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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SAN JUAN
AUDITORIA 2000-01
30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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MUNICIPALITY OF SAN JUAN, PUERTO RICO

Reports on Compliance and Internal Control in
Accordance with Government Auditing Standards
and the Requirements of OMB Circular A-133 and
the Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2001

200-01

MUNICIPALITY OF SAN JUAN, PUERTO RICO

REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE REQUIREMENTS OF OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2001

TABLE OF CONTENTS

	PAGE
PART I INDEPENDENT AUDITORS' REPORT ON:	
Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	2
Compliance and Internal Control over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards	4
PART II SCHEDULE OF FINDINGS AND QUESTIONED COSTS	7
PART III FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS	10
PART IV FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO FEDERAL PROGRAMS	22
PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	57
PART VI SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	59
Notes to Schedule of Expenditures of Federal Awards	61
PART VII CORRECTIVE ACTION PLANS ON CURRENT YEAR FINDINGS	62

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART I

INDEPENDENT AUDITORS' REPORT



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of the Municipal Assembly
Municipality of San Juan
San Juan, Puerto Rico

We have audited the financial statements of the Municipality of San Juan, Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2001, which was qualified for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to audit the fixed assets included in the enterprise fund and the general fixed assets account group and have issued our report thereon dated September 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-01 to 01-28. Because of the materiality of the Federal programs to the overall operations of the Municipality instances of noncompliance relating to Federal programs in the items numbered 01-01, 01-07 to 01-20 and 01-22 to 01-28 are included as compliance with the requirements of those Federal programs is necessary, in our opinion, for the Municipality to comply with applicable legal and regulatory requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the

financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items numbered 01-02 to 01-07 and 01-09 to 01-28.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, of the reportable conditions described above, we consider items 01-01 to 01-05 to be material weakness.

This report is intended solely for the information and use of the Municipal Assembly, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 28, 2001

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Mayor and Members of the Municipal Assembly
Municipality of San Juan
San Juan, Puerto Rico

Compliance

We have audited the compliance of the Municipality of San Juan, Puerto Rico (the "Municipality"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

As summarized below and discussed in detail in the Schedule of Findings and Questioned Costs listed in the Table of Contents, the Municipality did not comply with the federal compliance requirements for the following federal award programs. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to those programs.

<u>Compliance Requirement</u>	<u>Major Program</u>	<u>Reference Number</u>
Eligibility	Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	01-14, 01-15
	Head Start	01-26
	Community Development Block Grant	01-08
Equipment and Real Property Management Reporting	Community Development Block Grant	01-07
	Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	01-18
	Public Safety Partnership and Community Policing Grants	01-22
	Head Start	01-24
	HIV Emergency Relief Project Grants	01-28
Subrecipient Monitoring	Housing Opportunities For Persons With AIDS	01-13
	Head Start	01-25
Special Test and Provisions	Home Investments Partnership Program	01-09, 01-10, 01-11, 01-12
	Section 8 Housing Choice Vouchers	01-19, 01-20, 01-21
	Head Start	01-23, 01-27

In our opinion, except for the instances of non-compliance identified above, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. The results of our auditing procedures also disclose other instances of noncompliance with these requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-16 and 01-17.

Internal Control Over Compliance

The management of the Municipality, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-06 to 01-28.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Municipality as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. This schedule is the responsibility of the management of the Municipality. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Municipal Assembly, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 28, 2001

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART II

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PART I – SUMMARY OF AUDITORS’ RESULTS

1. The independent accountants’ report on the general-purpose financial statements expressed a qualified opinion.
2. Reportable conditions on internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The independent auditors’ report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Municipality’s major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Development Block Grants/Entitlement Grants	14.218
HOME Investment Partnerships Program	14.239
Housing Opportunities for Persons with AIDS	14.241
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856
Section 8 Housing Choice Vouchers	14.871
Public Safety Partnership and Community Policing Grants (COPS)	16.710
Workforce Investment Act (WIA)	17.255
Community Services Block Grant	93.569
Head Start	93.600
HIV Emergency Relief Project Grants	93.914

8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Municipality did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II – SCHEDULE OF FINDINGS AND QUESTIONED COSTS:

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2001
Accounting and Finance Department		
01-01	The Municipality's deficient budgeting process has resulted in an accumulated deficit for all funds of \$46.7 million.	-
01-02	The Municipality does not have an adequate centralized system to monitor and evaluate the internal controls over federally funded programs	-
01-03	The Municipality does not have an effective system to accurately account for the recording of fixed assets.	-
01-04	The Municipality needs to improve accounting policies and procedures for inter-fund transactions.	-
01-05	The Municipality does not has procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds	-
01-06	The Municipality does not prepare periodic employee certifications. (Prior Year Finding Number 00-21)	-
Community Development Block Grant		
01-07	The Municipality filed the CO4PR26 - CDBG Financial Summary with expenditures that do not agree with the general ledger. (Prior Year Finding Number 00-18)	-
01-08	The Municipality does not have adequate controls over property and equipment acquired with federal funds.	-
Home Investments Partnership Program		
01-09	The Municipality has not established subsidy-layering guidelines to ensure that HOME program funds are expended according to program regulations.	-
01-10	The Municipality does not document that HOME subsidized units do not exceed 95% of the median purchase price for the locality or the FHA mortgage limit.	-
01-11	The Municipality's HOME program did not perform housing quality inspections on subsidized units before they were occupied.	-
Housing Opportunities For Persons With AIDS		
01-12	The Municipality's Housing Authority does not perform housing inspections on a timely manner.	-
01-13	The Municipality did not monitor subrecipients of HOPWA funds.	-
Lower Income Housing Assistance Program		
01-14	The Municipality did not verify one participant's income as required by federal regulations.	\$ 12,804
01-15	The Municipality could not locate several participant files. (Prior Year Finding Number 00-12)	14,484
01-16	The Municipality's Housing authority could not demonstrate that housing inspections are performed as part of the annual re-certification process	-
01-17	The Municipality made payments for ten months after a rental unit was vacated.	-
01-18	The Municipality filed HUD Form 52681 with amounts that do not agree with the general ledger (Prior Year Finding Number 00-11)	-
Section 8 Housing Choice Vouchers		
01-19	The Municipality's Housing Authority could not demonstrate that participants admitted into the program during the fiscal year ended June 30, 2001 were selected from the waiting list.	-
01-20	The Municipality's Housing Authority did not document the required reasonable rent determination before executing a new participant lease.	-
01-21	The Municipality's Housing Authority does not keep records of failed inspections as a result of re-certifications or tenant complaints or of the timely resolution of the problems identified.	-
Public Safety Partnership and Community Policing Grants		
01-22	The Municipality filed the Financial Status Report with amounts that do not agree with the general ledger.	-
Head Start		
01-23	The Municipality's Head Start program did not meet its client population served as required in the grant agreement.	-
01-24	The Municipality filed the Financial Status Report with amounts that do not agree with the general ledger.	-
01-25	The Municipality did not monitor subrecipients of Head Start funds	-
01-26	The Municipality's Head Start program disbursed federal funds to participants without verifying their income as required by federal regulations	-
01-27	Several of the Municipality's Head Start child care centers did not have current fire and health department licenses	-
HIV Emergency Relief Project Grants		
01-28	The Municipality filed a Financial Status Report that does not agree with the Municipality's general ledger. (Prior Year Finding Number 00-01)	-
Total		\$ 27,288

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART III

**FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON THE AUDIT
OF THE GENERAL PURPOSE FINANCIAL STATEMENTS**

INTRODUCTION TO FINDINGS AND RECOMMENDATIONS

Background:

The findings and recommendations as defined in Parts III and IV and summarized in the schedule below, have been reviewed with representatives of the Municipality. The Municipality's corrective action plans have been discussed with us and are included in Part VII.

