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Audit Case Number	00-AT-201-1003

TO: Hildamar Ortiz, Director, Office of Public Housing, 4NPH

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Puerto Rico Public Housing Administration
Procurement Management
San Juan, Puerto Rico

We have completed an audit of the Puerto Rico Public Housing Administration's (PHA) management of its central office procurement system. We conducted the audit in response to the Department of Housing and Urban Development (HUD) officials and our on-going concerns regarding the Puerto Rico Public Housing Administration's financial management systems. Our audit objectives were to determine whether the PHA administered its activities in compliance with HUD requirements.

We focused our audit to evaluate the PHA's procurement system. This report presents four findings that detail the PHA's need to improve its procurement operations.

Within 60 days, please give us a status report for each recommendation in the report on: (1) the corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit.

Should you or your staff have any questions please contact me or Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369. We are providing a copy of this report to the Puerto Rico Department of Housing and the PHA.

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Executive Summary

We completed an audit of the Puerto Rico Public Housing Administration. The audit was conducted in response to the Department of Housing and Urban Development officials' and our on-going concerns regarding the Puerto Rico Public Housing Administration's financial management systems, especially its procurement system. Our audit objectives were to determine whether the PHA: (1) had procurement policies and procedures that complied with HUD requirements; (2) followed the policies and procedures; (3) adequately determined the need for goods and services; and (4) had adequate management controls to ensure receipt of quality goods and services and to preclude duplicate payments.

The PHA has a long history of management problems. It was rated as a "troubled" public housing authority until December 1996. However, in November 1997 the PHA was placed on the "mod troubled" list because of problems managing its modernization program. HUD program officials and Independent Public Accountants (IPA) continue to report serious management control weaknesses regarding procurement and related financial management systems. None of the findings regarding procurement have been resolved. In 1999, several former PHA employees were indicted for fraudulent activities involving disbursements. Strong management controls may have prevented these crimes. Other investigations involving the PHA are ongoing.

Local HUD officials have tried to take action to get PHA compliance without success. On June 11, 1998, the Director of HUD's Caribbean Office of Public Housing sent a letter to John Blakeman, III. The letter made reference to the numerous times that HUD had notified the PHA about their failure to comply with Title 24 Code of Federal Regulations (CFR), part 85.36. The Director stated in the request that *the PHA must provide HUD the following: 1) a status of strategies you are implementing through your improvement plan towards the resolution of the procurement findings, and 2) evidence of the steps PHA has taken to ensure that procurement files are complete, including but not limited to the history of the procurement as required by 24 CFR 85.36. Unless we receive the above required evidence by July 28, 1998, the HUD Caribbean Office of Public Housing cannot approve the use of project funds to pay for services provided under contracts not properly procured. In addition, please be advised that because of the persistent failure of the PHA to address these issues in any meaningful way, failure to make substantial progress toward correction of items of non-compliance will force this Department to take whatever actions are necessary to obtain compliance with the Annual Contributions Contract.*

In the PHA's reply dated September 3, 1998, the PHA administrator claimed that he had taken steps to correct the deficiencies in the procurement area. Among the steps taken, he mentioned strict enforcement of procurement requirements by the procurement office, sufficient records to show the procurement history, and analysis for each procurement. Our audit disclosed that these areas were still deficient.

Additionally, 24 CFR 85.43 (a) (2)-Enforcement provides *remedies for noncompliance*. *If a grantee materially fails to comply with any term of an award...the awarding agency may disallow (that is, deny both use of funds and matching credit for) all or part of the cost of the activity or action not in compliance.*

Our review disclosed continued serious problems with the PHA's ability to manage its procurement and related financial management systems. Of about \$39 million in procurements and other disbursements reviewed, we identified about \$21.8 million of ineligible costs and \$4.1 million in cost efficiencies (see Appendix A).

- ◆ The PHA did not comply with Federal and agency procurement requirements and did not maintain control over its central office procurement activities. Although HUD program officials and auditors had repeatedly cited the agency for noncompliance and lack of control over purchases, actions taken to correct the systemic weaknesses were not effective. This occurred because PHA management disregarded requirements and associated management controls for planning, soliciting, and awarding purchase orders and contracts. As a result, the PHA obtained goods and services without full and open competition, incurred excessive costs, and allowed program waste, abuse, and potential fraud to occur. We identified ineligible costs totaling about \$8.8 million.
- ◆ The PHA paid about \$4.9 million more than necessary for professional services provided by two contractors. This occurred because it contracted for the services without competition and without performing comprehensive price and/or cost analyses. The PHA improperly justified these sole-source procurements under an emergency declaration by the Puerto Rico Department of Housing Secretary. The PHA may incur additional ineligible costs of about \$2.1 million, if corrective actions are not taken.
- ◆ PHA management controls were not effective in deterring waste, abuse, and fraud. The PHA paid: (1) invoices without proper authorization or signed agreements; (2) invoices that were not original; (3) invoices without proof of delivery; (4) invoices that exceeded contract limits; (5) unallowable advanced payments (per PHA regulations); and (6) invoices without any support. In addition, the PHA routinely charged costs to inappropriate fund source (see Appendices B and D). Both HUD and IPAs had previously reported similar deficiencies to the PHA. These deficiencies continued to occur because the PHA management did not enforce Federal and PHA requirements and ensure effective management controls were in place. We identified other ineligible costs totaling about \$8.1 million. The PHA may incur additional ineligible costs of about \$2 million unless corrective actions are taken.
- ◆ The PHA did not maintain adequate property management and related procurement documents. Its inventory records were not accurate or did not contain required data such as property location. PHA purchase order and contract registers and procurement regulations

also need improvement. This occurred because the PHA did not ensure that past actions taken to improve controls were effective. As a result, there was no assurance that personal property was properly accounted for and used or if effective controls were in place to safeguard assets. The PHA's June 30, 1997, Balance Sheet showed that personal property was valued at about \$8.6 million. However, the inventory report, as of June 30, 1997, provided to OIG in February 1999, showed an adjustment increasing the inventory value from \$8.6 to \$15.3 million, an increase of about 80 percent.

We recommend that you: (1) consider declaring the PHA in substantial default, if improvements are not made; (2) consider placing the PHA on a reimbursement basis for funding; (3) review and approve the PHA's annual procurement plan; (4) ensure the validity of future emergency declarations; and (5) perform cost reviews to determine whether the PHA properly allocated costs to HUD programs. Also require the PHA to detail its procedures for maintaining a property ledger, conducting an annual physical inventory, and reconciling and investigating differences. Recover about \$21.8 million in ineligible costs charged HUD programs and take appropriate action to save another \$4.1 million in efficiencies.

We provided copies of the draft report to the PHA and HUD's Caribbean Office officials on September 24, 1999. We discussed the draft report with the HUD officials on October 27, 1999. Upon the PHA's request, we held a working session to discuss the draft report on November 4, 1999; and held an exit conference on December 7, 1999. At the exit conference, we agreed to consider the PHA's comments and issue a revised draft report. We provided copies of the revised draft report to the PHA and HUD's Caribbean Office officials on January 12, 2000. The PHA provided written comments on January 31, 2000. Generally, the PHA did not agree with the findings. We considered the comments in finalizing the report. The PHA's comments are summarized within each finding and included in their entirety in Appendix G.

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Abbreviations

CAER	Corporacion de Adiestramiento y Empleo en los Residenciales
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
DEP	Drug Elimination Program
FY	Fiscal Year
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
OIG	Office of Inspector General
PHA	Puerto Rico Public Housing Administration

Introduction

Background

Public housing and urban renewal programs first started in Puerto Rico in 1938. By 1957 the Puerto Rico Urban Renewal and Housing Corporation, the PHA's predecessor, was created by the Commonwealth Law No. 88 for the purpose of reorganizing those programs. In 1972, the government of Puerto Rico established the Department of Housing (Law 97 of June 10, 1972). Under this law, the Puerto Rico Urban Renewal and Housing Corporation was attached to the Department of Housing, and the powers and faculties of the Board of Directors were transferred to the Secretary of Housing.

The PHA was created in 1989 and placed under the direction of the Puerto Rico Department of Housing for the purpose of creating an efficient and flexible administration of public housing (Law 66 dated August 17, 1989). In 1991, the Puerto Rican Government dissolved the Puerto Rico Urban Renewal and Housing Corporation and transferred the powers and faculties of its Public Housing Program to the Puerto Rico Public Housing Administration. The Puerto Rico Public Housing Administration is directed by the PHA Administrator which is appointed by the Puerto Rico Secretary of Housing. The current PHA Administrator was appointed during December 1997. The PHA is the second largest public housing agency in the nation. As of July 1, 1999, it had 327 housing projects with 56,585 units scattered throughout Puerto Rico.

History

The PHA has a long history of management problems. In 1981, its predecessor agency was designated by HUD as "financially troubled." In 1985, the agency was determined by HUD to be "operationally troubled" because of serious financial, administrative, and project maintenance deficiencies. These deficiencies were not corrected. As a result, in 1991, HUD imposed severe sanctions on the agency by freezing about \$308 million of unobligated funds. In 1992, the Governor of Puerto Rico transferred the PHA's modernization and development programs to the Puerto Rico Public Building Authority to act as an agent for the PHA. Also, all project management functions were contracted to private management agents. PHA staff were dramatically reduced from over 4,500 to under 100 employees. Its role was reduced to an "asset manager" responsible for accounting for and reporting on the use of Federal funds and overseeing management agent activities.

HUD rated the PHA as troubled until December 1996. However, in November 1997 HUD determined that only the PHA's modernization program was troubled. In the letter to the Department of Housing Secretary dated November 4, 1997, HUD cited the PHA's continuing financial management problems and need for corrective actions.

Previous IPA and Office of Inspector General (OIG) audits and HUD program reviews have also disclosed serious procurement noncompliance and associated management control weaknesses. Fiscal year (FY) 1992-1997 single audit reports repeatedly cited the PHA for not following Federal procurement requirements. The reports also disclosed numerous instances of poor management

controls involving disbursements. Millions of dollars of ineligible costs were recommended for recovery. Because of the condition of the PHA's accounting system and the control weaknesses, the IPA disclaimed an opinion on the PHA's 1993-1996 financial statements. The 1993-1996 statements were all prepared in 1998, because the PHA had not obtained an annual audit since 1991. In order to bring the PHA back into compliance with the Single Audit Act, the PHA's current administration requested the audits in 1998. Although an unqualified opinion was given on the agency's 1997 statements, the IPA determined that the PHA's management controls were inadequate.

In June 1996, we reported (Report No. 96-AT-201-1821) that the PHA did not: (1) document the history of each procurement including basis for contractor selection or rejection and contract price; (2) perform required price and/or cost analyses prior to procurements; and (3) provide all required standard contract provisions in its contracts. The findings remain unresolved.

In a monitoring report on PHA operations issued in August 1994, HUD also identified various procurement related deficiencies including: (1) improperly procured and/or justified sole-source contracts for professional and security services; and (2) no annual equipment inventory. The report stated "...we could not determine that the PHA was obtaining goods and services at the lowest and best prices." HUD again reported similar procurement and management control deficiencies in 1997 and 1998 reports to the PHA. For example, in the Comprehensive Grant Program (CGP) Limited Monitoring Review Report dated April 15, 1998, the Director of HUD's Caribbean Office of Public Housing detailed the continuing systemic weaknesses and lack of effective corrective actions. She stated that "The continual lack of systems, the lack of urgency on the part of staff, and other factors contribute to a general tendency of not addressing priorities with focus and determination. ... Without clear focus and action the PHA is exposed to losing substantial funds...."

In 1999, several former PHA employees were indicted for fraudulent activities involving disbursements. Strong management controls may have prevented these crimes. Other investigations involving the PHA are ongoing.

In October 1995, HUD's central office contracted with a firm to provide the PHA technical assistance in creating a central procurement unit and developing a procurement manual. The PHA later contracted with an affiliate firm to provide similar services (see Finding 2). The procurement unit was established in May 1997. The manual was drafted but had not been issued as of July 1999. Subsequent to our draft report, in November 1999, the PHA submitted the final draft manual for HUD's approval. HUD's comments and recommendations for changes to the manual were addressed in a letter dated December 3, 1999.

Procurement Spending

The PHA spent millions annually for goods and services procured by its central office and management agents. In FY 1997 and 1998 program expenditures totaled \$289.1 million. The PHA's FY 1999 budget was about \$260.6 million.

<u>Grant</u>	<u>1997</u> (million)	<u>1998</u> (million)	<u>Total</u> (million)
1994 Drug Elimination (DEP)	\$ 9.1	\$ 0	\$9.1
1995 DEP	1.3	13.9	15.2
1996 DEP	0	0	0
1994 HOPE VI	7.8	5.4	13.2
1995 HOPE VI	.2	.1	.3
1996 Comprehensive Grant Program (CGP)	23.2	29.0	52.2
1997 CGP	0	.6	.6
1998 CGP	0	0	0
1999 CGP	0	0	0
1997 Operating Subsidy & Income (OS & I)	93.3	0	93.3
1998 OS & I	<u>0</u>	<u>105.2</u>	<u>105.2</u>
Totals	<u>\$134.9</u>	<u>\$154.2</u>	<u>\$289.1</u>

Procurement Requirements

The PHA's procurement and associated management controls are governed by Title 24, Code of Federal Regulations (CFR), Subpart 85.36. These standards provide a set of basic principles that are to be followed in obtaining and paying for goods and services. The regulations allow the PHA to use its own procurement procedures, provided that they conform to the Federal standards. The PHA's procurement regulations dated August 13, 1993, incorporate the Federal standards but also impose additional requirements.

HUD Handbook 7460.8, Rev-1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, dated January 1993, supplements the Federal regulations.

Audit Objectives, Scope, and Methodology

Our audit objectives were to determine whether the PHA: (1) had procurement policies and procedures that complied with HUD requirements; (2) followed the policies and procedures; (3) adequately determined the need for goods and services; and (4) had adequate management controls to ensure receipt of quality goods and services and to preclude duplicate payments.

The review was conducted at the PHA's office in Rio Piedras, Puerto Rico and included visits to housing projects and other locations in the San Juan area to verify receipt of selected purchases. The audit primarily covered PHA procurement and related disbursement activities using HUD funds carried out by its central office during the period July 1996 through June 1998. Prior period activities were reviewed as necessary to meet our audit objectives. Audit testing was extended through December 1998 and the procurements and management controls through June 1999. For the first several months

of the audit period, the PHA was under the direction of a prior administrator. Following that administrator's departure, the PHA was headed by several acting and interim administrators. The current administrator, John S. Blakeman, was appointed in December 1997. Our audit field work was performed from July 1998 through May 1999.

To accomplish our audit objectives, we:

- analyzed Federal and PHA procurement requirements and guidance;
- reviewed prior OIG and IPA audit and HUD monitoring reports and related correspondence;
- interviewed Department of Housing, PHA and HUD officials, suppliers, and contractors;
- examined procurement and payment records related to use of credit cards, petty cash accounts; purchase orders, and formal contracts; and
- assessed related management controls.

We did not review management agent procurement activities or assess the central office's procurement of management agent services.

In total, we examined about \$35.8 million in procurements made by the PHA during the period July 1996 through December 1998. We examined 71 percent of the charges or about \$4,600 out of \$6,527 made during the period July 1996 to June 1998 using PHA credit cards. To test the petty cash account, we selected transactions totaling \$1,986 and examined two replenishment vouchers and supporting documents for transactions made during the period November 1997 through April 1998 totaling about \$900, or 45 percent of the charges.

We reviewed about \$10.2 million expended on 51 purchase orders. In general, we examined purchase orders over \$5,000. Other purchase orders were judgmentally selected. For FY 1997 we examined 65 percent of the charges, or about \$1,241,827 out of \$1,916,184. For FY 1998 we examined 93 percent of the charges, or about \$9,049,863 out of \$9,707,176. To assess whether conditions found during the review existed after June 1998, we examined five judgmentally selected purchase orders valued at about \$1.4 million (see Appendix B).

From the PR Department of Housing contract register, we selected 10 contracts valued at approximately \$19.6 million or 72 percent of the contracts made during the 2 year review period.

In general, we chose contracts of \$500,000 or more for review. Other contracts were judgmentally selected. We also reviewed another six contract actions worth about \$3.8 million that were not listed on the register as of June 30, 1998 (see Appendix D).

The audit was conducted in accordance with generally accepted government auditing standards.

PHA Management Disregarded Procurement Requirements

The PHA did not comply with Federal and agency procurement requirements and did not maintain control over its central office procurement activities. Although HUD program officials and independent auditors had repeatedly cited the agency for noncompliance and lack of control over purchases, actions taken to correct the systemic weaknesses were not effective. This occurred because PHA management disregarded requirements and associated management controls for planning, soliciting, and awarding purchase orders and contracts. As a result, the PHA obtained goods and services without full and open competition, incurred excessive costs, and allowed program waste, abuse, and potential fraud to occur. We identified ineligible costs totaling about \$8.8 million (see Appendices C and E).

Criteria

Title 24 CFR, part 85.36, dated April 1, 1995, allows agencies to use their own procurement procedures if they conform to applicable Federal requirements and do not restrict full and open competition. In general, the PHA Procurement Regulation, Article 5.28 requires formal public bid procedures to be used by the Administration to acquire any goods or services which exceeded ten thousand dollars (\$10,000) (e.g., equipment). 24 CFR 85.36 (d) (2) states that in the formal bid method, bids are publicly solicited and a firm-fixed-price contract is awarded.

Additionally, 24 CFR 85.43 (a) (2)-Enforcement, provides *remedies for noncompliance. If a grantee materially fails to comply with any term of an award...the awarding agency may disallow (that is, deny both use of funds and matching credit for) all or part of the cost of the activity or action not in compliance.*

All formal contracts require Department of Housing legal department review. These contracts were also required to be reported to HUD and to the Puerto Rico Comptroller's Office. All procurements over \$30,000 require Puerto Rico Housing Secretary approval. In addition, a price and/or cost analysis is required to be performed for each procurement (purchase orders and formal contracts) including any contract modification.

Prior HUD reviews and OIG and IPA audits have reported serious noncompliance and management control weaknesses involving the PHA's central procurement system. Our review of this system found that the PHA still needs to improve its procurement operations.

The PHA did not comply with requirements for planning, soliciting, and awarding purchase orders, contracts, and contract modifications

We found continued noncompliance regarding the PHA's solicitation and award of all procurements reviewed. Deficiencies included: (1) performing no independent price and/or cost analyses; (2) using false or altered vendor quotes; (3) splitting purchases to avoid advertising requirements; and (4) awarding procurements sole-source or to other than low bidders without justification (see Appendices B and D).

