Done Before Contract Award

In addition, the Municipality paid for street resurfacing work that was done before a contract was executed. On August 7, 2018, it contracted the services of a private entity for 1,590 tons of asphalt to be used in the street resurfacing of various communities. Regulations at 2 CFR 200.318(b) state that the grantee must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts. According to the contract, the services would be provided between August 7 and September 30, 2018. However, 21 of 63 asphalt delivery receipts (535 tons of asphalt) that the Municipality provided were dated between July 18 and July 23, 2018, before the Municipality signed the contract with the private vendor.

Private Properties Resurfaced

A Municipality official informed us that personnel would occasionally perform site inspections of the street resurfacing activities, but inspection reports were not prepared. In December 2018, we performed site inspections of one of the funded street resurfacing activities and found that the Municipality improperly performed street resurfacing work on at least 16 private properties. The inspections showed that private driveways or roads to residences were resurfaced and were classified as improvements to public facilities.



The above pictures show some of the private properties that were resurfaced.

A Municipality official could not determine whether HUD or municipal funds were used to resurface the private properties. The official stated that the Municipality used local funds in addition to CDBG funds to resurface some streets. However, he could not distinguish which funds were used for a given street, and no additional support was provided justifying the work at private properties. As a result, the Municipality could not ensure that CDBG funds were used for eligible purposes and in accordance with the program requirements.

Conclusion

The Municipality did not support the allowability and allocability of its street resurfacing activities. These deficiencies occurred because the Municipality did not develop and implement adequate policies and procedures to ensure compliance with HUD requirements. As a result, HUD lacked assurance of the reasonableness, allowability, and allocability of the \$469,974 the Municipality charged to the CDBG program.

Recommendations

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

- 2A. Submit supporting documentation showing how \$469,974 in CDBG funds disbursed for street improvements was properly used and in accordance with HUD requirements or reimburse the CDBG program from non-Federal funds.
- 2B. Determine the amount spent for the resurfacing of the 16 private properties identified and reimburse the CDBG program from non-Federal funds.
- 2C. Establish and implement adequate policies and procedures, including project inspection protocols, to ensure that CDBG funds are used for activities that meet a national objective, are used for eligible purposes, and are properly supported.

Scope and Methodology

The audit covered the period July 1, 2015, through October 31, 2018. We performed our onsite fieldwork from November 27, 2018, through December 6, 2018, at the Municipality's offices located at 73 Comercio Street and 13 Santiago Vivaldi Street, Yauco, PR.

To accomplish our audit objectives, we performed the following:

- Reviewed applicable laws, regulations, relevant HUD program requirements, and agreements.
- Reviewed HUD's and the Municipality's program files and records.
- Interviewed HUD and Municipality officials.
- Reviewed program expenditures, both program delivery costs and administrative costs.
- Reviewed the Municipality's financial management system and compared the data to the data reported to HUD.
- Conducted site inspections of a street resurfacing activity located at the Almacigo Bajo and Susua Baja wards.

The Municipality's disbursement register showed expenditures of more than \$1.2 million for the period July 1, 2015, through October 31, 2018. Of these expenditures, \$524,463 (41 percent) was disbursed for public facilities, and \$177,778 (14 percent) was used for administration and planning. We selected a non-statistical sample of 20 transactions for review for a total of \$323,085, about 25 percent of the recorded expenditures.³

We identified that the Municipality's December 2017 through July 2018 CDBG bank statements reflected an unused cash balance of \$1,641; funds that could be put to better use by making it available for eligible activities consistent with program requirements.

To achieve our audit objectives, we relied in part on computer-processed data provided by HUD and the Municipality. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. We did not select 100 percent of the transactions for testing as the selection made provided sufficient evidence for the findings presented. The results of the audit apply only to the items selected for review and cannot be projected to the universe or population.

³ We reviewed all disbursements greater than \$20,000 under the public facilities activity type and 15 out of 76 disbursements (based on the highest amount for each vendor) under the planning and administration activity.

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:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial information - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

- The Municipality did not properly identify the source and application of CDBG drawdowns, disbursed funds for ineligible bank penalties, and did not spend program funds in a timely manner (finding 1).

- The Municipality did not support the allowability and allocability of CDBG funds for its street resurfacing activities (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1B		\$1,045,085	
1C			\$1,641
1D	\$106		
2A		469,974	
Totals	106	1,515,059	1,641

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (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 1C, funds will be available for other eligible activities consistent with CDBG requirements.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