The following findings and recommendations often refer to the provisions of various authoritative documents, laws and regulations that were effective for the year ended June 30, 2001. The reference is to the documents at that date and does not reflect any changes resulting from subsequent amendments of the documents, laws and regulations. To avoid repeating their titles, following is the list of the documents with their respective titles and purposes, quoted in the findings and recommendations:

1. "OMB Circular A-87", - Circular A-87, issued by the Executive Office of the President, Office of Management and Budget, titled "Cost Principles for State and Local Governments," dated May 4, 1995 and further amended on August 29, 1997. This Circular Letter establishes the principles for determining the allowable costs of programs administered by state, local, and federally recognized Indian tribal governments under grants from and contracts with the federal government.
2. "OMB Circular A-102", - Circular A-102, (Revised), issued by the Executive Office of the President, Office of Management and Budget, titled "Grants and Cooperative Agreements with State and Local Governments," dated October 7, 1994 and further amended on August 29, 1997. This Circular Letter establishes consistency and uniformity among federal agencies in the management of grants and cooperative agreements with state, local, and federally recognized Indian tribal governments.
3. "OMB Circular A-133", - Circular A-133, (as revised on June 30, 1997), replaced Circular A-128, formerly applicable to the Department. This Circular Letter establishes uniform audit requirements for non-federal entities that administer federal awards and implements the Single Audit Act Amendments of 1996.
4. "The Act", - The Single Audit Act Amendments of 1996, Public Law 104-156, enacted on July 5, 1996, by the U.S. Congress. The Act was established to: a) promote sound financial management, including effective internal controls over federal awards; b) establish uniform requirements for audits of these programs; c) promote the efficient and effective use of audit resources; d) reduce burdens on auditees and e) ensure that the federal agencies and department's rely upon these audits.
5. "CFR" - This is the "Code of Federal Regulations" issued by the federal government. The CFR is a codification of the general and permanent rules published by the federal government. The code is divided into titles that represent broad areas subject to federal regulation. Each title is divided into chapters, which usually bear the name of the issuing agency, and is further subdivided into parts covering specific regulatory areas.
6. "Common Rule" - The Common Rule refers to the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" which establishes uniform administrative rules for Federal grants and cooperative agreements and subawards to State, local, and Indian Tribal governments.

7. "Basic Standards" - "Revised Regulation on Basic Standards for the Municipalities of Puerto Rico" approved by the Office of the Commissioner of Municipal Affairs. The Basic Standards were created under Article 19.011 of Law 81, enacted on August 30, 1991, "Autonomous Municipalities Law". It establishes the rules and operational standards applicable to the municipalities in relation to the accountability of funds, property and other financial and fiscal matters administered by the municipalities of Puerto Rico. Its main purpose is to allow for the efficient use and administration of the municipal operations.
8. "Municipalities Law" - The "Autonomous Municipalities Law", Law 81 of August 30, 1991, as amended, was enacted to establish standard rules and regulations regarding the creation, organization, administration, and functions of the municipal governments in Puerto Rico. It establishes the main guidelines and requirements that govern all the municipal functions and activities.

Corrective Action Plans:

The corrective action plans and responses to the findings and recommendations have been provided by the Municipality's representatives and reflect plans and responses as of March 25, 2002. These responses and corrective action plans were delivered to us after completion of our field work and, accordingly, our procedures with respect to such corrective action plans consisted of reading the Municipality's response and including them within the body of the Single Audit Report. Although a few of the responses may indicate that the supporting documentation is available for examination, the finding is not eliminated because such evidence was found after we concluded the field work and, accordingly, we did not examine the aforementioned supporting information.

Criteria

All findings in this report refer to exceptions to established federal and local laws. The applicable regulations to each major program are as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>	<u>Federal Regulations</u>	<u>Federal Regulations/ Administrative Plan</u>
Community Development Block Grants/Entitlement Grants	14.218	X	
HOME Investment Partnerships Program	14.239	X	
Housing Opportunities for Persons with AIDS	14.241	X	
Housing Choice Vouchers	14.871		X
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856		X
Public Safety Partnership and Community Policing Grants (COPS)	16.710	X	
Workforce Investment Act (WIA)	17.255	X	
Community Services Block Grant	93.569		X
Head Start	93.600	X	
HIV Emergency Relief Project Grants	93.914	X	

Questioned Costs:

The audit of compliance with laws and regulations, and the audit of the general purpose financial statements of the Municipality resulted in the identification of questioned costs totaling \$27,288 for the year ended June 30, 2001. For those instances where costs were questioned, the specific cost has been identified in the findings reported in the following pages.

The Schedule of Findings and Questioned Costs presented in Part II, as listed in the table of contents, includes items arising from the Single Audit for the year ended June 30, 2001. Items that arose during the previous Single Audit that have yet to be resolved are included in Part V of this document. Questioned costs noted in the reports of federal auditors and proposed, or pending sanctions arising from programmatic reviews by federal agencies, if any, were reviewed to determine the nature of the item and its current status. This information was considered during the development of the current year's audit procedures. The final resolution of the items arising from other audits and reviews, as well as disposition of the questioned costs included in Part II, "Schedule of Findings and Questioned Costs," as listed in the table of contents, rests with the federal grantor agencies.

Reportable Conditions and Material Weaknesses:

The findings included in this report have been reported in accordance with the requirements of Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States and Statements on Auditing Standards 60 and 74, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants. These standards require the communication of all reportable conditions regarding an entity's internal control.

Reportable conditions are those matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control over compliance, which could adversely affect the Department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

Finding Number: 01-01

Accounting and Finance Department

Topic Sentence

The Municipality's deficient budgeting process has resulted in an accumulated deficit for all funds of \$46.7 million.

Category

Compliance

Condition Found

The Municipality overestimated Enterprise Fund revenues for the Centers for Diagnosis and Treatment and underestimated expenditures for the San Juan Health reform when preparing the budget for the fiscal year ended June 30, 2001. As a result, the Municipality closed its fiscal year with an accumulated deficit in the combined balance sheet, after providing reserves in the general fund, of approximately \$46.7 million.

Criteria

Article 8.004 (b) of the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the appropriations for the ensuing fiscal year. In addition, according to Chapter IV, Section 17, of the Basic Standards, the responsibility of oversight to prevent deficits in any municipal fund rests with the Finance Department.

Underlying Cause

This situation occurred because the Municipality's Budget Department failed to obtain the required supporting documentation for the budgeting of revenues and expenditures accounts. Accordingly, the budgeted revenues and expenditures were approved without a documented analysis as to their reasonability and propriety for recognition as revenues and expenditures. This situation went unnoticed due to the fact that the budgeting system does not reflect actual revenues and expenditures, and therefore cannot prevent the obligation of expenditures for which current resources are not available. In addition, the Finance Department did not perform the required oversight in order to take action to prevent expenditures in excess of revenues.

Effect

The continued occurrence of this situation could result in possible significant limitations on available funds and the eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

Known Questioned Costs

None

Recommendation:

The Municipality's management should implement system controls to prevent expenditures in excess of revenues. In addition, management should review unencumbered balances for each appropriation. This will provide the Budgeting Division with the necessary information to prevent the issuance of purchase orders or contracts for which funds are not currently available.

Finding Number: 01-02

Accounting and Finance Department

Topic Sentence

The Municipality does not have an adequate centralized system to monitor and evaluate the internal controls over federally funded programs.

Category

Internal Control

Compliance Requirement

All applicable compliance requirements as stated in OMB Circular A-133.

Condition Found

The Municipality has several offices directly responsible for the administration of federal programs, however, established controls at the overall municipal level to oversee the operation of federal programs are poor. During the course of the audit we noted several deficiencies in the Municipality's internal control structure as follows:

- Management does not have a plan in place to adequately monitor individual program control activities to ascertain that the existing internal control structure is functioning as intended to reasonably assure compliance with the requirements of federal laws, regulations, and program compliance requirements. During the course of our audit, we noted deficiencies related to segregation of duties, inadequate management reviews and approvals of transactions, and deficiencies in accounting entries and financial and other reporting.
- The Municipality does not have adequate controls to identify program expenditures. As a result of this deficiency, the Municipality could not identify \$1,283,833 reported in the Schedule of Expenditures of Federal Awards.
- The manual controls over documents at the different federal programs are ineffective and not consistently carried out.
- Inappropriate and incomplete cut-off procedures and month-end and year-end closing procedures. Many transactions are posted after the applicable closing with a retroactive effect.

Criteria

OMB Circular A-102 subpart C, section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

- Financial reporting: accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records: grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

- **Internal control:** effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- **Budget control:** actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data is required, estimates based on available documentation will be accepted whenever possible.

Underlying Cause

The internal control deficiencies cited above occur due to the fact that the Municipality's management has not reviewed control activities over federal programs to ensure that they are functioning as intended.

Effect

The continuous occurrence of these deficiencies might inhibit the Municipality from having current accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and program objectives are not being met.

Known Questioned Costs

None

Recommendation

The Municipality should monitor federal financial assistance programs at a central level by appointing compliance officers to oversee compliance with applicable laws and regulations. The compliance officer would create policies and procedures to assess the quality of internal control performance such as:

- Ongoing monitoring built-in through independent reconciliations, staff meeting feed back, rotating staff, supervisory review, and management review of reports.
- Accurate identification of program expenditures by CFDA number
- Periodic site visits performed at decentralized locations (including subrecipients) to determine whether procedures are being followed as intended.
- Follow up on irregularities and deficiencies to determine the cause and develop corrective action plans.
- Internal quality control reviews based on federal guidelines.
- Management meetings with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
- Internal audit tests for compliance with federal requirements.
- The Finance Department reviewing the results of all monitoring or audit reports and periodically assess the adequacy of corrective action.