In addition, we determined that the PHA used purchase orders rather than formal written contracts to acquire goods valued at \$10,000 or more. Of the 56 purchase orders reviewed, 15 were for items that should have been obtained using formal written contracts. These purchases ranged from \$26,400 for 33 digital cameras to \$2,604,000 for 12,000 electric stoves. Most of the purchases were made from sealed bids solicited through a public advertisement. However, purchase order documents used to authorize the procurements did not contain any of the legal provisions (specifications, warranties, delivery and payment requirements, etc.) necessary to protect the PHA's interests. Also, management controls such as legal department review, Housing Secretary approval, and Comptroller's Office and HUD notification, were circumvented by using purchase orders rather than contracts. A responsible PHA official said that this method was used because it was quicker than using formal contracts. Generally, written contracts were used to acquire professional services when services were valued at \$10,000 or more.

The result was that the PHA routinely purchased goods and services without full and open competition. We identified significant excess costs, waste, abuse, and potential fraud.

For example:

Purchase Order No. 98-703

In April 1998, the PHA purchased for its housing projects, 79 Xerox digital copiers with built-in faxes (\$6,800 each) and 48-month copier maintenance contracts (\$3,360 each). It charged its operating fund \$802,640. The acquisition was made through a purchase order which made reference to contract No. C-40-192 that had been procured by the Puerto Rico General Services Administration. However, the PHA did not provide the list of models and prices that should have been attached to the contract. This contract required the PHA to document a written justification if the equipment being acquired was not the lowest price. The contract also provided that the agencies could purchase only the models in the contract. Changes in models had to be approved by the General Services Administration.

There was no evidence that the procurement was approved by the Housing Secretary as required. A PHA contracting officer told us that the Deputy Administrator personally negotiated with Xerox. Both the current Administrator and his deputy signed the purchase order. The contracting officer refused to sign it because he did not know the reasonability of the changes or how it was procured. The officer also stated that there was not a procurement file for the acquisitions and that the Deputy Administrator negotiated the price and model of the equipment directly with Xerox.

Our visits to three projects to locate the equipment found no more than 3 staff at each site. They informed us that their old copiers were broken. However, two projects' faxes were working and the staff used them. We could not determine from the PHA inventory records that all the equipment had been recorded (see Finding 4). According to amendment No. 50 to contract No. C-40-192, the PRPHA could have purchased less costly copiers and service agreements. Therefore, we disallowed \$536,015; the difference between the price in the amendment and the price paid. This included the maintenance contract.

Purchase Order No. 98-821

In May 1998, the PHA acquired 12,000 electric stoves from White Westinghouse for \$2,604,000. We determined that the PHA did not: (1) document the performance of a price and/or cost analysis to assess whether bids were reasonable; (2) obtain Secretary of Housing approval; (3) get written HUD approval; (4) advertise the solicitation twice as required by its regulations; and (5) provide adequate time for bidders to respond to the solicitation. In addition, the PHA did not select the low bidder but negotiated a lower price with a higher bidder. There was no documentation to indicate that negotiations were held with the other bidders. In addition, the purchase order was dated May 1, bids opened May 6, and the price revision made on May 22. There was also no explanation in the file for these discrepancies.

The stoves were purchased because appliances used by tenants to cook were not safe. However, the new stoves were given to the tenants because the PHA did not want to maintain them. Tenants were required to sign an agreement stating that the stoves were their property and they must maintain them and take them when they vacate. This policy could cause future safety and possible legal problems when these low-income tenants do not comply with their agreements. HUD did not provide written authorization for the donations. Unless HUD specifically approves the donation of the stoves to the tenants, the stoves become property of the PHA. Therefore, we are disallowing the \$2,604,000 charged against HUD funds.

Purchase Order No. 98-822

Also, because of tenant safety concerns, in May 1998, the PHA bought 21,428 nineteen (19) gallon water heaters from a local distributor for \$2,365,437. They were delivered to management agents from July to December 1998. However, as of April 1999, 16,495 heaters (77 percent) had not been installed. This occurred primarily because many of the housing projects had only one water line. The heaters required two lines. For example, 2,554 heaters were delivered to one management agent between

September and November 1998 to install but as of April 1999 only 927 had been installed. In August and September 1998, 1,246 heaters were delivered to another management agent. None of the equipment had been installed 7 months later. As of April 1999, nine heaters had been reported stolen from project warehouses.

We found that the PHA performed no price and/or cost analysis nor obtained Secretary of Housing approval prior to procurement. Had these actions occurred, the PHA may have determined the need for two water lines to be in place prior to purchasing the heaters. In addition, the one year parts warranty will have expired on many of the heaters by the time they are installed.

Subsequently, the PHA reported that at November 1999, 12,898 water heaters had been installed. Therefore, we disallowed \$941,627, representing the cost of 8,530 (21,428 - 12,898) water heaters that have not been installed.

Purchase Order No. 97-267

In December 1996, the PHA acquired a desk-top computer for \$8,200 and charged the cost to the CGP. The solicitation was not performed by purchasing staff but by the former director of the PHA's Technological Information Department, who also certified the computer's receipt. The order was given to the vendor with the lowest quote. However, we found that one of the other two quotes used to justify the price paid was false. The owner of the computer company whose name was on the quote told us that his firm did not submit it and the signature on it was not his. He said that the price paid for the computer was excessive. At the time of the purchase, a similar computer cost about \$2,000. The PHA performed no price and/or cost analysis. In addition, we could not find the equipment on the PHA's inventory ledger or positively confirm its location at the PHA (see Finding 4). The computer did not benefit the CGP. Because of these deficiencies, we disallowed all the cost charged to the program. This purchase, along with several others that were similar, were referred for investigation.

Contract No. 97-6773

In March 1997, the PHA awarded a firm fixed price contract totaling \$632,150 to a local accounting firm (Cardona, Irizarry and Co.) to reconcile and reconstruct 1992 and 1993 CGP accounting records at the PHA and its management agents. The PHA received six proposals with fixed prices ranging from \$127,425 to \$1,600,000.

Contractor	Price	Score
A	\$ 127,425	76
B	160,000	65
C	222,506	81
D	444,347	86
Cardona, Irizarry & Co	632,150	97
E	1,600,000	84

The PHA awarded the contract to the fifth highest bidder. Although the contractor received a higher score on its proposal than the others, the contract file did not document the basis for the scores and ranking factors. The contractor's proposal also contained detailed PHA accounting data to which its competitors did not have access. (The contractor was doing other work at the PHA at the time it submitted its proposal.)

According to a Bid Board official, the amount proposed by the winning contractor was close to the \$700,000 the PHA had remaining in its budget. However, the PHA performed no price and/or cost analysis to assess whether the bids were reasonable (had a comprehensive analysis been performed, the PHA may have determined that the work could have been accomplished with less costly contracted employees (see Finding 2). Also no competitive range was established and no negotiations were held with any of the other prospective contractors or requests made for best and final prices. Because of these deficiencies, there was no assurance that the PHA procured the best services at the lowest cost. We disallowed \$504,725; the difference between the lowest proposal submitted and the contract amount.

The PHA also paid \$752,986 more to the firm than the original contract allowed without any signed contract amendments. The contractor submitted separate fixed-priced proposals and the PHA verbally agreed to pay for the work. No price and/or cost analyses were done to assess reasonableness of the proposals. Some of this work was included in the scope of the original fixed-price contract and should have been completed at no additional cost. Other effort was outside the scope of the contract and should have been solicited and contracted separately. We considered only one of the proposals an acceptable contract modification; however, there was no signed amendment for this modification.

<u>Modification Description</u>	<u>Comments</u>	<u>Amount</u>
Reconstruction of Management Agent CGP Records	Original Contract	\$ 184,850
Reconciliation of CGP Records	Original Contract	123,485
Reconciliation Period Extension	Contract Modification	79,651
Reconciliation of 1987-1991 CIAP Records	Change in Scope	300,000
Rent Subsidiary and Other Accounting Work	Change in Scope	65,000
Total		<u>\$ 752,986</u>

Based on these procurement deficiencies, we disallowed all the amendment costs.

Contract No. 97-3715

In March 1997, the PHA executed an 11-month contract with a local firm (Fiddler, Gonzalez & Rodriquez) for legal services (primarily for litigation work). The PHA awarded the contract without any effort to compete it and without justification. The PHA also did not perform a price and/or cost analysis or obtain HUD's approval as required to obtain litigation services. The contract provided the firm \$75-\$125 per hour for services (up to \$30,000 each month) plus reimbursement of miscellaneous expenses (mileage, telephone, photocopy, stamps). In January 1998, the PHA extended the contract another year and increased the monthly maximum to \$60,000 plus expenses. According to the contract amendment, the increase was due to an increase in the legal work volume that needed to be done. However, the PHA did not conduct a required price and/or cost analysis or obtain HUD approval. The PHA paid the firm \$1,118,974 (\$1,050,000 for services plus \$68,974

miscellaneous expenses). We consider all costs ineligible to be charged against HUD funds because of the procurement and administrative deficiencies.

The PHA charged excessive fees for contract proposal documents

The PHA may have restricted competition by charging potential contractors excessive costs for copies of contract proposal documents. The fees charged were not in accordance with PHA procurement regulations. We determined that the PHA charged competitors \$40 to \$500 to obtain PHA proposal packages. PHA regulations limited the fee to \$10 when purchases are of goods and services. The cost of the packages (up to \$600) were allowed when procurements involved extraordinary construction, modernization and maintenance.

A former PHA Procurement Director stated that high fees were charged to reduce the number of proposals received and time and cost of reviewing them. A PHA official stated that charging \$500 for obtaining bid packages for services is contrary to the approved PHA regulation. The official stated that he did not know how the PHA determined the fee. However, the PHA Administrator stated that the price varied based on the size of the bid package. As a result, the practice of charging high fees restricted open and free competition as required by 24 CFR 85.36.

The PHA did not maintain adequate solicitation and award records

Of the 72 purchase orders and contracts reviewed, no procurement files were maintained to support 20 purchases (28 percent). These procurements ranged in costs from about \$7,000 to \$6.7 million. Of these purchases, 7 were over \$.5 million. Of the remaining transactions, the PHA did not document complete procurement histories on 35 purchases (49 percent). This included not maintaining all quotes, bids, and proposals submitted and properly documenting the basis for contractor selection and justification of sole-source procurements (see Appendices B and D). Because adequate documentation was not maintained, we could not always assess whether the PHA procurement system provided for full and open competition.

PHA Comments

There is no support for the vast majority of the IG's assertions in Finding One. First, the IG continues to insist that formal contracts be used rather than purchase orders, even though

PRPHA has demonstrated that the regulations upon which the IG relies do not include such a requirement, and that PRPHA's use of purchase orders did not circumvent any processes required by Puerto Rico law or federal regulations. With regard to the specific purchase orders identified in Finding One:

- (1) PRPHA and GSA regulations clearly allow the purchase of the copiers, and the IG improperly calculated its supposed disallowance.
- (2) The electric stoves were purchased with the full knowledge of HUD, if not with written HUD approval. In addition, PRPHA has provided the IG with documentation contradicting the IG's assertions about the alleged deficiencies in the purchasing of those stoves.
- (3) As documented to the IG, PRPHA has been installing the purchased water heaters and continues to do so. There was absolutely no requirement that the water heaters be installed by a certain date, and there is therefore no basis for disallowing the cost of heaters that have not yet been installed.
- (4) PRPHA has no information to substantiate the IG's claim that a false quote was submitted for the desktop computer, and the IG has not provided PRPHA with documentation to support that claim. Moreover, the computer is in use and is providing PRPHA with ongoing benefits.

With regard to the two contracts identified in Finding One, the IG is wrong. There is no justification for the IG's insistence that PRPHA should have selected the lowest bidder for Contract No. 97-6773, when that bidder was given an unacceptably low score in an assessment of the various bids. Indeed, an independent Bid Board assessed the scores and proposals of the six bidders and approved the contractor selected. Moreover, the IG's description of the contract award process is inaccurate.

With regard to contract No 97-3715, the IG's analysis ignores both Puerto Rico law and the realities of hiring outside

contractors. First, Puerto Rico law does not require a competitive procurement process when prices are regulated by law, and the Government of Puerto Rico has established rates of \$75 to \$125 per hour for legal representation of government entities. Second, those rates are self-evidently reasonable and have in fact been approved by HUD. Third, both the Canons of Professional Ethics for Attorneys in Puerto Rico and HUD's regulations regarding House Counsel for public housing agencies make the OIG's recommendations inapposite.

Evaluation of PHA Comments

As indicated in Paragraph 4-6 of HUD Handbook 7460.8 REV-1, for housing authority requirements above the small purchase limitation, competitive procurement is conducted by either sealed bidding or competitive proposals. Small purchase procedures are those relatively simple and informal, allowing for the use of purchase orders. The sealed bidding and the competitive proposals methods are formal procedures and as provided in 24 CFR 85.36 a formal written contract should be issued. Formal written contracts should include the contract provisions required by 24 CFR 85.36 (i). A purchase order is a written contract, but it is not a formal written contract, and does not contain the required provisions. With regard to the specific purchase orders identified, we offer the following:

- (1) We are not questioning the purchase of the copiers, but the procurement procedures used in the acquisition. We based the disallowance on the GSA price list of the less costly copiers and service agreements.

- (2) Our concern regarding the electric stoves was that the PHA donated them to the tenants. Our position is that unless HUD specifically approves the donation, the costs are disallowed.
- (3) Although there is no specific time requirement for the installation of the water heaters, the fact that 8,530 heaters (40 percent) had not been installed two years after their acquisition is not a sound management practice and denotes poor planning on the PHA's part. It also indicates there was not a real need for the heaters.
- (4) The evidence of the false quote was provided to the OIG Office of Investigation. The PHA did not address the real concern regarding the purchase of the computer. The computer was not procured by the PHA purchasing staff and the cost was excessive.

With regard to contract No. 97-6773, the PHA's records did not show that the selection was justified. The PHA did not provide documentation to show: 1) the basis for the scores assigned; and 2) evidence that they conducted technical and price/cost evaluations. A written plan for evaluating technical and cost proposal is needed before the request for proposal is issued. The plan shall include a rating sheet for each offer, which lists each of the evaluation criteria and the weight assigned.

With regard to contract No. 97-3715, HUD Handbook 7460.8 Rev. 1, Chapter 4, Paragraph 4-27 provides guidance for the procurement of legal and other professional services. The handbook states that the procurement of legal services should follow the competitive proposal procedures. Contracts for litigation services must also meet the requirements of HUD Handbook 1530.1. As provided in this Handbook, with the exception of litigation involving a housing authority acting as a Section 8 developer, a housing authority must submit to HUD's Regional Counsel for prior written concurrence any contract with a private attorney for litigation services involving housing authority programs, projects, or activity receiving loans, grants, or subsidy assistance from HUD.

Recommendations

We recommend that you:

- 1A. Assess the improvement in the PHA's procurement management system. If the PHA fails to improve to acceptable levels, consider declaring the PHA in substantial default and breaking it up into smaller more manageable housing authorities.
- 1B. Consider placing the agency on a reimbursement basis for funding, if its procurement management system does not improve to acceptable levels.
- 1C. Require that the PHA terminate use of purchase orders for other than small purchases.
- 1D. Review and approve the PHA's annual procurement plan in accordance with HUD Handbook 7460.8, Rev-1 requirements.
- 1E. Require that the PHA reduce fees for contract proposal documents to conform to the regulations and refund the overcharges.
- 1F. Require the PHA to reimburse HUD \$8,841,638 from non-Federal sources for the ineligible costs associated with the procurement deficiencies (see Appendices C and E).

The PHA Paid Excessive Costs For Professional Services On Two Sole-Source Contracts

The PHA paid about \$4.9 million more than necessary for professional services provided by two contractors. This occurred because it contracted for the services without competition and without performing comprehensive price and/or cost analyses. The PHA improperly justified these sole-source procurements under an emergency declaration by the Puerto Rico Department of Housing Secretary. The PHA may incur additional excess costs of about \$2.1 million if corrective actions are not taken (see Appendix A).

Criteria

Title 24 CFR, part 85.36 requires that grantees conduct all procurements using full and open competition, perform price and/or cost analyses (including sole-source procurements), and fully document all procurement activities. Noncompetitive proposals may be used only when contract award is not feasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies: (1) the item is available only from a single source; (2) the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; (3) the awarding agency authorizes noncompetitive proposals; and (4) after solicitation, competition is determined inadequate.

PHA procurement regulations define an emergency as a situation which causes unexpected and unforeseen public needs and which requires immediate action because of the danger to life, health, or public safety. Similar criteria is provided by HUD Handbook 7460.8 Rev 1. It also states that an emergency is a situation that “would otherwise cause injury to the PHA, as may arise by reason of a flood, earthquake, epidemic, riot, equipment failure or similar event.”

Background

On October 30, 1997, the Housing Secretary declared an emergency existed at the PHA. The Secretary stated in the declaration that the two sole-source contracts were necessary to: (1) avoid the PHA being placed back on HUD’s troubled list; (2) keep it from losing \$150 million within the next 2 years because of “lack of efficient financial and contract management procedures;” (3) keep it off the “mod-troubled” list or risk

losing \$200 million per year; and (4) obtain financial management services that the PHA could not provide. On December 23, 1997, after reviewing documentation submitted by the PHA, the HUD office in Puerto Rico approved the awarding of the sole-source contracts.

However, we question the justification for the declaration because the situation did not meet the PHA's own definition of an emergency or HUD's. It was not a situation that caused unexpected and unforeseen needs and required immediate action. There was no threat to life, health, or public safety which required immediate action as for a natural disaster.

In addition, the situation did not meet the requirement for sole-source contracting. We found that 69 days elapsed from the declaration of emergency to when the contracts were awarded. The PHA had adequate time to competitively award the contracts. Also, contractor actions were not immediate. The term of the contracts ranged from 18 to 36 months.

We estimate that the PHA paid excess costs totaling about \$4.9 million on the two contracts because it did not perform price and/or cost analyses and did not compete the awards. Also \$2.1 million in additional excess costs may be paid if corrective actions are not taken.