	<p><i>Gobierno de Puerto Rico Municipio de Yauco Secretaría Asuntos Federales Y Proyectos Especiales P.O. Box 1 Yauco, Puerto Rico 00698</i></p>
<p>June 28, 2019</p>	
<p>Nikita N. Irons Regional Inspector General for Audit HUD-OIG Office of Audit Region 4 74 Ted Turner Drive, SW Room 330 Atlanta, GA 30303</p>	
<p>Attn: Michael Rivera Assistant Regional Inspector General for Audit San Juan Office</p>	
<p>Re: Municipality of Yauco OIG Audit Report Community Development Block Grant</p>	
<p>Dear Mrs. De la Rosa:</p>	
<p>The US Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) has submitted to the Municipality of Yauco a draft of the results of their review of our CBDG Program. After carefully studied the report, respectfully we submit our comments for your considerations previous to the publication of the final report.</p>	
<p>Finding # 1: The Municipality's Financial Management System did not comply with HUD requirements</p>	
<p>The Municipality did not properly identify the source and application of CBDG funds drawn from HUD. These deficiencies occurred because the Municipality did not have an accounting system in place and management did not develop and implement adequate policies and procedures to ensure compliance with HUD requirements.</p>	
<p>It is necessary to differ in principle from this situation, since we understand that the Municipality has all the payment supporting documents, including contracts, purchase orders, invoices, receipts, vouchers and canceled checks of all the CBDG funds assigned to the Municipality. However, and in response to HUD's recommendations, we have been given specific instructions to quote and hire additional modules of the accounting system that has being used and certified by our external auditors, to be extended to the accounting of CBDG funds. We understand that once the mechanized system is completed, all the financial information of the CBDG funds will be available for review and revision in accordance with HUD requirements.</p>	
	<p><i>División de Presupuestos y Cumplimiento Federal</i> Teléfono 787-656-1340 ext. 1081</p>

Comment 1

Auditee Comments

Comment 2



IDA BUENA PARA
YAUCO
Hon. Angel L. Torres Ortiz, Alcalde

Gobierno de Puerto Rico
Municipio de Yauco
Secretaría Asuntos Federales Y Proyectos Especiales
P.O. Box 1 Yauco, Puerto Rico 00698

Municipality of Yauco OIG Audit Report
Community Development Block Grant
Page 2

Finding # 2: The Municipality did not properly support its street resurfacing activities' allowability and Allocability

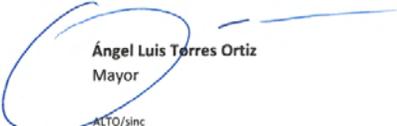
The Municipality did not support the allowability and allocability of its street resurfacing activities. These deficiencies occurred because the Municipality did not develop and implement adequate policies and procedures to ensure compliance with HUD requirements.

As in the previous situation, it is important to clarify that the Municipality has a file that details the use given to all the CBDG funds assigned for the resurfacing of the streets and municipal roads. Similarly, it is imperative to clarify that the Municipality used combined funds for the resurfacing of the roads that were paved using the assigned CBDG funds. We are presenting evidence of the scanned files with all the supporting documents of the CBDG funds used for the resurfacing of municipal roads. Similarly, we would like to point out that the cost of resurfacing the entrances to the residences located on the asphalt roads that were paved with the CBDG funds, were paid with municipal funds. We include digitized files of the CBDG funds records and their supporting documents for \$ 469,982 for the years 2015, 2016 and 2017. We also include evidence of the municipal funds used to pave affected residences after Hurricane Maria. We understand that the evidence that we accompanied was not examined by the auditors and justifies the elimination of the situations mentioned above.

We would respectfully request the review the documentation submitted with our comments and to consider the physical re-inspection of the paved roads once you review the information provided if needed.

If additional information is needed, please contact Eng. Luis Martinez Pueyo, our Federal Affairs Office Director at (787) 856-1340 ext. 1032 or via email to Impueyo@hotmail.com or our Municipal Secretary and Administrator, Larry Soto Morales at (787) 856-1340 ext. 1014 or via email sotolarry7@gmail.com. Our staff is willing and available to submit any additional information.

Sincerely,



Ángel Luis Torres Ortiz
Mayor

ALTO/sinc
Enclosure

División de Presupuestos y Cumplimiento Federal
Teléfono 787-856-1340 ext. 1081

OIG Evaluation of Auditee Comments

Comment 1 The Municipality stated that it had all supporting documents pertaining to the CDBG funds awarded to the Municipality. The Municipality further stated that it was in the process of adding new modules to its financial system to include the CDBG program in its accounting system.

We acknowledge the Municipality's efforts in the improvement of their financial management system. However, the Municipality must coordinate with HUD during the implementation of this new system to ensure it complies with HUD requirements. The Municipality did not provide any additional documentation pertaining to deficiencies discussed in the finding. In addition, the Municipality did not address the issue of improper transfers and untimely use of CDBG funds.

Comment 2 The Municipality stated that it has a file that shows the use of CDBG funds for street resurfacing efforts. The Municipality further stated that it used combined funds and that the private properties were resurfaced with local funds. The Municipality also provided additional documentation for OIG to review and asked for the elimination of the finding.

We evaluated the additional documentation the Municipality provided. However, it did not demonstrate the eligibility and propriety of the disbursements associated with its street resurfacing efforts. Therefore, we did not modify the report finding and recommendation. The Municipality will need to provide HUD documentation which demonstrates that CDBG funds were properly used in accordance with HUD requirements during the audit resolution process. In addition, it needs to determine the amount spent for resurfacing the 16 private properties identified and reimburse the CDBG program from non-Federal funds.