Finding Number: 01-03

Accounting and Finance Department

Topic Sentence

The Municipality does not have an effective system to accurately account for the recording of fixed assets.

Category

Internal Control

Condition Found

There are no internal controls to assure that all capitalizable expenditures and property dispositions are recorded in the fixed assets subsidiary ledger. Most real property acquired with federal and local funds is not recorded in the property subsidiary ledger and property sales and dispositions are not being accounted for in the fixed assets subsidiary ledger.

Criteria

Article 8.013 of the Municipalities Law and Chapter VII of the Basic Standards establish that the Municipality shall be responsible for safeguarding and being accountable for its fixed assets (both real and personal property).

Chapter VII, of the Basic Standards establishes the following guidelines regarding property management:

Section 3 establishes that the Finance Department is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.

Section 4 establishes that the Municipal Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.

Section 14(1) establishes that all Municipal property shall be numbered and identified as to ownership by the Property Department Director.

Section 15(1) establishes that the Property Department Director is responsible for accurately maintaining the central property records.

Section 21 (2)(c) establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

Underlying Cause

The Municipality's management has not established procedures to properly record the property transactions in the fixed assets subsidiary ledger.

Effect

The Municipality's failure to have accurate and complete property records has resulted in the qualification of the general-purpose financial statements audit opinion with respect to the General Fixed Assets Account Group and the Enterprise Fund. Furthermore, this situation represents a significant risk of loss of property and equipment because there is a lack of accountability for acquired assets.

Known Questioned Costs

None

Recommendation

The Property Division must require from each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

In addition, the Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's federal program offices.

Finding Number: 01-04

Accounting and Finance Department

Topic Sentence

The Municipality needs to improve accounting policies and procedures for inter-fund transactions.

Category

Internal Control

Condition Found

There are no control accounts to accurately account for the inter fund receivable and payable balances. The Municipality determines the amounts presented in the general-purpose financial statements after searching for transfer transactions in its accounting records. This cumbersome process increases the risk that such transactions could be missed or incorrectly accounted for. Accordingly, revenues, expenditures, and inter fund receivables and payables were adjusted for financial reporting purposes to conform with the presentation in accordance with accounting principles generally accepted in the United States of America.

Criteria

Article 8.010, Section (b) of the Municipalities Law establishes that the accounting system shall provide for the accounting procedures and records to be maintained in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities

Underlying Cause

The Municipality's management does not review and reconcile inter fund accounts on a regular basis to ensure proper accounting of amounts recorded in such accounts.

Effect

The continuous occurrence of this situation may result in the use of one fund's monies to finance the activities of another fund, and the money not being reimbursed to the proper fund.

Known Questioned Costs

None

Recommendation

The Municipality should establish and maintain a subsidiary ledger to accurately account for inter fund transactions. Management should reconcile inter fund transactions as part of the monthly closing schedule and revise and monitor internal control activities to ensure that they are functioning as intended. Furthermore, the Municipality should immediately refund amounts owed to the Special Revenue Fund to prevent the assessment of interest and penalties due to the incorrect use of federal funds.

Finding Number: 01-05

Accounting and Finance Department

Topic Sentence

The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds.

Category

Internal Control

Condition Found

In testing procurement, suspensions and debarments, we were not able to find evidence indicating that the Municipality performs procedures to assure themselves that the individuals and entities that receive contracts or sub-awards are not suspended or debarred from participation in federal programs.

Criteria

As per OMB Circular A-102, federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the non-procurement debarment and suspension common rule.

Underlying Cause

The Municipality has no policies and procedures for the effective use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.

Effect

As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred.

Finding Number: 01-06

Accounting and Finance Department

Topic Sentence

The Municipality does not prepare periodic employee certifications. (Prior Year Finding Number 00-21)

Category

Internal Control

Condition Found

The Municipality does not perform periodic employee certifications to ensure that the employees worked solely on a particular federal program during a specified period.

Criteria

As per OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments", charges for salaries and wages of employees that work solely on a single federal award or cost objective, should be supported by periodic certifications stating that the employees worked solely on that particular federal program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first knowledge of the work performed by the employee.

Underlying Cause

The Municipality's management has not implemented proper control activities to ensure that the required certifications are obtained from employees and included in the respective human resource records.

Effect

The salaries of employees that work for a particular federal financial assistance program might be charged to other programs resulting in unallowable costs.

Known Questioned Costs

None

Recommendation

The Municipality's management should revise its internal control procedures to include obtaining periodic employee certifications that employees worked solely on a particular federal program. For employees that work on several financial assistance programs, certifications as to what programs, the work for, should be obtained and their salaries allocated accordingly.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART IV

**FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL
OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO FEDERAL PROGRAMS**

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

COMMUNITY DEVELOPMENT BLOCK GRANT - CFDA # 14.218

The primary objective of the Community Development Block Grant (CDBG) Entitlement Program (large cities) (24 CFR part 570 subpart D) and HUD-Administered Small Cities Programs (24 CFR part 570 subpart F) is to develop viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the CDBG federal financial assistance program.

Finding Number: 01-07

Program: Community Development Block Grant – CFDA # 14.218

Topic Sentence

The Municipality filed the CO4PR26 - CDBG Financial Summary with expenditures that do not agree with the general ledger. (Prior Year Finding Number 00-18)

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed the CO4PR26-CDBG Financial Summary that does not agree with the general ledger as follows:

<u>Total Expenditures Reported</u>	<u>Total Expenditures Per Books</u>	<u>Difference</u>
\$12,960,584	\$12,631,278	\$329,306

Criteria

As stated in 24 CFR 570.489 and as specified in 24 CFR 85.20 (b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Underlying Cause

The Municipality's management has stated that this report was prepared from the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. Differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

Effect

The continuous occurrence of this situation inhibits the federal awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation

The Municipality should perform timely reconciliation and cutoff procedures between numbers kept at the federal programs and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Finding Number: 01-08

Program: Community Development Block Grant – CFDA # 14.218

Topic Sentence

The Municipality does not have adequate controls over property and equipment acquired with federal funds.

Category

Internal Control

Compliance Requirement

Equipment and Real Property Management

Condition Found

As discussed in finding 01-03, due to the Municipality's deficient property records; we were unable to perform our tests of real property and equipment management applicable to the CDBG program.

Criteria

As stated in 24 CFR 85.32(b) grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. In addition, effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Underlying Cause

The Municipality has inadequate internal control procedures to prepare adjustments for recording transactions in the fixed assets subsidiary ledger.

Effect

The continuous occurrence of this situation may result in the misappropriation of assets acquired with federal funds. In addition, sanctions could be imposed by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

In addition, the Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal offices.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

HOME INVESTMENTS PARTNERSHIP PROGRAM - CFDA # 14.239

The objectives of the Home Investment Partnerships (HOME) Program include: expanding the supply of decent and affordable housing, particularly housing for low and very low-income Americans; strengthening the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and extending and strengthening partnerships among all levels of government and the private sector, including for-profit and not for profit organizations, in the production and operation of affordable housing (24 CFR section 92.1).

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the HOME federal financial assistance program.

Finding Number: 01-09

Program: Home Investments Partnership Program - CFDA # 14.239

Topic Sentence

The Municipality did not apply subsidy-layering guidelines to ensure that subsidies awarded do not exceed established limits.

Category

Internal Control/Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our special tests of maximum per unit subsidies, we found that the HOME program has not adopted subsidy-layering guidelines to evaluate projects before they are contracted.

Criteria

As stated in 24 CFR 92.250(b) participating jurisdictions must evaluate each project in accordance with guidelines that it has adopted for this purpose and will not invest any more HOME funds, in combination with other governmental assistance than is necessary to provide affordable housing. In addition, 24 CFR 92.508 (a)(2) (iii) states that the participating jurisdiction (PJ) must keep records regarding subsidy layering guidelines to support the PJ's consolidated plan certification.

Underlying Cause

The Municipality did not implement internal controls to comply with subsidy layering guidelines until June 2002.

Effect

The Municipality might award subsidies in excess of allowed limits which could result in disallowed costs by the federal awarding agency. In addition, non compliance with program regulations might inhibit the Municipality from achieving the intended program goals and objectives.

Known Questioned Costs

None

Recommendation

The Municipality should establish control procedures which include subsidy layering guidelines to be used in evaluating projects before they are contracted.

Finding Number: 01-10

Program: Home Investments Partnership Program - CFDA # 14.239

Topic Sentence

The Municipality does not document that HOME subsidized units do not exceed 95% of the median purchase price for the locality or the FHA mortgage limit.

Category

Internal Control/Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our special tests of the maximum per unit subsidy, we found that the Municipality's HOME program does not document that units subsidized must not exceed 95% of the median purchase price for the locality. In addition, the Home program does not formally document any type of analysis to determine that subsidies awarded do not exceed established FHA mortgage limits.