Contract No. 98-3465

On January 8, 1998, the PHA awarded CVR Puerto Rico, Inc. an 18-month \$4.4 million contract to provide technical assistance to ensure the PHA's implementation and efficient administration of all components of the modernization program. The work included developing policies and procedures and providing expertise and staff necessary to develop and implement a system for the PHA to administer all aspects of the program including planning, contract administration, procurement, and financial reporting. The contract provided for payments based on services rendered by about 20 individuals at rates from \$20 to \$137 per hour plus overhead, profit, and reimbursement of miscellaneous expenses (travel, phone, equipment purchases, rent). As of January 1999 the PHA had paid the contractor about \$2.6 million.

All three of the contractor's principals had been providing the PHA consulting services through affiliate firms since at least

1995. In May 1995, the PHA contracted with Vargas and Associates for \$95 per hour plus expenses to provide advice regarding the Federal budget and regulations, and help prepare reports required by HUD. The contract was effective from May 1995 to June 1996. However, the PHA made only one payment to the contractor in October 1995 of \$12,862.

On October 14, 1995, HUD's central office contracted with CVR Associates, Inc., to provide technical assistance to the PHA on the modernization program including creating monitoring controls, developing program close-out procedures, recruiting and training staff, and developing procurement procedures. The contractor provided services under this contract through March 1998. In its November 1997 progress report submitted to HUD, the contractor stated it "developed procurement processes to retain the services of firms for modernization and finance." This was the same time that CVR Associates, Inc. submitted its proposal to contract with the PHA direct. CVR Puerto Rico, Inc. (incorporated in Delaware on November 13, 1997) was given the contract based on a proposal submitted by the other contractor.

We determined that the PHA did not conduct a required price and/or cost analysis which included alternative ways to staff the project. There were other firms in Puerto Rico capable of providing such consulting services. For example, in 1996 the PRPHA contracted with three firms to manage its 1994 and 1995 CGP funds.

The PHA also routinely contracted direct with individuals for services rather than hire them as full-time employees. Many of the staff working in the PHA finance office were contracted employees. The PHA could have paid fixed price or an hourly rate for the professional services of a firm's principals and contracted for the other staff direct. Interviews with a contract specialist and an administrative assistant found that the contractor hired them in Puerto Rico when the contract began and paid them \$17.30 and \$11.54 per hour respectively, plus fringe benefits. The PHA paid the contractor \$60 and \$20 per hour for these individuals' services. The PHA also paid the contractor about \$537,000 more for overhead and profit and \$296,000 for miscellaneous expenses. Hourly rates charged by

consulting firms include these costs (see Contract No. 98-3464).

Included in the miscellaneous costs charged the PHA was \$22,600 for a 1997 Ford Taurus and a 1997 Mitsubishi Mirage bought by the contractor just after the contract began. Also included were the costs of several computers. The PHA paid the contractor's invoices without reviewing supporting documentation.

	<u>Hourly</u>					
	<u>Hours Billed</u>	<u>Contract Rate</u>	<u>OIG Rate¹</u>	<u>Paid Costs</u>	<u>Eligible Costs</u>	<u>Ineligible Difference</u>
Principal	1,715	\$130-137	\$ 130	\$222,950	\$222,950	0
Project Director	2,920	80-84	\$ 80	233,600	233,600	0
CGP Director	4,932	50-53	\$21.44 ¹	246,600	105,742	\$ 140,858
Construction Manager	1,899	70-74	\$21.44 ¹	132,930	40,715	92,215
Senior Monitors/Cont. Specialists	13,211	60-63	\$21.44 ¹	792,660	283,244	509,416
Contract Monitors	4,051	40-42	\$21.44 ¹	162,040	86,853	75,187
Accountants	3,617	30-32	\$21.44 ¹	108,510	77,548	30,962
Administrative Assistants	6,306	20-21	\$14.30 ¹	126,120	90,176	35,944
Other Costs				296,302	0	296,302
Overhead/Profit				<u>537,429</u>	<u>0</u>	<u>537,429</u>
			Totals	<u>\$2,859,141</u>	<u>\$1,140,828</u>	<u>\$1,718,313</u>

Based on the percent of ineligible costs paid, we estimate that additional unnecessary costs of \$683,047 could be paid on this contract.

Contract No. 98-3464

On January 8, 1998, the PHA also executed a 3-year \$9.5 million contract with Cardona, Irizarry & Co. to provide: (1) financial management services including establishing management controls, training staff, and assisting in the PHA's finance and administration areas, and (2) acquiring computer equipment. The contract provided that payments for professional services were to be made based on services rendered at hourly rates ranging from \$20 to \$175 per hour. The contractor's overhead costs, profit, and miscellaneous costs were included in these rates.

¹ Hourly rate paid by the contractor plus 20 percent fringe benefits and 3.28 percent PHA indirect costs.

The PHA did not compete the award of this contract or conduct a required cost and/or price analysis. If these actions had taken place, significant cost savings could have been achieved. The PHA could have paid a fixed price or an hourly rate for professional services of a company's principals and contracted directly with individuals to do the hands-on work. This is what the contractor did. One of the firm's partners even set up a temporary employment agency (C&C Resources) that provided most of the staff on the contract.

Interviews with 12 contractor staff (11 special staff and 1 senior) found that they were paid \$6.50 to \$12.50 per hour plus benefits (about 10 percent) by the employment agency. The PHA paid the contractor \$20 to \$58 per hour respectively for their services. The three other staff (1 senior and 2 managers) interviewed were paid \$13-14 per hour plus benefits as full-time employees of the contractor. The PHA paid up to \$84 an hour for their services.

For services through April 1999, the PHA paid the contractor \$4.6 million or about 68 percent of the maximum amount allowed under the contract although 20 months remained. This occurred because the contractor billed, and the PHA paid, for more staff effort than was allowed under the contract. No contract amendment had been approved for this additional effort. For example, the contract provided that in the second year of the contract, about 19 individuals would work on the contract at an average monthly cost of \$168,625 or annual cost of about \$2 million. However, for the 4 month period ended April 1999, the contractor had billed and the PHA paid \$1,266,630; an average of \$316,657 per month for services of 32 individuals. At this rate, the cost for the second year of the contract could total about \$3.8 million.

In March 1999, the PHA requested HUD's approval for what it and the contractor had been doing for some time. The PHA wanted to modify the contract to increase the contractor's staff and work effort, add about \$377,000 to the contract's maximum cost for professional services (\$6.8 million), and reduce the contract period from 3 to 2 years. HUD denied the request on May 10, 1999. In June 1999, the PHA contracted directly with 12 individuals that had been working at the PHA for the contractor. The PHA paid an average of \$12.31 per

hour for their services. These subcontractors were responsible for paying their own benefits. This saved the PHA about \$87,720 per month over what the PHA had been paying the contractor for the same services.

We determined that the PHA paid excess costs on the contract totaling about \$3.1 million as of May 1999 and could incur additional excess costs of about \$1.5 million if corrective actions are not taken.

	Hours Billed	Hourly		Paid Costs	Eligible Costs	Ineligible Difference
		Contract Rate	OIG Rate ²			
Partners	2,386	\$156-175	\$165-175	\$ 396,284	\$ 396,284	\$ 0
Managers	20,850	\$80-88	\$18.68 ¹	1,690,997	389,483	1,301,514
Seniors	40,609	\$55-60	\$12.71 ²	2,265,987	516,137	1,749,850
Special Staff	11,343	\$20-25	\$12.71 ²	<u>234,519</u>	<u>144,173</u>	<u>90,346</u>
				Totals	<u>\$ 4,587,787</u>	<u>\$ 3,141,710</u>

¹ Hourly rate contract employees by the PHA plus 3.28 percent indirect costs.

² \$12.71 X 147 percent (ratio of \$88/\$60 rate charged for manager/senior)

C&C Resources has also solicited the PHA’s business. On August 6, 1999, the PHA advertised its plans to procure temporary employment agency services. On August 26, 1999, it advertised its intention to privatize its accounting department.

The contract also included \$2,755,000 for 411 computers and associated costs and for project design, management and training. According to PHA officials, this part of the contract was canceled and the computers were purchased through the Puerto Rico General Services Administration for \$1,327,975. However, the PHA did not amend the contract with Cardona, Irizarry & Co..

PHA Comments

There is absolutely no basis for the IG to criticize PRPHA’s actions with regard to the two contracts identified in Finding Two. Both of those procurements, as well as the contracts themselves, were approved by HUD based upon extensive documentation provided by the PRPHA. 24 CFR 85.36 (d)(4) specifically allows HUD’s approval, either because of a public exigency or emergency or at HUD’s discretion. The IG’s

attempts to find problems with the approval process and these contracts are completely unfounded.

Evaluation of PHA Comments

We acknowledged HUD's approval of the contract in the finding. However, we are questioning the justification provided by the PHA to HUD for the approval request. Also, the PHA did not conduct a price or cost analysis, and thus, did not comply with Title 24 CFR, part 85.36 (d) (4). As a result, the PHA paid excessive and/or unnecessary costs on these contracts.

Recommendations

We recommend that you:

- 2A. Ensure that future emergency declarations for or by the PHA meet Federal and local requirements.
- 2B. Determine whether the procurement of temporary employment agency services was in accordance with Federal and PHA requirements and take appropriate corrective action, if applicable.
- 2C. Require that the PHA reimburse HUD \$4,860,023 from non-Federal sources for the ineligible costs paid the two contractors (see Appendix E).
- 2D. Assess eligibility of \$2,133,404 corresponding to payments made subsequent to our review and recover excess costs (see Appendix E).

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The PHA Did Not Adequately Administer Procurement Disbursements and Payments Involving Management Agents

PHA management controls were not effective in deterring waste, abuse, and fraud. The PHA paid: (1) invoices without proper authorization or signed agreements; (2) invoices that were not original; (3) invoices without proof of delivery; (4) invoices that exceeded contract limits; (5) unallowable advanced payments (per PHA regulations); and (6) invoices without any support. In addition, the PHA routinely charged costs to inappropriate fund sources. Both HUD and IPAs had previously reported similar deficiencies to the PHA. The deficiencies continued to occur because PHA management did not enforce Federal and PHA requirements and ensure effective management controls were in place. We identified other ineligible costs totaling \$8.1 million. Also the PHA may incur additional ineligible costs of about \$2 million unless corrective actions are taken (see Appendix A).

Criteria

Title 24 CFR, part 85.20 requires that grantees must have adequate controls to safeguard all assets including cash, property and other assets and assure that such assets are used solely for authorized purposes. In addition, part 85.36 requires that grantees maintain a contract administration system which ensures that contractors perform in accordance with procurement terms, conditions, and specifications. PHA procurement regulations require similar controls.

Although an entity may have a procurement system that provides for full and open competition, the system must also include effective procedures and management controls to ensure contractors comply with agreement terms, purchased goods and services are received, and correct payments are made and charged to the proper fund source.

Examples of PHA administrative deficiencies:

Security Service Agreements

The PHA paid excess costs totaling \$920,691 for security services they did not receive. The services were provided by two security firms during the period March 1996 through September 1998. Additional excess costs estimated at about \$2 million may be incurred for subsequent periods if

costs are not properly allocated. This occurred because adequate management controls were not established to ensure that all costs charged against PHA funds directly benefited the PHA. For example, invoices paid by the PHA included cost of services provided to the Department of Housing. Other charges may have benefited both agencies (e.g., day care security) but were paid in part by the PHA. To avoid paying more than their share of the costs, the PHA budgeted less than the contract limits. The control was not effective. The PHA paid most of the security costs billed. None of the costs were allocated to the Department of Housing.

Number	Firm	Contract Term	Limit	Budget	Paid Amount	Paid Excess	Estimated Excess
C56-031	Domenech Security	3/96-3/97	\$603,096	\$189,947	\$ 631,641	\$441,694	
C47-106	Domenech Security	4/97-3/98	\$642,959	\$281,964	642,959	360,995	
UNK	Island Security	4/98-9/98	\$730,858	\$139,272	257,274	118,002	\$ 473,584
UNK	Island Security	9/98-9/00	\$1,735,078	\$214,265	<u>0</u>	<u>0</u>	<u>1,520,813</u>
Total					<u>\$ 1,531,874</u>	<u>\$ 920,691</u>	<u>\$ 1,994,397</u>

The PHA obtained the services under intergovernmental agreements managed by the Puerto Rico General Services Administration. Under these agreements, the PHA could choose any vendor from an approved list. Instead of formal contracts with the firms, the PHA executed three agreement letters. As a result, these contracts were not listed on the PHA contract register or reported to the Puerto Rico Comptroller’s Office.

Contract No. 98-3465

In January 1998, the PHA executed an emergency sole-source contract with CVR Puerto Rico, Inc. to provide technical assistance and administrative services to the agency’s modernization program. The 18-month contract totaled about \$4.4 million. Seven days after the contract was signed the PHA paid the contractor \$211,117 in advance. This is contrary to Title 24 CFR, subpart 85.36 (b) (8) which states that grantees should make awards only to responsible contractors possessing the ability to perform

successfully under the terms and conditions of a proposed procurement. Consideration must be given to the potential contractor's technical and financial resources. We found that although the owners of the company had prior public housing experience, the company was constituted just prior to receiving the contract thus, their past experience did not meet the criteria (see Finding 2). In addition, the Puerto Rico Treasury Department Regulation No. 31 prohibits advance payments.

Other payments involving management agents were not administered properly

Fictitious Training Invoices

During the period April 1995 through January 1997, the PHA paid about \$2.6 million to Corporación de Adiestramiento y Empleo en los Residenciales (CAER). Of this amount, approximately \$1.9 million was for services that were not rendered. All the costs were charged to the CGP. The payments were for training public housing resident councils to help establish small businesses. The goal was to create 3,000 jobs for public housing residents.

The PHA did not contract with CAER. However, PHA officials endorsed the training and recommended that management agents promote it to the councils. Using the agents, CAER convinced at least 222 councils to sign \$8,000 sole-source contracts and send the invoices to the PHA for payment. The training was to be given in two stages. The first stage was for 15 hours of classroom training to be given each council; cost \$4,000 each. The second stage was for CAER to assist resident councils to select and implement one of five business concepts promoted by CAER. The cost of this effort was also \$4,000 per council.

Under the first stage, the PHA paid CAER over \$430,000 for training that was not provided. Training agendas and resident interviews revealed that only 8 hours or less of training were provided rather than 15 hours. Invoices submitted to the PHA showed training given 1 day. However, it paid the invoices without questioning how at least 2 days of training could be given on 1 day.

The PHA also paid CAER \$888,000 for assisting resident councils to start businesses. However, we found that only 44 of 222 councils actually received assistance. Also, the assistance provided was not effective. As of January 31, 1998, only 2 council businesses were operating that employed 13 residents.

In addition, the PHA paid CAER \$776,000 in duplicate payments. The payments were approved by PHA officials without original invoices. Some payments were made without any invoices.

PHA management controls were not effective in ensuring that payments were for legitimate services. The scheme was disclosed only when a PHA employee not involved in the payment process, expressed concern to HUD regarding the contractor's work. We consider all the costs (\$2,568,000) paid ineligible because services were not rendered or effective and were not for allowable CGP activities.

Five individuals including two former PHA employees and the owner of CAER were recently indicted for fraud in connection with this contractor. Two of the former employees pled guilty.

Fictitious Management Agent Claims

During the period September 1996 through July 1997, the PHA paid over \$1 million from CGP funds based on fictitious reimbursement claims. Four checks ranging from \$108,000 to \$486,000 were issued to Inter Island Rental Corporation, a PHA management agent. The agent did not submit the claims or receive the payments. Two individuals, in collusion with a former PRPHA employee, opened two checking accounts doing business as the management agent and deposited the checks. Two of the individuals pled guilty and have been sentenced. The former employee pled guilty. The scheme was discovered when a bank questioned the deposits.

Although three of the claims were duplicates previously paid the management agent, PHA management controls were not effective in keeping the claims from being processed again or identifying the duplicate payments. Therefore, charges of \$1,034,733 are ineligible grant costs and must be reimbursed HUD.

Prior reviews cited control weaknesses involving procurement and disbursements

The single-audit report on 1992-1993 financial statements issued in October 1995, identified numerous management control weaknesses involving PHA procurement and related disbursements. The single-audit report issued in August 1998, on the 1994-1997 financial statements also cited the continuous deficiencies and management control weaknesses in these areas. Prior OIG and HUD reviews also cited similar problems. As a result, the PHA agreed to strengthen controls.

We found that although the PHA has made many organizational changes such as creating a central procurement division and hiring an IPA firm to help manage many of its accounting functions, the actions have not been effective in reducing procurement and related disbursement deficiencies. Our tests of PHA procurements (as recent as December 1998) and disbursements showed continued noncompliance.

PHA Comments

PRPHA has provided the IG with extensive documentation demonstrating that the IG's assertions regarding the Security Services Agreements are simply incorrect. With regard to the fictitious training invoices and fictitious management agent claims, it has been well-documented that PRPHA completely cooperated with law enforcement officials as soon as these fraudulent schemes were discovered, and PRPHA has instituted new procedures to prevent a recurrence of such schemes. The advance payments that the IG seeks to disallow are not prohibited by 24 CFR 85.36, the cited Treasury regulation, or any other statute or regulation. Moreover, that payment was approved by HUD. Finally, the IG does not fully and accurately describe either PRPHA's audit reports or the organizational changes instituted by PRPHA.

Evaluation of PHA
Comments

We considered the documentation provided by the PHA regarding the Security Services Agreements, but it did not constitute a basis for changing the finding. With regard to the fictitious training invoices and management agent claims, as stated the PHA's management controls were not effective to detect or prevent the criminal fraud.

We are not disallowing the advance payment made to CVR. Our point was that the advance payments made to CVR are prohibited by the Puerto Rico Treasury Department regulations.

Recommendations

We recommend that you:

- 3A. Perform cost reviews of major programs at least annually to determine whether the PHA properly allocated costs and require appropriate cost adjustments and/or recovery of ineligible charges.
- 3B. Require that the PHA reimburse HUD ineligible costs of \$4,506,396 from non-federal funds improperly charged to HUD programs and paid for services not received (see Appendices C and E).
- 3C. Require that the PHA reimburse \$2,568,000, less any restitution, for the fictitious training invoices.
- 3D. Require that the PHA reimburse \$1,034,733, less any restitution, for the fictitious management agent claims.
- 3E. Assess the eligibility of \$1,994,397 that had not been paid on the security service contracts at the time of our review and require PHA reimbursement, if applicable (see Appendix E).

Property Management and Related Procurement Controls Need Improvement

The PHA did not maintain adequate property management and related procurement documents. Its inventory records were not accurate or did not contain required data such as property location. PHA purchase orders, contract registers and procurement regulations also need improvement. This occurred because the PHA did not ensure that past actions taken to improve controls were effective. As a result, there was no assurance that personal property was properly accounted for and used or if effective controls were in place to safeguard assets. The PHA's June 30, 1997, Balance Sheet showed that personal property was valued at about \$8.6 million. However, the inventory report, as of June 30, 1997, provided to OIG in February 1999, showed an adjustment increasing the inventory value from \$8.6 to \$15.3 million, an increase of about 80 percent.

Criteria

Title 24 CFR, part 85.20(b)(3) states that effective control and accountability must be maintained over all assets. Subpart 85.32(d)(1) further requires that personal property (equipment) records must be maintained that include a description of the property, a serial or other identification number, the source, cost, location, use and condition of the property. PHA regulations state that inventory controls apply to all items valued at \$50 or more.

Since at least 1994, auditors and HUD program officials have repeatedly recommended that the PHA improve controls over property management and procurement including maintaining accurate inventory and procurement records and developing and issuing a procurement manual. For example, a HUD monitoring report issued in August 1994, cited the PHA for not having an annual equipment inventory. The single-audit reports on the PHA's FY 1992 and 1993 financial statements issued in October 1995, cited many control problems regarding property management. The IPA recommended that the PHA take a physical inventory and prepare and maintain a fixed assets subsidiary ledger. However, the PHA did not develop the ledger until 1998.

Our tests of the ledger showed that it was not complete nor accurate. We attempted to trace 285 items purchased during the review period from source documents (purchase orders, invoices, and receiving reports) to the ledger dated June 30, 1998. We could not positively confirm any of the items were on the list. For example, we found 34 vehicles on the list with the same purchase date and price as those tested but no identifier (serial/plate number) or detailed description was shown. We did not find the other 12 vehicles purchased in August 1997 on the list. We also found none of the 59 Xerox photocopiers purchased and received in April 1998 on the list or 177 pieces of office furniture purchased from February to April 1998. Although we could not be certain, three notebook computers bought for \$3,300 each in February 1998, were listed as one notebook worth \$9,900. The ledger did not show the location for any of the items on the list. The inventory list cannot be effectively used unless all personal property items are accurately recorded with all required information.

In general, we physically located the personal property items tested. However, we could not be certain that some items located were the items procured. For example, we could not positively confirm three computers purchased (purchase order number 97-341) in January 1997 were the computers we saw at the PHA Finance and Administration Office. The inventory ledger and the purchase order did not show the manufacturer or any other identifier (serial number).

PHA purchase order and contract registers were not accurate. They were required to be maintained as a management control. We found purchase orders were not sequentially numbered on the register and all contracts were not shown. We also determined that the purchase order and contract registers did not show fund sources or always reflect actual purchase amounts.

In addition, PHA procurement regulations did not contain all HUD requirements. We found that the regulations did not:

- prohibit use of cost-plus contracts,
- include detailed steps for rejecting contractors,

- provide procedures to ensure contractor performance,
- include steps to preclude awards to contractors on Federal debarment lists, and
- require contract solicitations remain open 15 days minimum.

In 1998, a contractor developed a comprehensive procurement manual for the PHA which included these requirements. However, it had not been issued as of December 1999.

PHA Comments

PRPHA does not dispute that additional improvements in its property management and procurement systems are desirable. Indeed, PRPHA welcomes HUD's assistance in instituting such changes. However, the problems are not nearly so extensive as suggested by the IG audit.

OIG Evaluation of Auditee Comments

We had no assurance that personal property was properly accounted for and used or if effective controls were in place to safeguard assets.

Recommendations

We recommend that you require the PHA to:

- 4A. Submit detailed policy and procedures for: (1) maintaining a personal property ledger that complies with Federal requirements that includes a detailed property description, identification/serial number, location, and source document reference, and (2) conducting an annual physical inventory, comparing results to the ledger, and reconciling differences including steps to investigate missing items.

- 4B. Properly record all personal property items included in this review in the ledger, physically locate the items we could not find, and investigate those that are missing.
- 4C. Establish management controls to ensure reliability of purchase order and contract registers.
- 4D. Issue the procurement manual and policy on its use.

Management Controls

In planning and performing our audit, we considered the PHA's management controls to determine our audit procedures and not to provide assurance on those controls. Management is responsible for establishing effective management controls to ensure that its goals are met.

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the controls most relevant to our objectives pertained to the following:

1. Procedures and practices used to accumulate and charge costs to the Program.
2. Procedures used for contract administration.
3. Procedures used to comply with Federal and PHA's procurement requirements and maintain control over its central office procurement activities
4. Procedures to ensure that personal property was properly accounted for and to maintain inventory control.
5. Procedures used to monitor procurement activities.

We assessed controls in place. We obtained an understanding of the PHA's procedures and HUD's requirements, assessed control risk, and performed various substantive tests of the controls.

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, we believe that significant weaknesses existed in all five management control areas mentioned above. The specific weaknesses are discussed in the findings.

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Follow-Up On Prior Audits

Prior audit reports contained findings which impact the objectives of this audit.

- An OIG audit report (No. 96-AT-201-1821 dated June 26, 1996) on the PRPHA concluded that the PHA did not (1) document the history of each procurement including basis for contractor selection or rejection and contract price; (2) perform required price and/or cost analyses prior to procurements; and (3) provide all required standard contract provisions in its contracts. At the time of this review, these findings were unresolved. HUD has referred them to its legal staff for further action.
- A single audit of the PHA's FY 1992-1993 financial statements, management controls, and compliance (issued October 31, 1995) by PriceWaterhouseCoopers, LLP, found numerous significant deficiencies. The IPA disclaimed an opinion on both years' statements. Among the items reported was that the PHA did not: (1) maintain bid and contract documents; (2) have records supporting disbursements; (3) adequately solicit procurements; and (4) prepare written contracts for professional services. These findings were also unresolved at the time of our review.
- A single audit of the Department of Housing including the PHA's FY 1994-1997 financial statements, management controls, and compliance (issued August 17, 1998) by the same firm, found numerous significant deficiencies. Because of these deficiencies and their impact on the statements, the firm disclaimed an opinion on the 1994-1996 statements. Although all the deficiencies continued into the next year, the firm was able to give an unqualified opinion on the 1997 statements. It reported that the PHA: (1) did not maintain contract nor related procurement documents; (2) made procurements without using competitive procedures; (3) performed no price and/or cost analyses and; (4) made payments for professional services without signed contracts. These findings were not resolved at the time of our review.

As discussed in detail in the "Findings and Recommendations" section of this report, the above conditions continue to exist. This report stresses the importance of developing and implementing management controls to ensure that the conditions do not continue.

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Schedule Of Ineligible Costs and Cost Efficiencies

Recommendation	Ineligible	Efficiency
1F.	\$8,841,638	
2C.	4,860,023	
2D.		\$2,133,404
3B.	4,506,396	
3C.	2,568,000	
3D.	1,034,733	
3E.	<u> </u>	<u>1,994,397</u>
	Total <u>\$21,810,790</u>	<u>\$4,127,801</u>

Ineligible - Costs not allowable by law, regulation, contract, or HUD or local agency policy.

Cost Efficiency - An action to prevent an ineligible obligation or expenditure, or to increase revenue.

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Summary Of Purchase Order Deficiencies

Number	Vendor	Procurement Deficiencies
97-279B	Bus Rental	1, 3, 7, 10, 11, 12, 14, 20
97-528	Bus Rental	1, 3, 5, 7, 10, 11, 12, 14, 20
97-578	Bus Rental	1, 3, 7, 10, 11, 12, 14, 20
97-585	Bus Rental	1, 3, 7, 10, 11, 12, 14, 20
97-014	Colortaal	5, 11
97-460	DRC	4, 8, 11
97-271	Ferreteria Martin Gonzalez	5, 7, 8, 11, 19, 20
97-299	Ferreteria Martin Gonzalez	2, 5, 7, 8, 11, 19, 20
97-342	Ferreteria Martin Gonzalez	5, 8, 11, 15, 19, 20
97-409	Ferreteria Martin Gonzalez	8, 11, 13, 17, 21
97-592	Ferreteria Martin Gonzalez	8, 11, 13
97-458	IBM	4, 6, 8, 11, 14
97-032	Michica International	6, 11, 14
97-031	Motorola de Puerto Rico	6, 11, 14, 21
97-057	Nu-Vue Ind. Service	7, 11, 19, 20
97-191	National Security Institute	1, 2, 3, 7, 10, 11, 13, 14, 19, 20
97-220	National Security Institute	1, 2, 3, 7, 10, 11, 13, 14, 19, 20
97-370	National Security Institute	1, 2, 3, 7, 10, 11, 13, 14, 19, 20
97-461	National Security Institute	1, 3, 5, 7, 8, 10, 11, 12, 13, 14, 19
97-231	Plebiscito Storm Shutter	2, 5, 7, 8, 11, 19, 20
97-338	PR Computer Services	1, 4, 8, 11, 20, 21
97-263	Standard Forms, Inc.	1, 2, 5, 11, 19, 20, 21
97-228	The Capicorn Group	2, 5, 6, 8, 11, 19
97-267	The Capicorn Group	1, 2, 5, 8, 11, 19, 20
97-275	The Capicorn Group	1, 2, 5, 8, 11, 16, 19, 20
97-318	The Capicorn Group	1, 2, 5, 8, 11, 19, 20
97-341	The Capicorn Group	1, 2, 5, 8, 11, 15, 16
98-487	Belfra Interiors	1, 7, 11, 20
98-478	COMPUTERLINK	5, 11, 13, 21
98-723	Fire Control Corporation	6, 7, 11, 12, 16
98-469	Future Data Visions	1, 3, 4, 8, 10, 11
98-551	Future Data Visions	1, 3, 5, 8, 10, 11
98-684	J&K Printers	11
98-070	Kane Caribbean	6, 7, 9, 10, 11, 12, 14, 18, 20, 21
98-074	Losada Auto Truck, Inc.	4, 9, 10, 11, 12, 14, 16, 17, 20, 21
98-763	MORS Inc.	5, 11
98-631	MV Electrical Contractor	1, 5, 7, 11
98-829	Office Gallery	2, 3, 8, 10, 11
98-830	Office Gallery	2, 3, 8, 10, 11
98-566	Office Gallery	5, 11, 13, 21

Summary of Purchase Order Deficiencies

Number	Vendor	Procurement Deficiencies
98-822	Rafael J. Nido	6, 7, 9, 10, 11, 12, 14, 16, 21
98-752	Royal International	7, 8, 11, 14
98-071	Royal Motors Corp.	4, 6, 8, 9, 10, 11, 12, 14, 20
98-708	Speedy Office	3, 10, 11, 20, 21
98-707	Speedy Office	3, 7, 10, 11, 20, 21
98-541	Speedy Office	4, 7, 8, 11, 14, 20, 21
98-595	The Atmospheric Group	1, 4, 7, 8, 11, 14
98-073	Triangle Dealers	6, 9, 10, 11, 12, 14, 20
98-821	White Westinghouse	6, 7, 9, 10, 11, 12, 14, 18, 20, 21
98-405	Xerox Corporation	6, 8, 11, 12, 13
98-703	Xerox Corporation	6, 8, 11, 12, 13, 21
99-248	Abreu Power Cars	6, 7, 8, 10, 11, 20
99-246	Autos Vega	6, 7, 10, 11, 20
99-326	COMPUTERLINK	6, 10, 11, 20
99-245	Empresas Losada	6, 7, 10, 11, 20
99-247	Triangle Dealers	6, 7, 10, 11, 20

Solicitation and Award Deficiencies

- 1 Procurement did not involve purchasing department
- 2 False or altered questions
- 3 Splitting acquisition to avoid formal procurement, not advertised
- 4 Lowest quotation/bid not selected
- 5 No or insufficient number of quotations obtained
- 6 Purchase order issued instead of written contract
- 7 Purchase order with incorrect or incomplete information
- 8 Excessive costs
- 9 Insufficient time to respond to the request for bid/proposal
- 10 Not advertised twice
- 11 No independent cost and/or price analysis
- 12 Acquisition over \$30,000 without required Housing Secretary approval

Inadequate Procurement Records

- 13 No procurement file
- 14 File did not show complete procurement history

Inadequate Payment/Contract Administration

- 15 Payment not supported by an invoice
- 16 Payment without adequate support demonstrating that goods/services were received
- 17 Payments made without proper PHA authorization
- 18 Invoice paid without having proper vendor certification
- 19 Invoice/supporting documents not marked "paid" to avoid duplicate payment
- 20 Cost not allocable to HUD program
- 21 Sampled item(s) not on inventory list and/or not physically located

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Summary Of Purchase Order Cost Exceptions

<i>Number</i>	<i>Date</i>	<i>Vendor</i>	<i>Goods/Services</i>	<i>Amount</i>	<i>Grant</i>	<i>Ineligible Costs</i>	<i>Reason @</i>	<i>A/F</i>
97-279B	11/14/96	Bus Rental	Transportation	\$3,750	DEP	\$3,750	20	3
97-528	5/5/97	Bus Rental	Transportation	4,150	DEP	4,150	5, 20	3
97-578	6/3/97	Bus Rental	Transportation	6,760	DEP	6,760	20	3
97-585	6/10/97	Bus Rental	Transportation	6,320	DEP	6,320	20	3
97-014	7/22/96	Colortaal	Copy of Plans	5,052	OS&I	5,052	5, 11	1
97-460	3/13/96	DRC	Network Services	2,500	OS&I	1,100	8	1
97-271	12/4/96	Ferreteria Martin Gonzalez	6 Electricity Generators	9,000	DEP	9,000	5, 8, 20	3
97-299	12/12/96	Ferreteria Martin Gonzalez	10 Chain Saws	4,500	DEP	4,500	2, 5, 8, 20	3
97-342	1/24/97	Ferreteria Martin Gonzalez	Cleaning Materials	8,785	OS&I	8,785	8, 13	3
97-409	2/25/97	Ferreteria Martin Gonzalez	Maintenance Equipment	7,004	DEV	7,004	8, 13	1
97-592	6/13/97	Ferreteria Martin Gonzalez	Tools	9,818	OS&I	9,818	8, 13	1
97-458	3/12/97	IBM	Software License	319,501	CGP	129,635	8	1
97-032	7/31/96	Michica International	200 Batteries and 50 Chargers	50,500	DEP			
97-031	7/31/96	Motorola de Puerto Rico	247 Portable Radios	707,710	DEP			
97-057	8/19/96	Nu-Vue Ind. Service	Storm Shutters	3,756	OS&I	2,518	20	3
97-191	10/22/96	National Security Institute	Aerial Photographs of 11 Public Housing Projects	9,945	DEP	9,945	2, 13, 20	3
97-220	11/6/96	National Security Institute	Scanning & Digitalization of Aerial Photographs	8,775	DEP	8,775	2, 13, 20	3
97-370	2/5/97	National Security Institute	Aerial Photographs of 7 Public Housing Projects	7,050	DEP	7,050	2, 13, 20	3
97-461	3/13/97	National Security Institute	RETA-1 Seminar	9,900	DEP	9,900	5, 8, 13	1
97-231	11/18/96	Plebiscito Storm Shutter	Storm Shutters	5,160	OS&I	2,580	2, 5, 20	3
97-338	1/22/97	PR Computer Services	1 Laptop Computer	7,365	CGP	7,365	8, 20	3
97-263	11/29/96	Standard Forms Inc.	50 Antiglare Filters and 25 Wrist Rests	7,075	CGP	7,075	2, 5, 20	3
97-228	11/12/96	The Capricorn Group	Office Furniture	5,950	DEP	5,950	2, 5, 8	1
97-267	12/3/96	The Capricorn Group	1 Desk-top Computer	8,200	CGP	8,200	2, 5, 8, 20	1
97-275	12/5/96	The Capricorn Group	2 Desk-top Computers	5,600	CGP	5,600	2, 5, 8, 20	1
97-318	12/3/96	The Capricorn Group	3 Desk-top Computers	8,400	DEP	8,400	2, 5, 8	1
97-341	1/23/97	The Capricorn Group	3 Desk-top Computers	9,300	CGP	9,300	2, 5, 8, 20	1
98-487	2/6/98	Befra Interiors	Rehab Modernization Office	9,800	CGP	9,800	20	3
98-478	2/5/98	COMPUTERLINK	3 Laptop Computers	9,900	OS&I	9,900	5, 13	1
98-469	5/1/98	Future Data Visions	55,000 Fire Extinguishers	684,750	OS&I	2,252		1
98-723	2/2/98	Fire Control Corporation	Server Back-up Drive	8,419	OS&I		8	
98-551	3/2/98	Future Data Visions	Installation and Training	4,800	OS&I	4,800	5, 8	1

Summary Of Purchase Order Cost Exceptions

			of Back-up Drive					
98-684	4/14/98	J&K Printers	Reproduction of PHA Forms	6,000	OS&I			
98-070	8/13/97	KANE Caribbean	7 Steer Loader/Backhoes	243,852	CGP	243,852	20	3
98-074	8/14/97	Losada Auto Truck Inc.	43 Vehicles	1,295,453	CGP	1,295,453	20	3
98-763	5/15/98	MORS Inc.	Toners	6,750	OS&I	6,750	5, 11	1
98-631	3/29/98	MV Electrical Contractor	Electrical Work at Modernization Office	6,800	OS&I	6,800	1, 5, 7, 11	1
98-829	6/4/98	Office Gallery	Office Furniture	6,525	OS&I	6,525	2, 8	1
98-830	6/4/98	Office Gallery	Office Furniture	3,775	OS&I	3,775	2, 8	1
98-566	3/17/98	Office Gallery	Office Furniture	7,192	OS&I	7,192	5, 13	1
98-822	5/1/98	Rafael J. Nido, Inc.	21,428 Water Heaters	2,365,437	OS&I	941,627	a	1
98-752	5/12/98	Royal International	Fax and Copiers	7,775	OS&I	4,418	8	1
98-071	8/13/97	Royal Motors Corp.	11 Vehicles	168,719	CGP	168,719	8, 20	3
98-708	4/27/98	Speedy Office	Office Furniture	7,930	CGP	7,930	20	3
98-707	4/27/98	Speedy Office	Office Furniture	6,840	CGP	6,840	20	3
98-541	2/26/98	Speedy Office	100 Chairs	6,250	OS&I	6,250	8, 20	1
98-595	3/12/98	The Atmospheric Group	Analysis of Lead Abatement Waste	9,570	OS&I	1,875	8	1
98-073	8/14/97	Triangle Dealers	12 Vans	296,686	CGP	273,864	6, 20	3
98-821	5/1/98	White Westinghouse	12,000 Electric Stoves	2,604,000	OS&I	2,604,000	20	1
98-405	1/7/98	Xerox Corporation	96 Copiers	480,000	OS&I	346,080	8, 13	1
98-703	4/24/98	Xerox Corporation	Maintenance Agreements	802,640	OS&I	536,015	8, 11, 12, 13	1
99-248	11/10/1998	Abreu Power Cars	5 Skymaster Trucks	238,500	OS&I	238,500	8, 20	3
99-246	11/10/98	Autos Vega	13 Pick-ups	358,225	OS&I	358,225	20	3
99-326	12/22/98	COMPUTERLINK	33 Digital Cameras	26,400	CGP	26,400	20	3
99-245	11/10/98	Empresas Losada	14 Dump Trucks	595,196	OS&I	595,196	20	3
99-247	11/10/98	Triangle Dealers	6 Vans	135,732	OS&I	135,732	20	3
Total				\$11,645,743		\$8,137,302		