Criteria

As stated in 24 CFR 92.508, units subsidized must not exceed 95% of the median purchase price for the locality. In addition, CFR 92.250 states that subsidies awarded by the HOME program should not exceed the FHA mortgage limits.

Underlying Cause

The Municipality's management has not reviewed HOME program procedures to ensure that the program is in compliance with all applicable federal regulations.

Effect

The Municipality might be expending HOME funds in excess of established limits which could result in cost disallowances by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Municipality should establish control procedures to ensure that before any unit is subsidized with HOME funds, an analysis is made and properly documented to determine that the price of the unit does not exceed 95% of the median purchase price of the locality and the established FHA mortgage limits.

Finding Number: 01-11

Program: Home Investments Partnership Program - CFDA # 14.239

Topic Sentence

The Municipality's HOME program did not perform housing quality inspections on subsidized units before they were occupied.

Category

Internal Control/Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our Housing Quality Standards Special Test, we selected 25 participants that occupied subsidized units during the fiscal year ended June 30, 2001. The Municipality's did not perform Housing Quality Inspections in 16 out of the 25 files examined or 64% of our sample as follows:

<u>HOUSING</u> <u>COMPLEX</u>	<u>APARTMENT</u> <u>NUMBER</u>
Toscana	B-1
Pesante	202
Plaza Universidad	914
Plaza Universidad	925
Plaza Universidad	615
Plaza Universidad	224
Plaza Universidad	1015
Plaza Universidad	219
Plaza Universidad	422
Plaza Universidad	1714B
Plaza Universidad	918
Plaza Universidad	1220
Plaza Universidad	1017
Plaza Universidad	424
Plaza Universidad	522
Plaza Universidad	1118

Criteria

As stated in 24 CFR 92.2519(a) and 24 CFR 92.251(4)(b)(1), the participating jurisdictions must have written standards that ensure that HOME assisted housing is decent, safe and sanitary. Before the transfer of the homeownership interest, the participating jurisdiction must inspect the housing for any defects that pose a danger to health; and notify the prospective purchaser of the work needed to cure the defects and the time by which defects must be cured and applicable property standards met.

Underlying Cause

The program's management stated that, housing inspections have always been performed, however, the supporting documents of such inspections are not always kept and adequately filed. As a result, management cannot adequately demonstrate that all inspections have in fact been performed.

Effect

Not having records of inspections performed inhibits management from monitoring compliance with applicable regulations. In addition, if all units are not inspected, management cannot ascertain that federal funds are expended as intended and that participants receive the benefits that they are entitled to.

Known Questioned Costs

None

Recommendation

We recommend that management implement control procedures to ensure that housing quality standards inspections are performed and adequately documented using HUD form 52580. In addition, the programs' management should review all files before final disbursements are made in order to ensure that all program requirements are met.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

HOUSING OPORTUNITIES FOR PERSONS WITH AIDS - CFDA # 14.241

The Housing Opportunities for Persons with AIDS (HOPWA) Program is designed to provide States and localities with resources and incentives to devise long term strategies for meeting the housing needs of persons with acquired immunodeficiency syndrome (AIDS) or related diseases and their families (24 CFR section 574.3).

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the HOPWA federal financial assistance program.

Finding Number: 01-12

Program: Housing Opportunities For Persons With Aids - CFDA # 14.241

Topic Sentence

The Municipality's Housing Authority does not perform housing inspections on a timely manner.

Category

Internal Control/Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

As of June 30, 2001 the Municipality had not inspected 71 out of 613 housing units assisted with federal funds as required by federal regulations

Criteria

As per 24 CFR section 574.310(b)(1), each recipient of assistance under this part must provide safe and sanitary housing that is in compliance with all applicable State and local housing codes, licensing requirements, and any other requirements in the jurisdiction in which the housing is located regarding the condition of the structure and the operation of the housing.

Underlying Cause

As per the Municipality's management, this deficiency is due to the lack of personnel to perform housing quality inspections. However, the Municipality is actively working with existing resources to inspect all units with past due inspections.

Effect

The continued occurrence of this situation could result in the rental payment for units with sub-standard conditions which would affect program participants and could expose the Municipality's Housing Authority to sanctions and cost disallowance by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Municipality should assign personnel to complete all past due inspections to ensure that the program is in compliance with applicable regulations. In addition, a plan should be implemented in order to ensure that available resources are used effectively so that all required inspections are performed in a timely manner.

Finding Number: 01-13

Program: Housing Opportunities For Persons With Aids - CFDA # 14.241

Topic Sentence

The Municipality did not monitor subrecipients of HOPWA funds.

Category

Internal Control/Compliance

Compliance Requirement

Subrecipient Monitoring

Condition Found

In order to test compliance with subrecipient monitoring guidelines, we selected four subrecipients and found no records to indicate that the Municipality had performed monitoring on three of the four subrecipients selected. The subrecipients were as follows:

Lucha Contra El SIDA
Programa SIDA San Juan
Casa Ismael, Inc.

Criteria

As stated in 24 CFR 574.605 and specified in OMB Circular A-102, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

Underlying Cause

The Municipality's Housing Authority (the "MHA") does not have an effective system to monitor subrecipients and follow up on deficiencies found during monitoring visits.

Effect

The continuous occurrence of this situation could lead to the misuse of federal funds by subrecipients and program goals not being met as intended. In addition, lack of efficient monitoring procedures could result in sanctions and disallowed costs by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Municipality's management should establish a tracking system to identify when monitoring visits are due and perform on-site monitoring reviews of subrecipients, and implement controls for the timely resolution of audit findings. In addition, supervisory reviews performed to determine the adequacy of subrecipient monitoring.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

**LOWER INCOME HOUSING ASSISTANCE PROGRAM
SECTION 8 MODERATE REHABILITATION - CFDA # 14.856**

The objective of the Section 8 rental assistance programs is to help eligible low-income families or individuals obtain decent, safe, and sanitary housing through a system of rental subsidies. Under this project-based cluster, the rental subsidy is tied to a specific unit and when a family moves from the unit, it has no right to continued assistance.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Lower Income Housing Assistance federal financial assistance program.

Finding Number: 01-14

Program: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – CFDA# 14.856

Topic Sentence

The Municipality did not verify one participant's income as required by federal regulations.

Category

Internal Control/ Compliance

Compliance Requirement

Eligibility

Condition Found

In order to test eligibility, we selected 25 participants which benefited for the program during the fiscal year ended June 30, 2001. We found that the Municipality did not verify the income of one out of the 25 participants selected or 4% of our sample. The participant received benefits of \$12,804 during the fiscal year.

Criteria

As per 24 CFR section 882.514 (a), the MHA is responsible for receipt and review of applications, and determination of family eligibility for participation in accordance with HUD regulations. The PHA is responsible for verifying the sources and amount of the family's income and other information necessary for determining income eligibility and the amount of the assistance payments.

Underlying Cause

As per the Municipality's management, the participant's income was not verified given that the participant was self employed.

Effect

The continued occurrence of this situation could result in payment of program benefits to ineligible participants which could result in disallowed costs by the federal awarding agency.

Known Questioned Costs

\$12,804

Recommendation

The Municipality's management should review all participant files in order to verify that they have been processed according to established guidelines before federal funds are disbursed. In the case of self employed individuals, prior year tax returns and current financial statements could be used to verify the reasonableness of income reported. In addition, management should train all employees on the proper application of established eligibility guidelines.

Finding Number: 01-15

Program: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – CFDA# 14.856

Topic Sentence

The Municipality could not locate several participant files. (Prior Year Finding Number 00-12)

Category

Internal Control/ Compliance

Compliance Requirement

Eligibility

Condition Found

In order to test eligibility, we selected 25 participants which benefited for the program during the fiscal year ended June 30, 2001. The Municipality could not locate four out of the 25 files selected or 16% of our sample amounting to \$14,484 as follows:

<u>Voucher Number</u>	<u>Award Amount</u>	<u>Yearly Benefit</u>
18647	\$350	\$4,200
18661	455	5,460
18664	402	4,824
18675	*	*
Total	<u>\$1,207</u>	<u>\$14,484</u>

* The Municipality could not provide us the amount that was paid with this voucher. As a result, we could not determine the amount of questioned costs, if any, related to this instance of non-compliance.

Criteria

As per OMB Circular A-102, grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Also, accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc.

Underlying Cause

The Municipality's Housing Authority's internal controls over record retention are not functioning as intended.

Effect

The absence of files to support the disbursement of federal funds could result in sanctions and cost disallowances by the federal awarding agency.

Known Questioned Costs

\$14,484*

Recommendation:

The Municipality's Housing Authority should revise existing internal controls related to record retention. In addition management should conduct periodic reviews of record retention policies to ascertain that they are functioning properly.