Grant

- CGP - Comprehensive Grant Program
- DEP - Drug Elimination Program
- DEV - Development Fund
- OS&I - Operational Subsidy & Income

<u>A/F- Audit Finding</u>	<u>Ineligible</u>
1	\$4,688,218
3	<u>\$3,449,084</u>
Total	<u>\$8,137,302</u>

a - Heaters not installed 19 months after purchased

@ - See Appendix B for legend

Summary Of Contract Deficiencies

Number	Vendor	Procurement Deficiencies
97-6773	Cardona, Irizarry & Company	5, 8, 9, 10, 11, 12, 15, 17, 25
97-3715	Fidler, Gonzalez & Rodriguez	1, 2, 3, 4, 10, 11, 12, 15, 16, 17, 19, 20, 23
97-134	Guirimar Construction	2, 10, 11, 12, 17
98-416	American Fundware	1, 2, 3, 4, 10, 11, 12, 13, 16, 17
98-427	Analytical Environment	5, 6, 7, 10, 12, 17, 18
98-2311	Cardona, Irizarry & Company	2, 5, 7, 8, 10, 11, 12, 17, 18, 22, 25
98-3464	Cardona, Irizarry & Company	1, 2, 3, 4, 11, 12, 13, 16, 17, 25
98-3465	CVR Puerto Rico, Inc.	1, 2, 3, 4, 11, 12, 13, 16, 17, 24, 25
98-3823	Global Panzardi Joint Venture	5, 6, 8, 10, 12, 13, 17, 18, 24, 25
98-5121	Habibe Computer	5, 7, 10, 12, 13
98-431	Price Waterhouse Coopers	5, 7, 8, 10, 12, 17, 21
UNK	Cardona, Irizarry & Company	1, 2, 4, 10, 12, 13, 14, 16, 17, 18, 19, 20, 21, 23
UNK	Domenech Security	9, 10, 12, 13, 16, 17, 20, 27
UNK	Domenech Security	9, 10, 12, 13, 16, 17, 20, 27
UNK	Island Security	9, 10, 12, 13, 16, 17, 20, 27
UNK	Island Security	9, 10, 12, 13, 16, 17, 27
UNK	National Security Institute	1, 2, 4, 10, 12, 13, 14, 16, 17, 18, 19, 20, 21, 23, 25, 26

Solicitation and Award Deficiencies

- 1 Inappropriate procurement method
- 2 Inadequate competition
- 3 Sole-source contract not justified
- 4 Not advertised
- 5 Not advertised twice
- 6 No due date to submit proposal
- 7 Insufficient time to respond to the request for bid/proposal
- 8 Request for proposal did not contain all evaluating factors and weighted importance
- 9 Contract awarded to other than lowest bidder without justification
- 10 Contract not approved by HUD and Housing Secretary
- 11 Excessive costs
- 12 No independent cost and/or price analysis
- 13 Contract did not include all required clauses
- 14 No written contract executed

Improper Contract Modifications

- 15 Change order not approved by HUD and/or Housing Secretary

Inadequate Procurement Records

- 16 No procurement file
- 17 File did not show complete history
- 18 File did not include all bid/proposals received
- 19 File did not document the basis for contractor selection

Inadequate Payment/Contract Administration

- 20 Payment made above the budgeted and/or contract amount
- 21 Payment made without contract
- 22 Payment made without original invoice
- 23 Payment made without proper PHA authorization
- 24 Payment made in advance or without evidence of completion of service
- 25 Payment made without detail of services provided
- 26 Payment made without proper contractor certification
- 27 Cost not allocable to HUD program

Summary Of Contract Cost Exceptions

<i>Number</i>	<i>Date</i>	<i>Vendor</i>	<i>Goods/ Services</i>	<i>Amount</i>	<i>Grant</i>	<i>Audit Classification</i>	<i>Reason @</i>
97-6773	03/10/1997	Cardona, Irizarry & Co.	Accounting Services	\$1,385,136	CGP	\$1,257,711 ¹	9, 11, 15
97-3715	03/12/1997	Fiddler, Gonzalez & Rodriguez	Legal Services	1,118,974	OS&I	1,118,974 ¹	2,3,10,11, 15,16,20
97-134	07/24/1996	Guirimar Construction	Demolition	1,189,000	URD,CGP	4,000 ¹	2,10,11
98-416	07/18/1997	American Fundware	Computer Services	977,400	CGP	953,014 ¹	2,3,16
98-427	09/12/1997	Analytical Environment	Lead Risk Assessment	659,317	LB		
98-2311	11/17/1997	Cardona, Irizarry & Co.	Accounting Services	1,068,660	CGP	819,721 ¹	2,10,11
98-3464*	01/08/1998	Cardona, Irizarry & Co.	Accounting Services	6,762,610	CGP/OS&I	3,141,710 ¹ 1,450,357 ²	2,3,11,16
98-3465	01/08/1998	CVR Puerto Rico, Inc.	Modernization Area Services	4,418,326	CGP	1,718,313 ¹ 683,047 ²	2,3,11,16
98-3823	09/25/1997	Global Panzardi Joint Venture	Lead Disposal	1,365,756	CGP		
98-5121	03/27/1998	Habibe Computer	Computer Services	675,340	CGP		
99-431	08/13/1998	Price Waterhouse Coopers	Single Audit Services	802,211	Various		
UNK	UNK	Cardona, Irizarry & Co.	Accounting Services	62,300	CGP	62,300 ¹	2,10,16,20,21
UNK	UNK	Domenech Security	Security Services	642,959	OS&I	360,995 ¹	9,10,16,20, 27
UNK	10/31/1996	Domenech Security	Security Services	603,096	OS&I	441,694 ¹	9,16,20, 27
UNK	04/06/1998	Island Security	Security Services	730,858	OS&I	118,002 ¹ 473,584 ²	9,10,16,20, 27
UNK	UNK	Island Security	Security Services	1,735,078	OS&I	1,520,813 ²	9,10,16,27
UNK	UNK	National Security Institute	Security Seminar	74,321	DEP	74,321 ¹	2,10,16,20,21
UNK	UNK	CAER	Business Establishment	2,568,000	CGP	2,568,000 ¹	11,27
UNK	UNK	Fictitious Claims		1,034,733	CGP	1,034,733 ¹	27
Total				\$24,271,342		\$13,673,488¹ \$4,127,801²	

Summary Of Contract Cost Exceptions

Grant

- CGP- Comprehensive Grant Program
- DEP- Drug Elimination Program
- DEV- Development Fund
- LB- Lead Based Program
- OS&I- Operational Subsidy & Income
- URD- Urban Renewal Development (HOPE VI) Program

Audit Classification

- 1- Ineligible Cost
- 2- Cost Efficiency

<u>A/F- Audit Finding</u>	<u>Ineligible</u>	<u>Efficiencies</u>
1	\$4,153,420	\$0
2	\$4,860,023	\$2,133,404
3	\$4,660,045	\$1,994,397
Total	<u>\$13,673,488</u>	<u>\$4,127,801</u>

* Contract reduced by \$2,754,920

@- See Appendix D for legend

Purchase Order Cost Exceptions

Number	Vendor	Ineligible Costs	Reason @	A/F	Remarks
97-279B	Bus Rental	\$3,750	20	3	Transportation to ballet was not among the DEP activities approved by HUD, therefore is not an eligible DEP activity.
97-528	Bus Rental	4,150	5,20	3	Transportation to the Corps of Volunteers facilities at Aibonito town & other trips was not among the DEP activities approved by HUD, therefore is not an eligible DEP activity.
97-578	Bus Rental	6,760	20	3	Transportation to the Corps of Volunteers facilities at Aibonito town & other trips was not among the DEP activities approved by HUD, therefore is not an eligible DEP activity.
97-585	Bus Rental	6,320	20	3	Transportation to the Corps of Volunteers facilities at Aibonito town & other trips was not among the DEP activities approved by HUD, therefore is not an eligible DEP activity.
97-014	Colortaal	5,052	5	1	
97-460	DRC	1,100	8	1	The lowest quote was not selected & the explanation was not documented, therefore the difference between the lowest & the paid price is ineligible (\$125/hr. less \$70/hr.= \$55 x 20hrs.= \$1,100).
97-271	Ferreteria Martin Gonzalez	9,000	5,8,20	3	Excessive costs per comparable prices obtained by auditor of \$1,000 per electricity generator. Purchases for emergency situations are not DEP eligible cost. Also, two generators were not used for the intended purpose. Therefore, the \$9,000 is ineligible.
97-299	Ferreteria Martin Gonzalez	4,500	2,5,8,20	3	Excessive costs per comparable prices obtained by auditor. Purchases for emergency situations are not DEP eligible cost. Therefore, the \$4,500 is ineligible.
97-342	Ferreteria Martin Gonzalez	8,785	5,8,20	3	Some of the supply items appear to be overpriced per auditor's experience (i.e., propane gas can for approx. \$2 vs. \$4.25 paid by PHA). Purchases for emergency situations are not eligible public housing operating costs, thus the \$8,785 is ineligible.
97-409	Ferreteria Martin Gonzalez	7,004	8,13	1	Some of the maint. equipment appears to be overpriced (i.e., elect. handsaw \$169, lawn mower \$1,200). There was no procurement file, thus no assurance that the lowest quote was selected & charges reasonable. Therefore, the \$7,004 is deemed ineligible.
97-592	Ferreteria Martin Gonzalez	9,818	8,13	1	Same as above for P.O.#97-409. The \$9,818 is deemed ineligible.
97-458	IBM	129,635	8	1	The lowest bid was not opened because the bidder did not attend or was late for the pre-bid conference. This is contrary to HUD HBK. 7460.8 REV-1, Parag. 4-11. The diff. between the awarded & the lowest bid (\$319,501 - \$189,866=\$129,635) is ineligible.

Purchase Order Cost Exceptions

97-032	Michica International				
97-031	Motorola de Puerto Rico				
97-057	Nu-Vue Ind. Service	2,518	20	3	Per physical inspection, the PHA purchased more storm panels than needed to protect its Tech. Information Office Adjacent areas of the Dept. of Hsng. were apparently covered with the extra panels. The cost of the extra panels was determined to be \$2,518.
97-191	National Security Institute	9,945	2,13,20	3	The aerial photographic services of 11 public housing projects were not included in the PHA's FY 95 DEP application, therefore the services were not authorized by HUD. The services are not allocable to the program.
97-220	National Security Institute	8,775	2,13,20	3	The scanning & digitalization services for the above indicated photographs (P.O. #97-191) were not included in the PHA's FY 95 DEP application, therefore the services were not authorized by HUD. The services are not allocable to the program.
97-370	National Security Institute	7,050	2,13,20	3	The aerial photographic services of seven public housing projects were not included in the PHA's FY 95 DEP application, therefore the services were not authorized by HUD. The services are not allocable to the program.
97-461	National Security Institute	9,900	5,8,13	1	There was no procurement file for the RETA-1 seminars. No price analysis or quotations, etc.. Therefore, price reasonability could not be determined. The payment documents did not include the required attendance sheet.
97-231	Plebiscito Storm Shutter	2,580	2,5,20	3	The PHA paid for the installation of more storm panels than needed to protect its T.I. Office. Adjacent areas of the Dept. of Hsng. were apparently covered with the extra panels. The cost of installation of the extra panels was determined to be \$2,580.
97-338	PR Computer Services	7,365	8,20	3	The charges for the laptop computer were not an eligible expense of the CGP. Although if they were, the selected quote was \$1,700 over the lowest quote.
97-263	Standard Forms Inc.	7,075	2,5,20	3	The charge for the acquisition of computer equipment was not an eligible expense of the CGP. In addition, the 25 wrist rests & 50 anti-glare screens could not be physically located at the PHA facilities.
97-228	The Capricorn Group	5,950	2,5,8	1	The 10 executive type desks & chairs purchased could not be traced from the inventory record to the P.O.. In addition, the receipt in the pymt. file showed a different type of chair, thus we have no certainty that the equipment was in fact received.
97-267	The Capricorn Group	8,200	2,5,8,20	1	The computer was allegedly assigned to the T.I. Office. We could not verify this from the inventory & P.O. records. At the T.I Office., it does not benefit the CGP where it is charged. Also, a more advanced computer could be purchased for \$4,000 less.

Purchase Order Cost Exceptions

97-275	The Capricorn Group	5,600	2,5,8,20	1	For two computers purchased, one could not be positively identified as the one purchased, due to the state of the inventory records. The other was reassigned to an unknown unit. A more advanced computer could be obtained for about the same price.
97-318	The Capricorn Group	8,400	2,5,8	1	None of the three computers purchased could be identified due to the state of the inventory records. A false quote was detected. A more advanced computer could be obtained for about the same price.
97-341	The Capricorn Group	9,300	2,5,8,20	1	None of the three computers purchased could be identified due to the state of the inventory records. Two false quotes were detected. A more advanced computer could be obtained for about the same price.
98-487	Befra Interiors	9,800	20	3	Rehabilitation work done at the PHA's Modernization Office is not an eligible CGP expense.
98-478	COMPUTERLINK	9,900	5,13	1	
98-469	Future Data Visions	2,252	8	1	Per auditor's inquiry with two vendors, the price for a computer backup drive & software could be obtained for \$2,252 less than the amount paid by the PHA, if proper procurement procedures had been followed.
98-723	Fire Control Corporation				
98-551	Future Data Visions	4,800	5,8	1	Per auditor's review, the installation & training of the HP backup drive could had been done by the PHA's personnel & consultant.
98-684	J&K Printers				
98-070	KANE Caribbean	243,852	20	3	Per auditor's physical inspections & interview of project staff, the seven Skid Steer Loader/Backhoes purchased with CGP funds were used to provide ordinary maintenance to public hsg. projects, which was an ineligible CGP activity (HUD HBK. 7485.3G).
98-074	Losada Auto Truck Inc.	1,295,453	20	3	Per auditor's physical inspections & interview of project staff, the 38 trucks & 1 Blazer were used to provide ordinary maintenance to public. hsg. projects. The Blazer was used for executive staff which was not eligible CGP activities (HUD HBK. 7485.3G).
98-763	MORS Inc.	6,750	5	1	
98-631	MV Electrical Contractor	6,800	5	1	
98-829	Office Gallery	6,525	2,8	1	PHA officials did not perform a price analysis & did not follow other procurement procedures, which resulted in excess charges to the operating funds.
98-830	Office Gallery	3,775	2,8	1	Same as above for P.O #98-829
98-566	Office Gallery	7,192	5,13	1	
98-822	Rafael J. Nido, Inc.	941,627	a	1	Weak management practices and poor planning.

Purchase Order Cost Exceptions

98-752	Royal International	4,418	8	1	The PHA did not perform a price/cost analysis , therefore it charged excessive costs to operations. A more economical fax could be acquired for \$189 & a copier for \$1,395. The difference between the paid price & the above was \$4,418 of ineligible costs.
98-071	Royal Motors Corp.	168,719	8,20	3	The PHA acquisition of cars for the transportation of its employees to the PHA & projects facilities was an on going operating expense, which is an ineligible management improvement cost. An unsolicited bidder offered a lower price for pick-up trucks.
98-708	Speedy Office	7,930	20	3	The PHA acquired office furniture for the CGP office, but for employees of a consultant which are considered on going operating expense not CGP expense as charged.
98-707	Speedy Office	6,840	20	3	Ongoing operating expense not eligible under CGP
98-541	Speedy Office	6,250	8,20	1	File did not show how this equipment relates to public housing. Other lower bidder was not selected.
98-595	The Atmospheric Group	1,875	8	1	Difference between lowest bidder and selected contractor (\$7,975-\$6,100).
98-073	Triangle Dealers	273,864	6,20	3	Ongoing operating expense not eligible under CGP
98-821	White Westinghouse	2,604,000	20	1	Not approved by HUD in Operating Budget. HUD did not approve the donation to the residents.
98-405	Xerox Corporation	346,080	8,13	1	No cost analysis performed. The need, economy, and efficiency were not documented. Auditor allowed \$1,395 for 96 units & maintenance.
98-703	Xerox Corporation	536,015	8,13	1	No cost analysis performed. The need, economy, and efficiency were not documented. Auditor allowed \$3,375 for 79 units (equipment & maintenance).
99-248	Abreu Power Cars	238,500	8,20	3	Not approved by HUD in Operating Budget. Additionally, the bid was for \$41,700; however, PHA charged \$47,700 per unit.
99-246	Autos Vega	358,225	20	3	Not approved by HUD in Operating Budget.
99-326	COMPUTERLINK	26,400	20	3	Ongoing operating expense not eligible under CGP
99-245	Empresas Losada	595,196	20	3	Not approved by HUD in Operating Budget.
99-247	Triangle Dealers	135,732	20	3	Not approved by HUD in Operating Budget.
		\$8,137,302			

Grant

CGP- Comprehensive Grant Program
DEP- Drug Elimination Program
DEV- Development Fund
OS&I- Operational Subsidy & Income

<u>A/F - Audit Finding</u>	<u>Ineligible</u>
1	\$4,688,218
3	<u>\$3,449,084</u>
Total	<u>\$8,137,302</u>

a- Heaters not installed 15 months after purchased

@- See Appendix B for legend

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PHA Comments

VERNER. LIIPFERT
BERNHARD McPHERSON HAND

LCHARTERED/

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January 31, 2000

BY TELECOPIER and FIRST CLASS MAIL

Nancy H. Cooper
 District Inspector General for Audit
 Southeast/Caribbean, 4 AGA
 75 Spring Street, S.W.
 Room 330 Box 42
 Atlanta, GA 30303

Re: Draft Audit of Puerto Rico Public Housing Administration Procurement System

Dear Ms. Cooper:

In accordance with the agreements reached at the December 7, 1999 exit conference, your letter dated January 12, 2000, and the extension granted via phone message from Sonya Lucas of your office, please find attached hereto the following:

1. PRPHA's general response to the revised draft audit report; and
2. Summaries of PRPHA's responses to each of the specific audit findings, to be inserted in the specified places in the text of the audit report.

You agreed on December 7 to insert PRPHA's summary comments verbatim, subject to certain conditions, including that those summaries be brief. We have, therefore, endeavored concisely to summarize our comments regarding each finding. It is our understanding that the Inspector General's office will incorporate the attached summaries from PRPHA and issue the audit report to HUD only, and that any wider distribution of the report will await PRPHA's full response. Obviously, PRPHA's concern that proper and agreed-upon distribution procedures be followed is heightened by the premature release, to a wide distribution list, of your November 15, 1999 memorandum to Harold Lucas regarding Finding Two of the audit report.

· WASHINGTON, DC · HOUSTON · AUSTIN
 · HONOLULU · LAS VEGAS · McLEAN · MIAMI



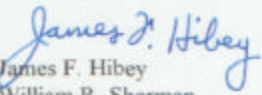
Nancy H. Cooper
January 31, 2000
Page 2


As you know, PRPHA will prepare and transmit its complete response to the final report once HUD informs PRPHA of its receipt of that report and requests PRPHA's comments. PRPHA's final response will then be forwarded directly to HUD for inclusion with the final audit report. At your request, we will of course forward a copy of PRPHA's response to the Inspector General's office as well. It is our understanding that both the final audit report and PRPHA's full response will then be distributed in hard copy and on the internet.

If your understanding and intentions regarding the distribution process for the audit report deviate in any way from that outlined herein, please let us know as soon as possible, prior to any release of the document.

Thank you for your cooperation. Please feel free to call us if you have any questions.

Sincerely,


James F. Hibey
William R. Sherman
VERNER, LIIPFERT, BERNHARD,
McPHERSON & HAND


Gordon Cavanaugh
Sharon Wilson Geno
RENO & CAVANAUGH

Counsel to PRPHA

cc: John Blakeman, Administrator
Puerto Rico Public Housing Administration

Alfredo Ocasio, General Counsel
Puerto Rico Public Housing Administration

Aurora Rodriguez, Senior Auditor
Office of Inspector General



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Additional PRPHA Comments to Revised Draft Audit Report

Dated January 12, 2000

I Overall Comments

The Puerto Rico Public Housing Administration ("PRPHA") appreciates the opportunity to review the above referenced revised draft audit report, and to provide the following summary comments. PRPHA also appreciates the two meetings held with representatives of the Office of Inspector General (OIG), at which PRPHA attempted to explain the many inaccuracies in the draft audit report. Unfortunately, while a handful of changes have been made from the earlier version discussed both at the November 4, 1999 working session and the December 7, 1999, exit conference, PRPHA's overall reaction to the revised draft is one of disappointment. As discussed at those meetings, PRPHA vehemently disagrees with many of the factual findings and recommendations in the draft audit report. PRPHA's concerns generally include (1) items which the OIG agreed to reconsider which were not changed or were only partially revised; (2) issues which the OIG indicated it would reconsider based on additional documents supplied by PRPHA, but, no changes were made; (3) standards which were incorrectly applied to PRPHA; (4) "facts" which are incorrect or misleading; (5) failure to differentiate clearly between past (5) problems and efforts already in place to improve operations; (6) documents which the OIG agreed to forward to PRPHA which have not been supplied; and (7) use of an audit methodology which unfairly prejudices PRPHA.

The HUD OIG Handbook 2000.6 Rev-3 - Audits Management System, Section 2-1(B), states that "[t]he final audit report should consider the results of the exit conference and contain references to specific areas of disagreement between the auditor and program participant for any recommendation where differences exist." PRPHA's disagreements with the OIG are not fully or accurately reported in the revised draft. Again, PRPHA asks that the OIG revise its audit to include the points raised at the exit conference, many of which are described below.

1. Agreements Made at the Exit Conference Not Fully Carried Through In the Revised Draft

During the exit conference, PRPHA made a number of requests for revisions regarding specific recommendations. In several cases, the OIG agreed to make those changes; however, the draft audit report does not reflect the revision, or else the change was made in one place, but not carried through in other parts of the report. PRPHA recognizes that such inconsistencies may simply be the result of an oversight, or incomplete notes of the exit conference, or a misunderstanding. However, it was precisely to avoid such circumstances that PRPHA requested that the exit conference be tape recorded. Specific instances include the following:

- **Executive Summary** - page 3 - first bullet point - The sentence beginning, "The large amount of HUD funds available to the PHA to spend may have contributed to the problem" remains, although this finding has been removed from other sections of the report per our agreement at the exit conference.
- **Finding 1** - page 12 - second paragraph - PRPHA acknowledges the removal of some language regarding the use of purchase orders, as we discussed at the exit conference. Given that agreement, PRPHA asks that you also remove the rest of this section, which implies that PRPHA's use of purchase orders for purchases over \$10,000 is inappropriate. The OIG has not cited any applicable authority which forbids the use of purchase orders in these situations. The Secretary of Housing approves all purchases over \$ 30,000, whether they are done by purchase order or other contract; therefore, the assertion that purchase orders are used to circumvent internal control processes is incorrect.
- **Finding 1** - page 13 - Purchase Order No. 98-703 - At the exit conference, the OIG agreed to remove the sentence beginning "The contracting officer...", as the statement was taken out of context. The contracting officer did not sign this purchase order because he did not believe he had authority to authorize purchases of that dollar amount.

2. Additional Documentation Sent To The OIG Not Reflected in the Revised Draft

In some situations where the OIG and PRPHA disagree, the OIG gave PRPHA two weeks after the exit conference to submit additional documentation to support its points. The OIG agreed to review and, if appropriate, reconsider several of its positions based on these documents. On December 22, 1999, PRPHA submitted to the OIG four large binders containing numerous records. A list of the documents supplied to the OIG is attached to this document. It does not appear that the OIG made any revisions based on this information. Examples include the following:

- **Finding 1** - page 13-14 - Purchase Order No. 98-703 - The OIG agreed to review and revisit its conclusions regarding this contract based on additional documentation submitted. While the revised draft audit report reflects some changes, it still does not show an understanding of the GSA procurement process, as reflected in the submitted materials.

PRPHA procured Xerox copiers in accordance with the GSA process permitted under Article 10 of its procurement policy. The GSA contract under which these copiers were purchased permits PRPHA to substitute copier models if a model contained in the contract was discontinued or if better technology became available. PRPHA provided evidence that the copier originally selected was discontinued and that the new copier selected was of new digital technology. The agency also supplied correspondence between PRPHA, Xerox, and GSA

documenting the change. Because the selected model was discontinued, PRPHA selected a new model from Xerox, and specifically chose a model which could handle the large volume of photocopying required in property management offices. A cost analysis was also performed to support the purchase.

Contrary to the OIG's assertion, the GSA process does not prohibit agencies from negotiating with approved suppliers under these circumstances. Information provided to the OIG also indicates that PRPHA received a substantial discount on this equipment. As the documentary evidence indicates, PRPHA followed the GSA process and purchased a better value photocopier after the originally selected model was discontinued. The subject finding should be removed from the audit report.

- **Finding 1** - Page 14 - Purchase Order No. 98-821 - Again, the OIG's office invited PRPHA to submit documents supporting its position that these purchases were in accordance with regulations. Contrary to the OIG's assertions, this documentation clearly shows that (1) prices and costs of bids were evaluated; (2) the Housing Secretary approved the policy requiring these purchases; (3) HUD worked closely with PRPHA over many months in making the decision to purchase these items; (4) the solicitation was advertised twice; and (5) bidders had 14 days to respond, four days in excess of that required by PRPHA Procurement Policy. Moreover, PRPHA supplied the OIG with minutes from the Bid Board meeting indicating that the selected contractor was the only responsive bidder. It appears that the OIG simply ignored this evidence.

In response to the OIG's contention that the disposition of the stoves was improper, PRPHA provided numerous memoranda and information dating back to 1981 indicating HUD's concern regarding unsafe resident-owned stoves in its units. In early 1998, PRPHA worked on a task force with HUD that met every two weeks for several months to develop the stove policy and to address other issues related to its PHMAP compliance. PRPHA provided the OIG with sign-in sheets showing HUD staff attendance and minutes detailing the discussions. HUD approved PRPI-IA's PHMAP plan, which included the stove purchases. The OIG cites no support for its assertion that HUD must provide specific written authorization of the stove policy.

- **Finding 1** - Page 16 - 17 - Contract No. 97-3715 - The OIG incorrectly suggests that amounts paid under PRPHA's contract for legal services with Fiddler, Gonzalez, and Rodriguez ("FG&R") be determined ineligible because the firm was improperly procured and the contract rates were excessive. PRPHA strongly disagrees on both counts. Not only is it questionable whether procurement is required in this case, but even if competitive proposals could have been solicited, no public purpose would be served. At the very least, PRPHA acted reasonably, based on its interpretation of the law; thus, the fees paid to

FG&R under this contract should not be disallowed. Again, PRPHA has supplied the OIG with numerous documents supporting its position.

HUD procurement requirements look first to the law of the State or local jurisdiction. Puerto Rico Law 66 states that a competitive procurement process need not be followed when "prices are not subject to competition because there is only one source or supply or *because they are regulated by law, in which case the purchase may be made in the open market as is usual in prevailing business practice.*" P.R. Law No. 66, § 1006(c). As PRPHA has informed the OIG, the Government of Puerto Rico has established rates between \$ 75 and \$125 per hour for legal representation of government entities. State Department of Puerto Rico, Circular 7-93. Given that the rates are dictated by the government, Puerto Rico law allows PRPHA to purchase legal services without competition. Moreover, considering the usual cost of legal services in Puerto Rico and elsewhere, fees in the \$75 to \$125 range are incredibly reasonable and far from excessive, especially given the quality of legal representation provided by FG&R and firms of similar size and expertise.

This provision also complies with HUD's procurement requirements. Because FG&R was essentially acting as PRPHA's House Counsel, its procurement was not subject to competition. Section 4-27 of the HUD Procurement Handbook states that "the employment of House Counsel is not covered by 24 C.F.R. 85.36," Although the HUD Procurement Handbook does not define House Counsel, FG&R clearly acted in that capacity as the term is commonly understood in the legal profession. The scope of services provided by FG&R was broad, including representation and advice to the agency on all legal matters. PRPHA had no in-house legal counsel at the time; thus, the agency relied heavily on FG&R to meet its legal needs. Consequently, Puerto Rico law and HUD requirements both indicate that PRPHA need not have competitively procured its legal services.

Moreover, Cannon 32 of the Canons of Professional Ethics for Attorneys in Puerto Rico states that "it would be improper for a lawyer to appear at any auction concerning the rendering of professional or notarial services before any juridical, public or private person." By letter dated April 3, 1998, from Oscar Gonzalez Rivera, Esquire, Deputy Secretary Legal Affairs for the Department of Housing to Hildamar Ortiz, Esquire, Director of the HUD Caribbean Office of Public Housing, PRPHA informed HUD that Cannon 32 barred attorneys in Puerto Rico from responding to a solicitation for legal services. Although HUD has taken the position that Cannon 32 does not apply, local attorneys believe that they could be disciplined for responding to a PRPHA request for proposals. As Cannon 32 continues to have a chilling effect on competition, PRPHA gains little to nothing by issuing a request for proposals. Competition would not result in responses from quality law firms and would do nothing to reduce legal costs, as fees are set by the government. Under these circumstances, no public purpose is served by PRPHA conducting a competition among legal service providers in Puerto Rico.

As reiterated by the OIG, the purpose of HUD's procurement requirements is to obtain the best quality services at the lowest cost. The purposes of HUD's procurement requirements are not served by such a process.

As additional support for the claim that amounts paid FG&R should be disallowed, the OIG indicates that PRPHA should have had the contract reviewed and approved by the HUD Office of General Counsel. The HUD Litigation Handbook does state that contracts for litigation should be reviewed by HUD OIG staff. Other legal contracts are not subject to HUD review. The FG&R contract is for both litigation and non-litigation representation. The primary purpose again is to ensure fees are reasonable. At HUD's insistence, PRPHA submitted its 1999 legal services contract to the HUD Office of General Counsel in the Atlanta Region for its review in May, 1999, even though the fees were government regulated. PRPHA received confirmation that the contract was approved and the contract rates reasonable on August 6, 1999. The rates in the 1999 contract are identical to those in Contract 97-3715. As PRPHA is now complying with the HUD Litigation Handbook requirement and the rates in the contracts have been deemed reasonable by HUD, there is no compelling argument to disallow these costs. In light of this information, PRPHA encourages the OIG to reconsider its position.

- Finding 2** - page 19 - 24 - The OIG agreed to review, and possibly remove, Finding Two, regarding the sole-source procurements of CVR Puerto Rico and Cardona, Irizarry and Company because the applicable regulation permits HUD, in its sole discretion, to approve such procurements, and such approval was obtained by PRPHA. See 24 C.F.R. 85.36 (d)(4). We note that this finding remains part of the Executive Summary and the body of the audit report, although PRPHA provided the OIG with numerous documents in support of its position.

PRPHA vehemently denies that it acted inappropriately in awarding the two contracts in question by sole source. On the contrary, PRPHA acted in close consultation with HUD both in determining the need for sole source procurements and in providing the documentation needed to obtain HUD approval. At both the November 4, 1999, and December 7, 1999, meetings, the OIG auditor suggested some irregularity or inconsistency in the documents submitted by PRPHA. PRPHA is unaware of any such irregularity or inconsistency, and has requested, at both meetings, copies of the documents to which the auditor referred. The OIG has refused to provide PRPHA with any such documents.

As the OIG points out, 24 C.F.R. 85.36(d)(4) allows for non-competitive procurement when there is no other feasible alternative and one of the four circumstances enumerated in the regulation applies. Those include situations where the public exigency or emergency for the requirement will not permit the delay resulting from competitive solicitation and the awarding agency (in this case, HUD) authorizes the purchase. The Emergency Declaration of the Housing

Secretary dated October 30, 1997, seeks HUD approval for the sole source procurements under either of the above stated provisions. As the regulation clearly provides, HUD can approve sole source procurements in its discretion. *See* 24 C.F.R. 85.36(d)(4)(i)(c). By letter dated December 23, 1997, HUD confirmed that it received each of the documents needed to justify a sole source procurement and approved both contracts. Given that the procurements and the contracts were authorized and approved by HUD in accordance with applicable regulations, the OIG has not demonstrated that PRPHA has violated any law, regulation, or policy, and the OIG's recommendation with regard to those contracts is unsupported.

The OIG report also fails adequately to describe or account for the justification for procuring these contractors without a competitive bid. In the fall of 1997, PRPHA received final reports from HUD indicating that its finance and modernization departments were performing very poorly. These problems left the agency vulnerable to misuse of federal funds and an inability to carry out its mission to provide housing to low income citizens. In an effort quickly to rectify these very serious findings, PRPHA consulted with HUD regarding strategies which should be employed immediately to reform many operations. It was decided that PRPHA's finance and modernization divisions should be "taken-over" immediately by outside contractors who were currently working for PRPHA. Following the Housing Secretary's declaration, PRPHA acted swiftly to solicit proposals from these contractors and to obtain HUD approval. Contrary to the OIG's assertion, the sole-source process enabled PRPHA to implement radical changes much more quickly than if another procurement method had been used, particularly given that PRPHA worked closely with HUD in finalizing these contracts.

- **Appendices A - E** - PRPHA provided additional back-up documentation refuting many of the OIG's allegations that PRPHA did not properly document the procurements detailed in appendices A - E. This documentation included two advertisements for procurements, although the OIG claimed there had been only one, documentation explaining the procurement history, minutes from Bid Board meetings explaining the reasons for selecting particular contractors, and other file information. The OIG made very few changes in the appendices, despite documentation contradicting many of its assertions.

3. Incorrect or Misapplied Standards

The draft audit report indicates that the OIG does not appear to understand certain of the applicable procurement requirements. In some cases, the OIG evaluates PRPHA's performance by standards that do not apply to the circumstances of the procurement. In other cases, the OIG misapplies requirements to support its position that PRPHA acted improperly. Examples include the following:

- Finding 1** - Page 12 - second paragraph - PRPHA strongly disagrees with the OIG's insinuation that the sealed bid method is the only method available for purchases over \$10,000. The standard cited by the OIG, 24 C.F.R. 85.36(d)(2), indicates that the sealed bid or formal advertising resulting in a firm, fixed price contract "is the preferred method for procuring construction ." In other cases when a sealed bid is not appropriate, the Federal and PRPHA regulations permit a public bid process through competitive proposal. *See* 24 C.F.R. 85.36(d)(3). A fixed price or cost reimbursement contract may be used in these cases. Virtually all of PRPHA files reviewed by the OIG involve services other than construction and were procured under the regulations for competitive proposal. Consequently, the standard does not apply. Even in cases where contracts were procured by sealed bid, a purchase order is by definition considered a firm contract under both the HUD Procurement Handbook and PRPHA Procurement Policy.

- Finding 1** - Page 14 - 15 - Purchase Order No. 98-822 - The OIG inappropriately cites 24 C.F.R. 85.43 in support of its contention that \$ 941,627 in costs incurred for the purchase of hot water heaters which have not yet been installed should be disallowed. This provision applies in cases where the program participant (in this case, PRPHA) "fails to comply with any term of an award..."

As discussed at the exit conference, PRPHA's program to finally provide safe hot water to public housing residents through the installation of hot water tanks is ongoing. It was approved by both the Housing Secretary and HUD, as evidenced by documents supplied to the OIG. There was no "term of an award" which placed a time limit on the installation of those hot water heaters. The OIG has not shown how this program does not comply with any HUD requirement. Consequently, there should be no disallowance of costs.