Finding Number: 01-16

Program: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – CFDA# 14.856

Topic Sentence

The Municipality's Housing Authority could not demonstrate that housing inspections are performed as part of the annual re-certification process.

Category

Internal Control/ Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

During our tests of Housing Quality Standards we inquired management as to established policies and procedures and we found that the Municipality has no way to track inspections which are due. As a result of this deficiency, we were unable to determine that the Municipality performed the annual inspections of leased units.

Criteria

As stated in 24 CFR 882.516(b), in addition to the inspections required prior to execution of the Contract, the MHA must inspect or cause to be inspected each dwelling unit under Contract at least annually and at such other times as may be necessary to assure that the Owner is meeting the obligations to maintain the unit in decent, safe and sanitary condition and to provide the agreed upon utilities and other services. The MHA must take into account complaints and any other information coming to its attention in scheduling inspections.

Underlying Cause

As per the Municipality's management, this condition is due to a system conversion which is currently underway and the Municipality has prepared a schedule to conduct past due inspections.

Effect

The continuous occurrence of this situation could result in rental payments for sub-standard housing. In addition, the Municipality could receive sanctions from the federal awarding agency due to this program deficiency.

Known Questioned Costs

None

Recommendation:

The Municipality should expedite the conversion process in order to identify which housing units require inspections as required by federal regulations. In addition, the Municipality should develop an action plan to inspect all units which have past due inspections.

Finding Number: 01-17

Program: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – CFDA# 14.856

Topic Sentence

The Municipality made payments for ten months after a rental unit was vacated.

Category

Internal Control/ Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In performing our Special Tests on vacant units, we selected 25 units which had been vacated during the fiscal year in order to ascertain that the Municipality was discontinuing payments to landlords when tenants vacated subsidized units. In one of the cases examined (participant number 8208), the Municipality did not discontinue payments until 10 months after the tenant had moved out. The Municipality made a subsequent adjustments in payments made to the landlord in order to correct the excess payment.

Criteria

As per 24 CFR 882.411 if a contract unit which has been rehabilitated in accordance with this Program is not leased within 15 days of the effective date of the contract, the owner will be entitled to housing assistance payments in the amount of 80 percent of the contract rent for the unit for a vacancy period not exceeding 60 days from the effective date of the contract.

Underlying Cause

As per the Municipality's management, the Municipality has no way to verify that the tenant has moved until the tenant notifies the housing authority in person. If the tenant does not notify the housing authority, it might take months for the landlord to notify the housing authority.

Effect

The continued occurrence of this situation might result in cost disallowances and sanctions by the federal awarding agency.

Known Questioned Costs

None, as amounts have been corrected by the Municipality

Recommendation:

The Municipality should request a census from the projects and compare it with the tenant lists in order to ascertain that payments are being made for tenants which are occupying the particular units. In addition, the Municipality should strengthen existing controls to comply with the objectives specified in the program regulations.

Finding Number: 01-18

Program: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – CFDA# 14.856

Topic Sentence

The Municipality filed HUD Form 52681 with amounts that do not agree with the general ledger. (Prior Year Finding Number 00-11)

Category

Internal Control/ Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed the HUD Form 52681 that does not agree with the general ledger as follows:

<u>Program</u>	<u>Expenditures per Report</u>	<u>Expenditures Per General Ledger</u>	<u>Difference</u>
Moderate 1	\$ 872,394	\$ 920,744	\$ (48,350)
Moderate 2	\$ 264,817	\$ 260,102	\$ 4,715
Moderate 3	\$1,379,884	\$1,976,913	\$(597,029)
Moderate 4	\$ 331,200	\$ 248,338	\$ 82,862
Moderate 5	\$ 345,600	\$ 362,616	\$ (17,016)

Criteria

As per OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Underlying Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. As per the reconciliation provided by the Municipality differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

Effect

The continuous occurrence of this situation inhibits the awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation:

The Municipality should perform timely reconciliation and cutoff procedures between numbers kept at the federal programs and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

SECTION 8 HOUSING CHOICE VOUCHERS – CFDA# 14.871

The Housing Choice Voucher Program (HCVP) provides rental assistance to help very low-income families afford decent, safe, and sanitary rental housing. The HCVP Program is administered by local public housing agencies (PHA's) authorized under State law to operate housing programs within an area or jurisdiction. The PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent (a housing assistance payment (HAP)) on behalf of the family.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Section 8 Housing Choice Vouchers federal financial assistance program.

Finding Number: 01-19

Program: Section 8 Housing Choice Vouchers – CFDA# 14.871

Topic Sentence

The Municipality's Housing Authority could not demonstrate that participants admitted into the program during the fiscal year ended June 30, 2001 were selected from the waiting list.

Category

Internal Control/ Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our Special Tests to verify compliance with the procedures for selection from the Section 8 waiting list, we selected 25 tenants admitted into the program during the fiscal year ended June 30, 2001. The Municipality's Housing Authority could not demonstrate that any of the tenants selected for testing, or 100% of our sample, were selected from the waiting list for admission in accordance with selection criteria outlined in the administrative plan.

Criteria

As stated in 24 CFR 982.204 and 24 CFR 982.158, except for special admissions, participants must be selected from the MHA waiting list. The MHA must select participants from the waiting list in accordance with admission policies in the MHA administrative plan. In addition, the MHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit.

Underlying Cause

Although the Municipality has waiting list procedures outlined in the administrative plan and a waiting list does exist; established manual and system controls are not sufficient to provide an audit trail in order to verify compliance with waiting list requirements.

Effect

The continuous occurrence of this situation could result in disallowed costs and sanctions from the federal awarding agency.

Known Questioned Costs

None

Recommendation:

The Municipality's management should revise the current waiting list procedures in the administrative plan and establish controls that ensure that participants are selected from the waiting list for admission in accordance with the procedures in the administrative plan, that participants met the selection criteria to determine their place on the waiting list, and that the order of selection is properly documented in the Municipality's Housing Authority's records.

Finding Number: 01-20

Program: Section 8 Housing Choice Vouchers – CFDA# 14.871

Topic Sentence

The Municipality's Housing Authority did not document the required reasonable rent determination before executing a new participant lease.

Category

Internal Control/ Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our Special Tests over Reasonable Rent, we examined the files of 25 tenants admitted into the program during the fiscal year ended June 30, 2001 in order to verify that a reasonable rent determination was documented before the execution of the new lease. The MHA did not perform a reasonable rent determination in four out of the 25 files selected or 16% of our sample as follows:

<u>Participant Number</u>	<u>Voucher Number</u>
0591	F-2422
0052	PI-052
6497	F-3460
1635	C-2609

Criteria

As stated in 24 CFR 982.507, the MHA may not approve a lease until the MHA determines that the initial rent to owner is a reasonable rent.

Underlying Cause

The MHA management did not review the participant files to ensure that a reasonable rate determination had been made prior to the execution of the new lease.

Effect

The Municipality might have made excessive rent payments for certain units which could result in disallowed costs by the federal awarding agency.

Known Questioned Costs

None

Recommendation:

The Municipality's management should develop a checklist that includes all the requirements that participants must have in their files before new leases are executed. Management should also monitor current control procedures in order to identify and correct any deficiencies that might exist in the current internal control structure.

Finding Number: 01-21

Program: Section 8 Housing Choice Vouchers – CFDA# 14.871

Topic Sentence

The MHA does not keep records of failed inspections as a result of re-certifications or tenant complaints or of the timely resolution of the problems identified.

Category

Internal Control

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our special tests of Housing Quality Standards (HQS) enforcement we found that the MHA does not maintain any type of records regarding failed certifications, and as a result, we were unable to determine whether the Municipality complied with the housing quality standards enforcement requirements. We were unable to determine the amount of questioned costs, if any, that might result due to this instance of non-compliance.

Criteria

The MHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified MHA approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the MHA must stop HAP's beginning no later than the first day of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the MHA must take prompt and vigorous action to enforce the family obligations.

Underlying Cause

The Municipality's management has not implemented procedures to ensure housing quality standards enforcement policies are in place and are monitored in order to determine whether they are functioning as intended.

Effect

The Municipality might be making payments for sub-standard housing units and participants might be adversely affected in the benefits they are entitled to receive.

Known Questioned Costs

None

Recommendation:

The MHA should maintain a record of all failed inspections in order to ensure that proper follow up of such inspections is performed and that an audit trail exists in order to monitor compliance with housing quality standards enforcement.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS – CFDA# 16.710

The Community Oriented Policing Services (COPS) Grant Program provides grants to policing agencies to add police officers or sheriff's deputies to America's neighborhood streets and advance community policing nationwide, with emphasis on reducing levels of violence, the fear of crime and social disorder through problem solving tactics and community-policing partnerships.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the COPS federal financial assistance program.