- Finding 1** - Page 17 - first and second full paragraphs - There are no Federal requirements regulating the cost of bid packages in 24 C.F.R. 85.36. Consequently, the last sentence of the second paragraph is incorrect and should be deleted.
- Finding 3** - page 26 - In its sole source contract with CVR Puerto Rico, Inc., which is discussed more fully in Finding 2, PRPHA agreed to advance funds to the contractor to be paid back in equal portions during the 18 month term of the contract. Despite the fact that the advance was part of a HUD-approved contract, the OIG asserts that it is unallowable because it shows that the contractor was not financially responsible as required by 24 C.F.R. 85.36(b)(8). Contrary to the impression created by the OIG's argument, the cited provision requires PRPHA to make awards only to responsible contractors, giving consideration to a number of factors including "contractor integrity, compliance with public policy, record of past performance, and financial and technical resources." PRPHA Procurement Policy contains a similar requirement. Nowhere does either document preclude the possibility of advancing start-up costs.

Moreover, the advance was not made to an unknown, untested and potentially "irresponsible" contractor. Rather, it was made to a new affiliate of a contractor already doing substantial work for PRPHA, and was made specifically to allow the affiliate to begin work for PRPHA immediately. Such a payment was particularly important in this case, because the contractor would be required to establish an office immediately and hire a staff of over 15 in Puerto Rico. At the time, the advance was also needed as PRPHA was having difficulty paying its contractors in a timely fashion. As CVR Associates, Inc. and its affiliate, CVR Puerto Rico, Inc. have the same principals, the same technical expertise, and the same assets, there is no support for the OIG's conclusion that the advance violates the procurement regulations.

The OIG also cites Treasury Department Regulation No. 31 as prohibiting advance payments. This regulation does not apply here as it governs only State-funded programs - not Federally-funded agencies like PRPHA. Even if it did apply, this regulation clearly permits advance payments if they are set forth in the contract which is approved by the awarding agency. As the advance was approved by HUD, it complied with both 24 C.F.R. 85.36 and PRPHA Procurement Policy, and it has already been fully paid back through the arrangement established under this contract. Therefore, it is not an ineligible cost.

- **Finding 2** - page 19-24 - A long discussion was held at the exit conference about the OIG's conclusions regarding the cost of the two sole source contracts. The OIG still has not provided PRPHA with its methodology for determining ineligible costs under these contracts. In addition, there is no regulation or requirement stating that the eligibility of costs should be based on the OIG's determination of what is reasonable. The contractors used by PRPHA were compensated not only to cover the cost of contract employees' services, but to provide expertise and accountability that PRPHA was not able to acquire on its own. Expertise and accountability are what PRPHA required to improve its troubled finance and modernization departments. HUD not only approved the use of private contractors to perform these functions, but it also approved the contract costs and terms. The contract employees' salaries are not relevant to this inquiry.

4. **Incorrect or Misstated Facts**

Several statements of "fact" in the OIG report are simply not factual. In some places, the OIG also either does not fully explain or misstates the circumstances in order to support its findings. Some examples include the following:

- **Executive Summary** - Page 8 - fifth paragraph - In a concern not previously raised, the OIG complains that PRPHA's sole source contract with CVR Puerto Rico includes services similar to those for which CVR Associates was paid under a HUD IQC. The OIG incorrectly implies that these services are duplicative.

Pursuant to a HUD IQC, CVR Associates assisted PRPHA in drafting a new procurement policy and handbook and providing procurement training to staff. CVR Associates successfully completed this task before the IQC expired in March, 1998. The CVR Puerto Rico contract to assist the modernization department includes, as one of many tasks, providing technical assistance in procuring modernization contractors. Under this item, CVR Puerto Rico helped PRPHA develop specifications for bid packages for modernization activities. This is a completely different task from the assistance under the IQC. The OIG has cited no regulation or requirement that would prevent CVR Associates and CVR Puerto Rico from providing these different services under two separate contracts. HUD did not view these items as overlapping as it was well aware of CVR Associates's IQC activities at the time it approved the CVR Puerto Rico contract. This statement is untrue and misleading; thus, it should be removed from the report.

- **Executive Summary** - page 8 - fifth paragraph - The OIG's determination that a separate procurement unit was established in May 1997 is not correct. As discussed at the exit conference, PRPHA may have intended to implement this suggestion during the prior administration. However, there was not a functioning procurement department at the time the current Administrator took over the agency in December 1997. That department was not fully operational until May 1998. Again, PRPHA supplied the OIG with documents describing the establishment of the procurement department in Spring 1998.
- **Finding 1** - page 13 - first paragraph - As discussed at the exit conference, PRPHA finds the sentence beginning "A responsible PHA official... particularly irresponsible, as it insinuates wrongdoing on the part of PRPHA based on hearsay. Such insinuations have no place in an audit report. Again, we specifically ask that this assertion be removed from the report, along with the rest of that paragraph.
- **Finding 1** - page 15-16 - Contract No. 97-6773 - The OIG's disallowance for the cost of this contract is based on several factual inaccuracies. First, the bid solicitation documents and minutes from the Bid Board supplied to the OIG clearly show that evaluation criteria were provided to the proposers and used by the Bid Board to select the chosen contractor. All proposers were given an opportunity to review PRPHA financial information in putting together their submissions. Third, the OIG fails to show that other bidders were in a "competitive range" as required to justify additional negotiations. Fourth, the competitive proposal method used to select this contractor specifically allows PRPHA to select a contractor based on qualification, not just the cost. *See* 24. C.F.R. 85.36(d)(3). Consequently, the OIG's assertion that the difference in cost between the selected contractor and the lowest bidder should be disallowed is without basis and wholly unjustified.

- **Finding 1** - page 17 - fourth paragraph - The statement that "no procurement files were maintained to support 20 purchases..." is incorrect and should be stricken from the report. The OIG auditor obviously received procurement files for each of the requested purchases, and they were apparently reviewed as to the adequacy of the documentation, which is detailed in Appendices B-E of the report.
- **Finding 2** - Page 23 - third and fourth paragraphs - It is not true that an affiliate of one of PRPHA's contractors, C&C Resources, has solicited additional business from PRPHA. Although PRPHA advertised for temporary employment services, C&C Resources did not respond to the request. Even though PRPHA has solicited proposals for private accountants, the OIG has not cited any facts or requirements demonstrating that C&C Resources, Cardona, Irizarry and Company, or PRPHA acted improperly. PRPHA decided not to purchase computers through the contract for accounting services as originally intended, thus funds earmarked for that purchase, can not be used for other purposes. Consequently, there is no need to amend the contract.

5. **Failure to Delineate Between Past Problems and Current Practices**

As PRPHA stated at the exit conference, the draft audit does not adequately differentiate between activities which took place under prior administrations and the current one. This is a particularly important point for PRPHA, as many of the OIG's recommendations would have a dramatic impact on the agency's future operations, but are supported primarily by evidence of past problems. The OIG's office indicated a willingness to separate past performance from current practices. Although some suggested language was added to clarify the time frames, findings that allegedly occurred well before the recent changes are still used to support recommendations regarding the future operations of PRPHA. Specific examples include the following:

- **Executive Summary** - page 2 - second paragraph - PRPHA takes issue with the OIG's assertion that it has done nothing to resolve past problems. This paragraph also implies that PRPHA is the subject of ongoing criminal investigations. PRPHA is not aware that it is the subject of any investigation stemming from acts which occurred after the current administration took over in December, 1997. Again, we ask that this misleading statement be removed from the report.

Improvements are evidenced in documents supplied to the OIG, including the following:

- a) Letter from John Blakeman to Hildamar Ortiz dated September 3, providing a detailed list of steps being taken to improve the procurement processes. These efforts were already being implemented at the time of the letter, even though Mr. Blakeman had been at PRPHA less than a year.

- b) Report from Cardona, Irizarry & Company dated May 21, 1999 explaining new systems which have been put in place in the finance department
- c) Letter from Price Waterhouse Coopers dated October 28, 1999, indicating that its audit of PRPHA files determined that PRPHA complied with applicable regulations. This audit reviewed three times more files from fiscal year 1999 than the audit conducted by the OIG.
- d) Letter from Hildamar Ortiz to John Blakeman dated April 15, 1998 acknowledging that work in the finance department by Cardona, Irizarry and Company and CVR Puerto Rico had been effective in improving PRPHA operations. HUD has also publicly acknowledged to the HUD Assistant Secretary for Public and Indian Housing the outstanding work performed by these contractors.

- **Executive Summary** - page 2 - paragraph 3-4 - In quoting the April 15, 1998 HUD Comprehensive Grant Monitoring Report, the OIG again does not acknowledge any steps PRPHA has taken toward resolving past findings. The OIG fails to cite how these new procedures are still deficient, leaving PRPHA to wonder if they have been reviewed at all. In paragraph 4, the assertion that findings from the 1996 OIG audit remain unresolved is overbroad. As stated above, PRPHA has provided several documents illustrating that it has taken numerous steps to improve its financial and procurement systems.
- **History** - page 7-8 - At the exit conference, PRPHA and the OIG discussed at length the lack of balance in this section. Again, PRPHA does not dispute that the agency has had problems maintaining systems in the past; however, the OIG does not acknowledge the improvements which have been achieved. Specifically, the OIG mischaracterizes the exceptions to the 1997 audit and fails even to mention the unqualified 1998 audit. There is also no mention of the increased and more qualified staffing of the procurement office, training programs, and more complete record keeping system. Also not mentioned is the revamping of the finance department, complete with new internal control systems. Information evidencing these improvements has been supplied to the OIG.
- **Finding 3** - page 26 - 28 - Two of the allegations contained in the revised draft OIG audit report discuss fraudulent actions of PRPHA employees or their contractors. Both cases stem from actions which took place in 1995, 1996, and 1997, prior to the current PRPI-IA administration. In the case of the CAER contracts, it was the current PRPHA Administrator who ordered that PRPHA stop making payments to the contractor and reported the fraud to the appropriate authorities. Also, PRPHA, along with its bank, were instrumental in providing

information which led to the indictments of several individuals involved with Inter Island Rental Corporation. PRPHA's assistance to law enforcement agencies in both situations has been publicly acknowledged. Nowhere in the draft report does the OIG acknowledge PRPHA's work in bringing criminal charges against these parties. Instead, the report leaves the reader with the false impression that PRPHA participated in the illegal activities. PRPHA did not participate in these activities - PRPHA is the victim of them. Despite lengthy discussions at the exit conference of PRPHA's concerns about this section, it remains unchanged.

The cited examples also do not support the OIG's unsubstantiated opinion that there are continued weaknesses in PRPHA's systems. This section also fails to recognize PRPHA's ongoing efforts to obtain restitution and to collect on its fidelity bonds. At the very least, the OIG audit report should include a more balanced description of these events, acknowledging PRPHA's assistance in bringing those involved to justice, indicating that the circumstances leading to the indictments occurred during a prior PRPHA administration, and more importantly, making clear that PRPHA has instituted changes which would prevent these types of crimes from happening in the future.

Also discussed at the exit conference was the fact that these findings were contained in earlier OIG reports and HUD Limited Monitoring Reports. PRPHA has already acknowledged these past problems and has been developing systems to guard against future such incidents. The draft OIG audit again cites these cases to support its claim that PRPHA's management controls remain deficient. However, few, if any, current examples are cited. PRPHA is not aware of any ongoing law enforcement investigations involving the agency, its contractors, or employees stemming from activities since December 1997. These findings should be removed from the draft audit report, as they are redundant and do not provide grounds for the OIG's assertions about the current management systems.

6. Documents To Be Shared By the OIG with PRPHA Not Received

The OIG's justification of certain findings is not clearly explained in the draft audit report. At the exit conference, the OIG agreed to provide further information on specified topics so that PRPHA could better understand and respond to the OIG's positions. However, PRPHA has received only one document from the OIG since the exit conference on December 7, 1999. Information which was requested, but still not supplied, include the following:

- **Finding 1** - page 17 - paragraphs 2 and 3 -The OIG provides no evidence that fees charged for bid documents were "excessive" fees and that the result was to restrict competition, other than the unsupported statement of a disgruntled former PRPHA employee. While PRPHA agrees that it did not always follow the stated limit in its procurement policy, it has taken steps to correct this problem. Moreover, PRPHA's review of the files audited by the OIG does not show any bid packages

which cost \$ 600.00. At the exit conference, the OIG auditor agreed to provide the list of bid packages reviewed and their costs, including the one reported to be \$ 600.00. PRPHA has yet to receive that information.

- **Finding 3** - p. 25-26 - The OIG suggests that PRPHA made excessive payments totaling \$ 920,691 for security through its intergovernmental contract with the General Services Administration ("GSA") and that an estimated \$ 2 million in ineligible cost may be incurred under this contract in the future. As discussed at the exit conference, the auditor's conclusion for both prior and future payments is simply incorrect. The OIG and PRPHA agreed to exchange reconciliations of these accounts. PRPHA forwarded its summaries to the OIG on December 22, 1999. However, the OIG has not provided any basis for its determination that these costs were ineligible.

In an effort to obtain the lowest possible cost for security, PRPHA receives its services through a contract between the Department of Housing and the General Services Administration ("GSA"). Under this arrangement, the GSA solicits competitive proposals from security service providers to establish rates to charge government agencies for each of the identified services. The GSA handles all aspects of the procurement process, evaluates the proposals, and enters into contracts with each of the successful bidders to provide services at discounted rates. Government agencies, including the Department of Housing, are then provided with a list of those companies. As one of several housing agencies within the Department of Housing, PRPHA participates in a master contract between the Department and GSA for security services. Each of the sister agencies identifies the type of services, location, and quantity to be provided by each security company at GSA-established rates.

This practice is not only permissible under HUD requirements, it is promoted. Part 24 C.F.R. 85.36(b)(5) states, "to foster greater economy and efficiency, grantees and subgrantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services." PRPHA's procurement of security services simply follows this policy as the GSA rates secured by the Department of Housing contract are much lower than those PRPHA could have obtained on its own. The GSA process anticipates that agencies, such as PRPHA, execute letter agreements with individual contractors at rates stipulated in the contract. No HUD approval is required. Contrary to the OIG's assertion, contracts of this nature are registered with the Puerto Rico Comptrollers Office by the GSA.

The OIG also mistakenly asserts that PRPHA has paid for all security services provided to the Puerto Rico Department of Housing. Security services for all Department of Housing agencies are listed on one monthly invoice. That invoice clearly identifies the project where the services were provided, the type of services, the cost, and the percentage of the overall bill which is allocated to each

agency. Although each agency within the Department of Housing receives a copy of the total bill, that agency is responsible for paying only for the portion of services which it uses. PRPHA's finance department personnel carefully review each invoice and pay only the appropriate percentage allocated to PRPHA properties. PRPHA reconciled these accounts and provided summaries to the OIG. Although these summaries indicate that PRPHA has made some minor payments for services received by the Department of Housing, those payments are being reimbursed to PRPHA and there is no support for the OIG's assertion that there are \$ 920,691 in ineligible costs.

7. **Problematic Audit Methodology**

The audit method used by the OIG is misleading and does not accurately reflect the procurement practices of PRPHA. In addition, the OIG's method of recording file deficiencies is faulty. Issues discussed at the exit conference in this regard -- which have not been resolved -- include the following:

- **Introduction** - pages 9 -10 - The OIG should explain more clearly that this was not a random file audit, but that files were "judgmentally selected" or pre-selected by the OIG for review. PRPHA was given a specific list of contractors who were targeted by this audit. In addition, in some cases, PRPHA made numerous purchases from the same contractor. However, only a small number of purchases were cited in the report as problematic. Nowhere does the draft audit indicate that the other purchases were reviewed and found satisfactory.

The current explanation leaves the reader with the false impression that the OIG reviewed a random sample of files and that none were compliant. This simply is not the case. As Price Waterhouse Coopers and PRPHA can attest, there are many more files which include all appropriate documentation. Given the faulty audit methodology, none of the OIG's assertions regarding percent of non-compliant files, percent of funds not eligible, etc. reflect reality.

- **Appendices A-E** - The charts prepared by the OIG to catalogue alleged file deficiencies incorrectly portray the situation. Problems with the accuracy of the appendices are generally explained as follows:
 - a. **Multiple Citations for One Error** - There are several situations where the OIG's conclusion that PRPHA chose an incorrect method of procurement result in the auditor to misleadingly citing multiple deficiencies for not following steps in the process which was not selected, rather than the single allegedly incorrect selection of a particular procurement process. For example, the OIG alleges that PRPHA split some purchases between 2 or 3 purchase orders to avoid a more lengthy procurement process. Whether or not that allegation is true, once its decision was made, PRPHA followed all of the appropriate steps for a small purchase. The OIG not

only cites PRPHA for the bid splitting, but also indicates deficiencies for not advertising twice, not providing sufficient time to respond, and other infractions which only apply if the competitive proposal process is applied. This type of reporting gives the appearance that there were multiple infractions, when there was, at worst, only one.

- b. Misconstruing Applicable Requirements - The OIG does not properly identify or apply the procurement standards and cost allocation standards to some files. This is particularly true in Appendices C and E, where the OIG seeks to declare certain costs ineligible as not being allocable to HUD programs. No justification is cited for determining the cost allowability questions. Moreover, some are just plainly incorrect or contradictory. For example, the OIG cites as ineligible PRPHA's use of comprehensive grant funds for the purchase of passenger vans (See Contract No. 98-073), and another file indicates that the use of operating funds for this purpose is also an ineligible use (See Contract No. 99-247). Under these circumstances, it is impossible to ascertain what the OIG believes is the correct standard.

The OIG is also of the mistaken impression that HUD must approve certain procurements. According to the HUD Procurement Handbook, HUD need only approve contracts in excess of two years in duration. Only one of the contracts cited falls into this category, despite the fact that the OIG cites PRPHA repeatedly for violating this inapplicable standard.

- c. Factually Incorrect Information - Several alleged deficiencies included in the appendices are simply wrong. In some cases, the OIG indicates that the procurement was not advertised twice when two advertisements were found in the file, that bidders were given insufficient time to respond when the file indicates they were given time in excess of the 10 days required by PRPHA Procurement Policy, or that there is no procurement file when it clearly exists and was reviewed by the OIG. PRPHA provided the OIG with the documentation needed to correct many of these errors, but again, few if any changes were made.
- d. PRPHA Needs Additional Explanation of Standard From the OIG - A number of the deficiencies cited by the OIG are not clear. Examples include citations such as "file did not show complete procurement history," "excessive cost," and "purchase order incomplete" when PRPHA files include what the agency believes is complete documentation. The OIG has not provided PRPHA any guidance as to what it considers to be deficient in each of these circumstances.