Finding Number: 01-22

Program: Public Safety Partnership and Community Policing Grants – CFDA# 16.710

Topic Sentence

The Municipality filed the Financial Status Report with amounts that do not agree with the general ledger.

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed a financial status report that does not agree with the general ledger as follows:

<u>Program</u>	<u>Amount per Report</u>	<u>Amount Per General Ledger</u>	<u>Difference</u>
COPS	\$7,532,595	\$7,075,000	\$457,595

Criteria

As per OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Underlying Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. Differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

Effect

The continuous occurrence of this situation inhibits the awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation:

The Municipality should perform timely reconciliation and cutoff procedures between amounts' at the federal program level and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

HEAD START – CFDA# 93.600

The objectives of the Head Start and Early Head Start programs are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged preschool children (ages 3 to 5) and infants and toddlers (birth through age 3) so that the children will attain school readiness. Parents receive social services and participate in various decision-making processes related to the operation of the program.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Head Start federal financial assistance program.

Finding Number: 01-23

Program: Head Start – CFDA# 93.600

Topic Sentence

The Municipality's Head Start program did not meet its client population served as required in the grant agreement.

Category

Internal Control/ Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

As per the enrollment detail provided by the Municipality's management, the Head Start program served 3,779 participants. The Grant Award states that the client population for the Head Start program should be no less than 4,251 participants. In addition, based on the records provided by the Municipality, we could not determine that the guidelines to ensure that the required levels of low-income participants being served were being properly applied.

Criteria

As per 45 CFR section 1305.4, enrollment levels must adhere to the levels specified in the financial assistance award. For grantees other than Indian tribes organizations, at least 90 percent of the enrollees must come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance. For tribal grantees, the percentage may be as low as 51 percent, providing certain conditions are met.

Underlying Cause

The Municipality has not established policies and procedures to ensure this requirement are monitored at the central level. Although the centers keep track of their individual statistics, the Municipality's Head Start office does not consolidate these statistics and therefore does not monitor and cannot determine compliance with the aforementioned requirements.

Effect

Not meeting agreed enrollment levels could result in reduced funding from the federal awarding agency.

Known Questioned Costs

None

Recommendation:

The Municipality's Head Start program should assign an employee at the central level to collect the data from the centers and compile the information so that the program's management can monitor compliance with applicable earmarking requirements. In addition, management should schedule monitoring visits to the centers in order to audit the data that is being submitted on a monthly basis in order to determine the accuracy of the procedures being performed.

Finding Number: 01-24

Program: Head Start – CFDA# 93.600

Topic Sentence

The Municipality filed the financial status report with amounts that do not agree with the general ledger.

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed a financial status report that does not agree with the general ledger as follows:

<u>Report</u>	<u>Amount per Report</u>	<u>Amount Per General Ledger</u>	<u>Difference</u>
FSR 269	\$22,436,732	\$21,240,402	\$1,196,330

Criteria

As per OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.

Underlying Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. Differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

Effect

The continuous occurrence of this situation inhibits the federal awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation:

The Municipality should perform timely reconciliation and cutoff procedures between amounts recorded at the federal program level and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Finding Number: 01-25

Program: Head Start – CFDA# 93.600

Topic Sentence

The Municipality did not monitor subrecipients of Head Start funds.

Category

Internal Control/ Compliance

Compliance Requirement

Subrecipient Monitoring

Condition Found

In order to test compliance with subrecipient monitoring guidelines, we selected four files and found that the Municipality did not perform monitoring on two of the subrecipients selected for testing as follows:

<u>Subrecipient</u>	<u>Agreement Amount</u>
Union Church of San Juan	\$2,729,547
Primera Iglesia Bautista	\$1,663,630

Criteria

As stated in 45 CFR 1304.51(i)(2) and (3) and specified in OMB Circular A-102, grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

Underlying Cause

The Municipality does not have an effective system to monitor subrecipients and follow up on deficiencies found during monitoring visits.

Effect

The continuous occurrence of this situation could lead to the misuse of federal funds by subrecipients and program goals not being met as intended. In addition, lack of efficient monitoring procedures could result in sanctions and disallowed costs by the federal awarding agency.

Known Questioned Costs

None

Recommendation:

The Department's management should establish a tracking system to identify when monitoring visits are due and perform on-site monitoring reviews of subrecipients, and implement controls for the timely resolution of audit findings.

Finding Number: 01-26

Program: Head Start – CFDA# 93.600

Topic Sentence

The Municipality's Head Start program disbursed federal funds to participants without verifying their income as required by federal regulations.

Category

Internal Control/ Compliance

Compliance Requirement

Eligibility

Condition Found

In testing eligibility, we selected 25 program participants which received program benefits during the year ended June 30, 2001. The Municipality failed to verify the income of the participants in five out of the 25 cases examined or 20% of our sample. The participants were as follows:

<u>Participant Number</u>	<u>Center</u>
4198	HS Figueroa
1933	HS Figueroa
7566	San Jose I
4497	Hill Brothers
6468	Hill Brothers

Criteria

As per 45 CFR section 1305.4 (c) and (d) the family income must be verified by the Program before determining that a child is eligible. Verification must include examination of the Individual Income Tax return, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documentation showing current status as recipients of public assistance.

Underlying Cause

Although the eligibility determination of the participants is supposed to be monitored by the center directors; the Municipality has not established policies and procedures to ensure that these requirements are monitored at the central level to ensure compliance with established guidelines.

Effect

The Municipality's failure to have accurate and complete documentation of income verification could result in sanctions and cost disallowances by the federal awarding agency.

Known Questioned Costs

None

Recommendation:

The Municipality should revise and strengthen existing controls for eligibility determinations. Employees in the respective Head Start centers should be trained to ensure that they have the proper knowledge to apply the established guidelines. In addition, management should schedule monitoring visits and randomly sample files for compliance with eligibility requirements.

Finding Number: 01-27

Program: Head Start – CFDA# 93.600

Topic Sentence

Several of the Municipality’s Head Start child care centers did not have current fire and health department licenses.

Category

Internal Control/ Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

During our special tests for the Head Start program we selected 25 centers and visited them in order to verify that they had current fire and health department licenses. We found that three out of the twenty-five centers selected did not have current fire licenses and 13 out of the 25 centers selected did not have current health department licenses. In addition, we noted that 4 out of the 22 centers which had fire department licenses did not have fire extinguishers.

Criteria

As per 45 CFR section 1306.30(c) the facilities used by Early Head Start and Head Start grantees for regularly scheduled center-based and combination program option class room activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing. State requirements require all Head Start childcare centers to be licensed by the fire and health departments.

Underlying Cause

This situation arises because the responsibility for obtaining the required licenses rests with each center and the Municipality’s Head Start program does not adequately monitor compliance with the required licensing requirements. Most center managers indicated to us that the required licenses were allegedly in process, however, there was one center manager that stated that the center was denied the required health license due to structural improvements needed in order to keep pests outside the kitchen area. Another center manager stated that there were no funds available to pay for the fees required to obtain the health license. We could not examine any documentation to corroborate that any of the expired licenses were in fact in process.

Effect

Non-compliance with the required licensing requirements could result in sanctions and disallowed costs by the federal awarding agency. In addition, non compliance with health and fire licensing requirements pose a serious threat to the children obtaining services in the Head Start centers given that the center might not meet the state’s minimum safety standards which could result in health and fire hazards in any unforeseeable situation that might occur during the day to day operations of the center.

Known Questioned Costs

None

Recommendation:

The Municipality should obtain all required licenses immediately or close the centers until such licenses are obtained. Any center that is unlicensed should not operate under any circumstances given the potential liability that the unlicensed center represents for the Municipality. In addition, the Municipality's Head Start program should appoint an employee to be designated as the Head Start program-licensing officer. The licensing officer should oversee compliance with all applicable requirements of the Head Start centers and act as a liaison between the centers and the licensing agencies in order to ensure that all centers are licensed at all times.

The Municipality's management should also conduct periodic monitoring of all work performed by the licensing officer as an independent check in order to ensure that licensing requirements are met for all centers at all times. In addition, periodic quality control visits should be made to the centers in order to ensure that applicable requirements are met all throughout the year and not only during the licensing process.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2001**

HIV EMERGENCY RELIEF PROJECT GRANTS – CFDA# 93.914

The objective of this program is to improve access to a comprehensive continuum of high-quality community-based primary medical care and support services in metropolitan areas that are disproportionately affected by the incidence of Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS). The statute refers to both persons infected with HIV and those who have clinically defined AIDS.

Emergency financial assistance, in the form of *formula-based funding* and supplemental *project-based funding*, is provided to eligible metropolitan areas (EMAs) to develop, organize, and operate health and support services programs for infected individuals and their caregivers. The supplemental grants are discretionary awards and are awarded, following competition, to EMAs that demonstrate severe need beyond that met through the formula award. They must also demonstrate the ability to use the supplemental amounts quickly and cost-effectively. Other criteria, contained in annual application guidance documents, may also apply. All EMAs currently receiving formula assistance are also receiving supplemental assistance.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the HIV Emergency Relief Project Grants federal financial assistance program.

Finding Number: 01-28

Program: HIV Emergency Relief Project Grants – CFDA# 93.914

Topic Sentence

The Municipality filed a financial status report that does not agree with the Municipality's general ledger. (Prior Year Finding Number 00-01)

Category

Internal Control/ Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed a financial status report that does not agree with the general ledger as follows:

<u>Period From</u>	<u>Total Outlays Per Report</u>	<u>Total Outlays Per Books</u>	<u>Difference</u>
3/1/01-9/28/01	\$12,779,828	\$12,624,684	\$155,144

Criteria

As per OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.

Underlying Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the amounts recorded at the program level and the numbers in the Municipality's general ledger. Differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

Effect

The continuous occurrence of this situation inhibits the federal awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation:

The Municipality should perform timely reconciliation and cutoff procedures between amounts recorded at the federal program level and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The following schedule contains the finding number, title, questioned costs and status of each of the findings included in the Report on the Audit of Federal Financial Assistance Programs in Accordance with the Single Audit Act of 1996 for the Year Ended June 30, 2000.

NOTE TO TYPIST: TO WORK AND PRINT THIS SCHEDULE YOU MUST ACTIVATE THE MENU USING THE RIGHT SIDE OF YOUR MOUSE AND SELECT "OPEN WORKSHEET".
PAGES 58

<u>Finding Number</u>	<u>Program</u>	<u>Description</u>	<u>Questioned Costs</u>
00-01	Emergency Relief Formula Grant	Reports do not agree with general ledger	None
00-03	Community Services Block Grant	Reports do not agree with general ledger	None
00-04	Home Investment Partnership Act	Units not assigned to appropriate recipients	None
00-05	Home Investment Partnership Act	Units not assigned to appropriate recipients	None
00-06	Section 8 Rental Voucher Program	Missing documents	None

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART VI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MUNICIPALITY OF SAN JUAN, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures
<u>United States Department of Agriculture (USDA)</u>		
Pass-through the Commonwealth of Puerto Rico Department of Education:		
Child and Adult Care Food Program (CACFP)	10.558	\$ 1,498,987
<u>Department of Housing and Urban Development (HUD)</u>		
Community Development Block Grants/Entitlement Grants	14.218	12,631,278
Emergency Shelter Grants Program	14.231	456,009
Supportive Housing Program	14.235	604,067
HOME Investment Partnerships Program	14.239	6,214,571
Housing Opportunities for Persons with AIDS	14.241	5,324,538
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	3,768,713
Section 8 Housing Choice Vouchers	14.871	19,492,443
Home Ownership Zone Program-Cantera Peninsula Homeownership Zone	14.HZ97-020	1,345,716
<u>Department of Justice (DOJ)</u>		
Crime Victim Assistance	16.575	364,487
Public Safety Partnership and Community Policing Grants (COPS)	16.710	7,075,000
Drug Free Communities Support Program Grants	16.729	11,874
Pass-through the Commonwealth of Puerto Rico Department of Justice:		
Local Law Enforcement Block Grants Program	16.592	604,923
<u>Department of Labor (DOL)</u>		
Pass-through the Commonwealth of Puerto Rico Right to Employment Administration:		
Job Training Partnership Act (J.T.P.A)	17.250	447,081
Welfare-to-Work Grants to States and Localities	17.253	891,030
Workforce Investment Act (WIA)	17.255	6,667,619
<u>Department of Transportation (DOT)</u>		
Federal Transit-Capital Investment Grants	20.500	1,041,307
<u>Department of Education (ED)</u>		
Federal Pell Grant Program (PELL)	84.063	2,013,352
<u>Department of Health and Human Services (HHS)</u>		
Pass-through the Commonwealth of Puerto Rico Governors Office:		
Special Programs for the Aging--Title III, Part C--Nutrition Services	93.045	631,391
Health Centers Grants for Homeless Populations (HCH)	93.151	319,975
Childhood Immunization Grants	93.268	244,081
Cancer Control	93.399	129,336
Community Services Block Grant	93.569	3,412,540
Head Start	93.600	20,176,283
HIV Emergency Relief Project Grants	93.914	14,118,223
Pass-through the Commonwealth of Puerto Rico Department of Health:		
Maternal and Child Health Services Block Grant to the States	93.994	166,890
<u>Corporation for National and Community Service (CNCS)</u>		
Foster Grandparent Program	94.011	379,878
<u>Other</u>		
Non- Catalogued Miscellaneous	99.999	1,283,833
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 111,315,425

See notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2001

A. **Basis of Presentation** - The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting and was prepared primarily from the Municipality's internal accounting records. The financial statements of the Municipality are presented on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is presented in a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts and other accounting records of the Municipality were not designed to capture the information required to prepare the general purpose financial statements, consequently, such information was obtained from different individuals, departments and accounting records or reports which are not integrated into a double entry bookkeeping system. In addition, several departments within the Municipality are responsible for managing federal financial assistance and there is no centralized control for all federal financial assistance programs.

A reconciliation of amounts included in the Schedule of Expenditures of Federal Awards to the special revenue fund in the general-purpose financial statements follows:

Schedule of expenditures of federal awards	\$ 111,315,425
Non federal programs included in the special revenue fund in the general purpose financial statements	<u>5,397,119</u>
Special revenue fund in the general purpose financial statements	<u>\$ 116,712,544</u>

Catalog of Federal Domestic Assistance ("CFDA") numbers are presented for programs for which such numbers are available.

Reporting Entity - The Municipality, for purposes of the supplementary Schedule of Expenditure of Federal Awards, includes all the funds of the primary government as defined by GASB Statement 14, *The Financial Reporting Entity*.

Subrecipients

Of the federal expenditures presented, the Municipality provided federal awards to subrecipient as follows:

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Amount Provided</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 1,623,500
Housing Opportunities for Persons with AIDS	14.241	2,216,851
HIV Emergency Relief Formula Grant	93.914	11,285,686
Head Start	93.600	4,393,177
Workforce Investment Act (WIA)	17.255	139,133

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART VII

**CORRECTIVE ACTION PLANS ON
CURRENT YEAR FINDINGS**



"Hacia el San Juan Soñado"

CPA Diego J. Robles
Director de Finanzas

Municipality of San Juan Corrective Action Plans

<u><i>Finding Num.</i></u>	<u><i>Corrective Action Plans</i></u>	<u><i>Contact Person</i></u>	<u><i>Telephone</i></u>
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Accounting and Finance Department

01-01

According to Section 7.011(a) of the Autonomous Municipalities Law Num. 81 of August 30, 1991, the Municipality would include, as part of the Budget for the fiscal year 2002-2003, the necessary credits to amortize the deficit during the incoming years. In addition, for the next fiscal year, the Municipality's Budget Department would consider as part of the annual Budget analysis the total expenditure regarding the Health reform and would prevent the overestimation of revenues from the Municipality's Health Department.

Mr. Gerardo Rodríguez

(787) 725-2006

<u><i>Finding Num.</i></u>	<u><i>Corrective Action Plans</i></u>	<u><i>Contact Person</i></u>	<u><i>Telephone</i></u>
01-02	<p>All Federal Programs activities are monitored through the Municipality's Internal Audit Department. Such Department is in charge of monitoring that federal programs are complying with applicable federal regulations. In addition, to improve controls and procedures related to the administration of federal programs, the Municipality has established within the Economic Development Department a division that would be monitoring and supervising all federal programs operations. This division, which is under implementation, would oversee the operation and administration of all federal programs administered by the Municipality and will assist the Internal Audit Division.</p>	<p>Mr. Francisco Peña / Ms. Milagros Murphy</p>	<p>(787) 756-7300 xt. 1415 and (787) 721-6363</p>
01-03	<p>As part of the implementation of the new Governmental Accounting Standard Board Statement No. 34 (GASB 34), the Municipality would be implementing and improving controls over the recording and custody over property, plant and equipment; including infrastructure. This will include the contracting of external resources and the improvement of internal controls according to applicable municipalities laws. Monthly reconciliations between general ledger and subsidiaries, recording of additions, disposals and transfers; and capitalization and depreciation over all general infrastructure of capital assets would be performed on a monthly basis.</p>	<p>Mr. Diego Robles</p>	<p>(787) 756-7300 xt. 1415 and (787) 764-5656</p>
01-04	<p>Interfund transactions are being reconciled on a monthly basis. As part of such reconciliation we are posting and making the necessary entries and transactions, respectively, in order to prevent the financing of federal programs operations through general fund resources.</p>	<p>Mr. Diego Robles</p>	<p>(787) 764-5656</p>

<u><i>Finding Num.</i></u>	<u><i>Corrective Action Plans</i></u>	<u><i>Contact Person</i></u>	<u><i>Telephone</i></u>
01-05	The Municipality's Purchases Department and the Bid Board have been informed that they should include, as part of their procurement procedures, a step to verify whether or not the individuals or entities are on the list of parties excluded from federal participation in procurement and non-procurement programs. Procedures to comply with such requirement are under implementation.	Mr. Jorge Colomer Montes	(787) 756-7300 xt.1402
01-06	We had talk with the Human Resources Department in order to include as part of the hiring process the completion of an employee certification which evidences and indicates that the employee worked solely for a particular federal program and their salary are accordingly allocated. We are in the process of designing a form which includes all the necessary information that certify the duties and responsibility of the employees assigned to work to a federal program.	Ms. Maritza Aguilar	(787) 756-7300 xt.7335

<u>Finding Num.</u>	<u>Corrective Action Plans</u>	<u>Contact Person</u>	<u>Telephone</u>
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CFDA 14.218: Community Development Block Grant

01-07	<p>Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Much of such differences represent adjustments that are not considered by the Program and were recorded on the general ledger by the Municipality's accounting division. For next fiscal year, a reconciliation identifying such differences would be provided at the end of the fiscal year.</p>	<p>Ms. Milagros Murphy / Mr. Felipe Candelaria</p>	<p>(787) 721-6363 and (787) 725-9046</p>
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01-08	<p>As part of the implementation of the new Governmental Accounting Standard Board Statement No. 34 (GASB 34), the Municipality would be implementing and improving controls over the recording and custody over property, plant and equipment; including infrastructure. This will include the contracting of external resources and the improvement of internal controls according to applicable municipalities laws. Monthly reconciliations between general ledger and subsidiaries, recording of additions, disposals and transfers; and capitalization and depreciation over all general infrastructure of capital assets would be performed on a monthly basis.</p>	<p>Ms. Milagros Murphy / Mr. Felipe Candelaria</p>	<p>(787) 721-6363 and (787) 725-9046</p>
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<u>Finding Num.</u>	<u>Corrective Action Plans</u>	<u>Contact Person</u>	<u>Telephone</u>
CFDA 14.239: Home Investments Partnership Program			
01-09	As of June 30, 2001 a layering guidance for HOME assisted projects has been established by the Municipality and copy of it was provided to the auditors for their examination. It is available upon request.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-10	Subsidies to be awarded are limited by FHA Law, section 221(d) 3. They are annually revised by HUD officials and informed to HOME funds recipients so they can be used as guidance. Subsidies awarded by the City have never exceed \$50,000. When established limits could award funds up to \$64,428. A copy of participants income and subsidies determination forms were modified to ensure that proper procedures have been followed.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-11	Housing Quality Standards (HQS) inspections are being performed to all completed new projects. As part of the inspections procedures, a HQS written form is being completed and filed to evidence that proper inspections are being performed.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046

<u>Finding Num.</u>	<u>Corrective Action Plans</u>	<u>Contact Person</u>	<u>Telephone</u>
CFDA 14.241: Housing Opportunities for Person with Aids			
01-12	As of to date, all inspections have been performed up to March 2002 and all units files include at least one inspection. The report from where the auditors made their selections included recent and canceled participants that should not be selected for testing. However, in order to comply with all inspections in a timely manner, the HOPWA Program has designated a person that would be responsible for the coordination of all inspections between the Municipality's Housing Department, the lessor and the lessee.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-13	An on-site visits schedule, monitoring guidance, recruitment of personnel and quarterly review of subrecipients files are ones of the measures taken by the HOPWA Program in order to comply with subrecipient monitoring federal regulations. Copy of such schedule and guidance has been provided to the auditors for their examination.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046

<u>Finding Num.</u>	<u>Corrective Action Plans</u>	<u>Contact Person</u>	<u>Telephone</u>
CFDA 14.856: Section 8 Moderate Rehabilitation			
01-14	The participant mentioned as part of this finding is a self employed participant for which we requested a self employed income certification. Information is available for examination.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-15	The Municipality is currently searching for the missing files. The files will be available for examination as soon as they are located.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-16	The Program counts with an inspections system which clearly identified lessor, lessee, inspections due dates and units identification number. The system automatically inform to the Program personnel those units that are due for inspection and when the last inspection was performed. Such system is in place.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046

<u><i>Finding Num.</i></u>	<u><i>Corrective Action Plans</i></u>	<u><i>Contact Person</i></u>	<u><i>Telephone</i></u>
01-17	As part of the HAP contracts, the landlord and tenant are responsible of inform the Municipality of any lease agreement termination in order to avoid the payment of vacant units. In the case mentioned as part of this finding, the Municipality was not informed of such termination. In order to correct the excess payment, the Municipality made a subsequent adjustment to the payments made to the landlord.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-18	Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Much of such differences represent adjustments that are not considered by the Program and were recorded on the general ledger by the Municipality's accounting division. A reconciliation explaining such differences was provided to the auditor.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046

<u><i>Finding Num.</i></u>	<u><i>Corrective Action Plans</i></u>	<u><i>Contact Person</i></u>	<u><i>Telephone</i></u>
CFDA 14.871: Section 8 Housing Choice Vouchers			
01-19	The Program has always counts with an implemented waiting list system and an internal guidance regarding waiting list maintenance. All participants are selected from such list.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-20	Such determination is performed before a new lease is granted to any participant and through annual recertifications that are confirmed at the same time that the Housing Quality Standards inspections are performed.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046
01-21	In the case of recertifications, inspection sheet is stamped as "FAILED" when the unit does not comply with the housing quality standards (HQS). In addition, follow up procedures have always been provided by the inspectors assigned to the housing units. Inspectors are also responsible of preparing a final inspection report which indicates failures encountered and correctives actions in place by the landlord.	Ms. Milagros Murphy / Mr. Felipe Candelaria	(787) 721-6363 and (787) 725-9046

Finding Num. Corrective Action Plans Contact Person Telephone
CFDA 16.710: Public Safety Partnership and Community Policing Grants

01-22	Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Much of such differences represent adjustments that are not considered by the Program and were recorded on the general ledger by the Municipality's accounting division.	Mr. Diego Robles	(787) 764-5656
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<u>Finding Num.</u>	<u>Corrective Action Plans</u>	<u>Contact Person</u>	<u>Telephone</u>
CFDA 93.600: Head Start			
01-23	The Program developed a plan to solve the enrollment deficit problem. This includes the development of an aggressive recruitment process; identification of the causes for such deficit and the establishments of techniques to deal with such causes, including monitoring of enrollment list. As a result of these efforts, the deficit has gone down to 92. In addition, new monitoring procedures of the enrollment lists were established. A committee was established that would implement these procedures that supplement the monitoring process of the monthly statistical reports.	Ms. Evelyn Lafontaine	(787) 756-7300
01-24	Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Much of such differences represent adjustments that are not considered by the Program and were recorded on the general ledger by the Municipality's accounting division. However, the difference in this case is due to the Municipality in-kind contribution which is a transaction not recorded as part of the accounting general ledger system.	Ms. Evelyn Lafontaine	(787) 756-7300
01-25	The Head Start Program counts with a monitoring plan and corrective action plan. This includes monitoring findings reports, follow-up procedures, on-site visits schedules, corrective actions reports, etc.	Ms. Evelyn Lafontaine	(787) 756-7300

<u>Finding Num.</u>	<u>Corrective Action Plans</u>	<u>Contact Person</u>	<u>Telephone</u>
01-26	<p>All Head Start participants must met all eligibility requirements as per federal regulations before they are enrolled. At the Municipality's Head Start Program, we count with written procedures which are applied to each kids served through out the Program. All enrollment requests are submitted to a Selection Committee which determines participants compliance with all federal requirements. A series of documents, submitted along with the enrollment sheet, are also evaluated by the Committee to determines participants eligibility. In addition, participants' income is evaluated in order to determines participants eligibility for food assistance through the US Department of Agriculture. All participants that were subject to audit procedures are considered as low-income families according to federal income guidelines.</p>	Ms. Evelyn Lafontaine	(787) 756-7300
01-27	<p>As part of a corrective action plan, the Program starts to repair and install all the equipment required by the Fire Department; Fire and Health Department inspections were requested; facilities and physical environment improvements were started according to the Health Department regulations; center's Health Department licenses are being renewed or obtained.</p>	Ms. Evelyn Lafontaine	(787) 756-7300

Finding Num. *Corrective Action Plans*
CFDA 93.914: HIV Emergency Relief Project Grants

Contact Person

Telephone

01-28

Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Much of such differences represent adjustments that are not considered by the Program and were recorded on the general ledger by the Municipality's accounting division.

Dr. Alfredo Escalera

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