II. Recommendations

The following are PRPHA's responses to the recommendations contained in the revised draft audit report, the justifications for which are discussed above:

Finding 1

- 1A. Per our discussion at the exit conference, PRPHA strongly disagrees with this finding. PRPHA acknowledges that it has had a troubled past; however, it has made substantial progress toward recovery in the past two years. These improvements have been recognized by PRPHA's independent auditors and by HUD. Instead of taking the extreme approach of dismantling PRPHA and ignoring all of the recent improvements, PRPHA would be open to more technical assistance from HUD which would build on the progress which has already been made. PRPHA is not aware of any instance where a HUD-forced take-over or break-up of an agency has resulted in permanent reform. In fact, the OIG's semi-annual audit report dated March 31, 1999, complains that HUD has had numerous problems managing the recovery of agencies which have been declared in substantial default. Lasting improvement can only be achieved through the type of internal changes which PRPHA has already launched and which have proven effective.
- 1B. Many of PRPHA's past problems have been caused by bloated bureaucratic procedures. Adding a HUD cost-reimbursement review to existing systems would all but paralyze the agency. HUD does not have the capability effectively to manage a cost-reimbursement system for an agency the size of PRPHA. As HUD has recognized, PRPHA, with the help of a private contractor, has already made substantial improvement in the last two years in the area of financial management. PRPHA would welcome comments from the OIG on ways to improve its current financial management system. Implementation of a cost reimbursement system will only impede the agency's progress.
- 1C. At the exit conference, the OIG's office agreed to remove this recommendation.
- 1D. Again, PRPHA does not believe that it would be prudent or effective to have HUD staff review and approve each PRPHA purchase. In the past three years, PRPHA has averaged approximately 700 separate procurements each year. In its most recent experience, PRPHA waited four months for HUD Office of General Counsel to approve its contract for legal services.

Under the new PRPHA Procurement Policy, the decision for competitive awards will be made exclusively by the Bid Board, which is made up of individuals from outside PRPHA. PRPHA would welcome additional technical assistance from HUD on ways to improve its procurement system to ensure compliance with all applicable requirements.

- IE. As stated above, the OIG has not been able to produce any applicable requirement that purchases over \$10,000 should be done only by contract and not by purchase order. Much of the language regarding this issue was removed from the revised draft report per our discussion at the exit conference. We suggest that this recommendation be deleted as well.
- IF. Per our discussion at the exit conference, the new PRPHA Procurement Policy will not include the current language regarding the cost of bid packages. Consequently, this recommendation is unnecessary.
- 1G. PRPHA strongly disagrees with the OIG's determination of ineligible costs to be reimbursed. As discussed above, the OIG's allegations are largely incorrect and its methodology for calculating ineligible costs is, in many cases, illogical.

Finding 2

- 2A. The OIG's office indicated that this recommendation would be removed from the report as the contract is already terminated and the OIG has provided no evidence that PRPHA has paid for services not performed.
- 2B. As explained in 1D, PRPHA does not believe HUD has the capacity to review each PRPHA procurement for professional services. Ironically, HUD did review and approve both the staffing proposal and the contracts which the OIG is now criticizing in Finding 2.
- 2C. The Emergency Declaration in question is not dispositive in determining the legitimacy of the sole-source procurements. PRPHA met local and Federal requirements as it sought approval from HUD for the contracts under either its emergency power or its discretionary power. Thus, PRPHA has no objection to ensuring that future declarations are properly supported -- just as this one was.
- 2D. PRPHA abandoned its procurement of temporary agency services before any firm was selected; thus, no corrective action is necessary.
- 2E. For the reasons explained above, PRPHA strongly disagrees with the OIG's determination of ineligible costs paid to the sole source contractors. The agency procured these services in accordance with applicable regulations under HUD approved contracts. Both contractors delivered the services required by the contract; thus, no reimbursement is warranted.
- 2F. As stated above, the OIG has not alleged that PRPHA paid for services it did not receive under these contracts. PRPHA is willing to review the payments made to date under these contracts with the OIG.

Finding 3

- 3A. HUD already reviews PRPHA budgets and financial submissions on an annual basis to determine program compliance. Moreover, it conducts an annual monitoring review of PRPHA's comprehensive grant program and a yearly review of PRPHA's management and financial status under the PHMAP, and now under the new PHAS system. Although PRPHA would welcome additional technical assistance from HUD on ways to improve its cost allocation systems, any additional monitoring would serve no purpose.
- 3B. PRPHA does not agree with the OIG's determination of ineligible costs. Despite repeated requests, the OIG has not been able to support many of its justifications for requiring reimbursement. Moreover, PRPHA provided documents refuting the OIG's claims that these are ineligible costs. It does not appear that the OIG has reviewed that evidence.
- 3C-3D As discussed at the exit conference, PRPHA does not agree that funds lost due to fraud perpetrated on the agency should be recovered from the agency. PRPHA was the victim of these crimes. As HUD is already due full restitution per the plea agreements with the defendants and from monies seized by the FBI, there is no justification for the recommendation that PRPHA reimburse HUD. Moreover, this suggestion punishes PRPHA residents twice for the bad acts of a few individuals by denying them the benefit of both the funds already lost and funds which would be used to reimburse HUD. Once all of the perpetrators are sentenced, PRPHA also plans to collect from the issuer of the management agent's fidelity bond. The provisions of the HUD Financial Management Handbook prescribe the follow-up and write-off procedures a housing authority must follow in reporting such financial losses. The OIG's suggestion that PRPHA should reimburse these amounts to HUD would be contrary to these standards.
- 3E. As discussed above and at the exit conference, it appears the OIG misunderstands the payment process for the security contracts.

Finding 4

- 4A. PRPHA is willing to work with HUD to review and improve its policies and practices for maintaining property ledger. It will also work with HUD to develop a reasonable auditing method.
- 4B. As stated above, PRPHA will work with HUD to review its current property ledgers and make corrections where necessary.

- 4C. PRPHA established new management controls for purchase and contract registers in early 1998. Additional technical assistance from HUD on ways to improve these processes is welcome.
- 4D. The new PRPHA manual has recently been reviewed and approved by HUD for implementation.

III. Conclusion

As PRPHA stated at the exit conference, the agency has seriously considered the findings in this report. Since this audit began in May, 1998, many hours of PRPHA staff time have been dedicated to reviewing the areas of concern cited by the OIG and responding to requests for information and documentation. The agency has also sought the help of other government officials and outside experts to assist PRPHA in re-evaluating its own performance. Despite the information contained in the draft report, the OIG presents little evidence that PRPHA is in serious violation of applicable procurement requirements. Although PRPHA continues to improve its procurement and other internal control systems, it whole-heartedly denies that its current practices are as problematic as portrayed by the OIG.

PRPHA is particularly concerned because the OIG's recommendations are clearly overbroad. If the OIG's recommendations are implemented, two years of resources, time and money which have gone into improving the agency will be wasted. This will result in more confusion and delays which will cause the type of waste, fraud and abuse of which the OIG complains. Moreover, there is no evidence that more HUD oversight or a reconfiguration of the agency will improve its operation. The OIG has repeatedly pointed out that HUD has had little success effecting change. To the contrary, such drastic changes are likely to set back the progress which has already been made within PRPHA, as HUD oversight will circumvent these processes. As discussed at the exit conference, PRPHA invites the OIG to reconsider its severe recommendations and, instead, to offer suggestions which will recognize PRPHA's previous improvements and target those areas that truly need additional progress.

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PUERTO RICO PUBLIC HOUSING ADMINISTRATION

SUPPLEMENTAL DOCUMENTS
DECEMBER 22, 1999

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- 1) **September, 1999** PRPHA Status Report
- 2) **February 17, 1998** Memo to Tomey, Soto, et. al. from Blakeman re: Re-Organization of the Procurement Office (Draft Procurement Policy and Manual)
- 3) **April 28, 1998** Memo to Tomey from Blakeman re: Work Plan for Procurement Office
- 4) **September 3, 1998** Letter to Ortiz from Blakeman re: activities taken to improve procurement under 24 CFR §85.36
- 5) **December 21, 1998** Memo to Rivera Nazario from Blakeman re: administrative personnel changes/creation of office of acquisition of property and contracts (Spanish)
- 6) List of PRPHA Employees Terminated Since December 1997(Spanish)
- 7) List of PRPHA Procurement Department Staff As of December 1999
- 8) **November 1, 1999** Letter from Ocasio to Ortiz re: revised procurement manual and copy of same
- 9) **December 3, 1999** Letter from Ortiz to Blakeman re: comments to revised procurement manual
- 10) Chart Showing Corrected Status of PRPHA Accounts

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- 11) **January 1993** Handbook 7460.8 Procurement Handbook for Public Housing Agencies (PHAs) and Indian Housing Authorities (IHAs)
- 12) PRPHA Procurement Policy re: use of purchase order
- 13) **January 1993** Chapter 11. HUD Review Requirements (7460.1 REV-i)

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- 14) 24 CFR 85.36(b)(5) re: intergovernmental procurements
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- 16) Puerto Rico GSA Contract C-40-192 for purchase of photocopiers by governmental agencies (Spanish)
- 17) **November 23, 1998** Memorandum from Cordero to all interested parties re: effect of Puerto Rico GSA Contract C-40-192 (Spanish)
- 18) **December 9, 1997** Letter to Baez Puras from Garcia re: confirming conversation re: discontinued copier model (Spanish)
- 19) **March 20, 1998** Cost Analysis of Copier Costs Per GSA Contracting Procedure
- 20) **April 17, 1998** Letter to Baez Puras from Garcia re: contract of Xerox copiers to be installed in the offices of the Administrators of the Public Housing. (Spanish)

- 21) **April 23, 1998** Purchase Order for Xerox Copiers and Maintenance Contracts showing purchases made through GSA
- 22) **October 20, 1999** Memorandum from Wangen to Colon re: procurement of Xerox copiers
- 23) **November 23, 1999** Letter to Ramos Ferrer to Garcia re: indicating that due the discontinuance of the Xerox copier model originally contracted, the Xerox Corp. substituted this model for another model as provided for in the GSA Contract (Spanish)
- 24) **September 1998** Buyers Laboratories, Inc. listing of Xerox Copier model 220 DC showing average cost substantially more than that paid by PRPHA

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- 25) **October 16, 1981** Letter to Pierlusi from Febres Silva re: Elimination of Provision of Electric Ranges in Public Housing Projects
- 26) **August 23, 1982** Procedure for the Disposition of Stoves in Public Housing by the Auxiliary Secretary of Administration of Public Housing
- 27) **April 24, 1997** Public Policy and Procedure for the Inspection of Gas Stoves in the Units of PRPHA (Spanish)
- 28) **January. 30, 1998** Letter to Wangen from Moreta re: gas cylinder in Public Housing Units (Spanish) and sign-in sheets from series of meetings involving HUD and PRPHA regarding the PRPHA Improvement Plan in which the policies regarding the stoves and hot water heaters were developed
- 29) **April 30, 1998** Report of inspection of units for gas stoves and cost analysis of repair of gas shelters (Spanish)
- 30) **May 8, 1998** Excerpts from PRPHA Improvement Plan regarding plans for purchasing electric stoves and hot water heaters
- 31) **March 19, 1999** Letter from Ortega to Management Agents re: prohibition on use of gas stoves (Spanish)
- 32) 24 CFR 85.36(d)(2) re: sealed bidding requiring agency only consider responsive bidders.

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- 33) **April 23, 1996** Letter from Rodriguez to Saez re: waiver for provision of hot water in public housing units.
- 34) **May 17, 1996** Memorandum from Saez to Marchman re: waiver for provision of hot water in public housing units
- 35) **July 23, 1996** Letter from Saez to Rodriguez re: grant of waiver for provision of hot water in public housing units and suggesting study of alternatives
- 36) **May 14, 1997** Letter to Rodriguez from Del Toro re: history of HUD policies re: hot water in public housing (Spanish)
- 37) **June 30, 1997** Letter from Wangen to Ortiz re: plan to study installation of hot water in public housing units
- 38) Administrative Order authorizing the inspection of public housing units for hot water heaters
- 39) **July 18, 1997** Letter to Bureau of Property Administration from CORA Management Group re: Estimates-Quotes for Water Heaters (Spanish)

- 40) **February 28, 1998** Results of inspection of public housing properties in preparation of procurement of hot water tanks and electric stoves, including identification of units with double water lines
- 41) **December 9, 1998** Letter from Ortega to Management Agents re: prohibition on use of shower heaters in public housing units (Spanish)
- 42) **December 30, 1998** Memorandum from Ortega to Management Agents re: information for study of gas stoves and hot water heaters in public housing units (Spanish)
- 43) Results of inspection of public housing units for installation of hot water tanks -
- 44) **November, 1999** Updated report on installation of hot water heaters
- 45) Warranty information on hot water tanks showing overall 5 year warranty

Purchase Order No. 97-3715

- 46) PR Canon Ethics No. 32 - Professional and notarial services at auction
- 47) **January 1993** HUD Procurement Handbook (7460.8 REV-1) Legal and Other Professional Services
- 48) PRPHA Enabling Legislation - Law 66
- 49) **March 8, 1993** Memo to All Government Secretaries from Cifuentes re: standards and procedures for the contracting of professional and consulting services (Spanish)
- 50) **August 6, 1999** Letter from Buday to Blakeman re: request for concurrence in contracts for legal services

PRPHA Charged Excessive Fees for Contract Proposal Documents

- 51) List of Cost of All Bid Packages for contracts cited by the OIG in the draft report.

Large Grant Amounts May Have Contributed to Non-Compliance

- 52) Chart Showing Corrected Status of PRPHA Accounts (See Number 10 above)

Finding II

- 53) **October 30, 1997** Administrative Order of the Housing Secretary declaring emergency conditions and authorizing PRPHA to seek approval of sole source procurements of firms to operate the PRPHA modernization and finance departments under 24 C.F.R. 85.36(4)(i)(b) or (c)
- 54) **November 11, 1997** Letter from Wangen to Ortiz proposing sole-source procurements of firms to operate PRPHA modernization and finance departments
- 55) **November 21, 1997** Letter from Ortiz to Wangen concurring with the PRPHA approach in using sole source contracts, but requesting the submission of documents before approval
- 56) **December 23, 1997** Letter from Ortiz to Blakeman acknowledging receipt of all documents required under regulations and giving approval to execute sole source contracts.
- 57) **April 15, 1998** Letter from Ortiz to Blakeman re: Comprehensive Grant Program (CGP) Limited Monitoring Review (24 CFR § 968.335)
- 58) **March 9, 1999** Letter from Blakeman to Ortiz re: Amendment to Cardona Irizarry contract

PHA Comments

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- 59) May 10, 1999 Letter from Ortiz to Blakeman re: Amendment to Cardona Irizarry contract
- 60) May 21, 1999 Letter and Work Plan from Cardona to Rodfiguez re: Information for OIG audit and Status of Contract

Finding III

Security Services Contracts

- 61) Summary of Reconciliation of Contracts for Security Services
- 62) Summary of Evidence of Payments Made By PR Department of Housing for Security Services Under GSA Contracts (3 volumes of back-up documentation are available at PRPHA for review by the OIG upon request)

Contract Number 97-3465

- 63) January 8, 1998 Contract between CVR Puerto Rico, Inc. and PRPHA for consulting services related to the modernization department including provision for initial advance payment and providing that it be deducted in equal parts from each monthly invoices

Fictitious Training Invoices and Management Agent Claims

- 64) **April 15, 1999** Letter from Blakeman to Banco Popular re: efforts to obtain restitution (Spanish)
- 65) **August 27, 1999** Letter from Luna to Blakeman attaching July 16, 1999 Letter to Banco Gubernamental de Fomento from Banco Popular re: indicating that the fraud at PRPHA is not the bank's fault so no money will be paid by the Bank to cover the amount lost in the fraud; although the money recovered from one of the fraudulent accounts will be returned to PRPHA (Spanish)
- 66) Newspapers articles concerning PRPHA cooperation in prosecution of fraud cases
- 67) Indictment and Plea Agreements in US v. Ruben Monroig; ~; US v. Rios Ramirez; US v. Rodriguez Tirado
- 68) Copy of Management Agent contract requiring fidelity bond
- 69) **December 15, 1999** Report from Cardona to Gonzalez re: Status of Changes in Finance Department

Prior Reviews

- 70) **October 28, 1999** Letter to Blakeman from PriceWaterhouse and Coopers re: Results of Procurement Audit

INDEX OF DOCUMENTS
OIG DRAFT AUDIT REPORT OF THE
PUERTO RICO PUBLIC HOUSING ADMINISTRATION

SUPPLEMENTAL DOCUMENTATION REGARDING
SUMMARY OF PURCHASE ORDER DEFICIENCIES (APPENDICES B-C) AND
SUMMARY OF CONTRACT DEFICIENCIES (APPENDICES D-E)

DECEMBER 22, 1999

Summary of Purchase Order Deficiencies

1)	Bus Rental	97-279B, 97-528, 97-578, 97-585
2)	Coloraal	97-014
3)	DRC	97-585
4)	Ferreteria Martin Gonzalez	97-271, 97-299, 97-342, 97-409, 97-592
5)	IBM	97-458
6)	Michica International	97-032
7)	Motorola de PR	97-031
8)	Nu Vue Ind. Service	97-056 (97-057)
9)	National Security Institute	97-191, 97-220, 97-370, 97-461
10)	Plebiscito Storm Shutter	97-231
11)	PR Computer Services	97-338
12)	Standards Forms Inc.	97-263
13)	The Capricorn Group	97-228, 97-267, 97-275, 97-318, 97-341
14)	Befra Interiors	97-487
15)	Computerlink	97-478
16)	Fire Control Corporation	98-723
17)	Future Data Visions	98-469, 98-551
18)	J&K Printers	98-684
19)	KANE Caribbean	98-070
20)	Losada Auto Truck, Inc	98-074
21)	Mors	98-763
22)	MV Electrical Contractor	98-631
23)	Office Gallery	98-829, 98-830, 98-566
24)	Rafel J. Nido Inc.	98-822
25)	Royal International	98-752
26)	Royal Motors Inc.	98-071
27)	Speedy Office	98-708, 98-707, 98-541
28)	The Atmospheric Group	98-595
29)	Triangle Dealer	98-073
30)	White Westinghouse	98-821
31)	Xerox Corporation	98-405, 98-703

32)	Abreu Power Cars	99-248
33)	Autos Vega	99-246
34)	Computerlink	99-326
35)	Empresas Losada	99-245
36)	Triangle Dealers	99-247

Summary of Contract Deficiencies

1)	Cardona, Irrizary & Company	97-6773
2)	Cardona, Irrizary & Company	98-2311
3)	Cardona, Irrizary & Company	98-3464
4)	Cardona, Irrizary & Company	UNK
5)	Fidler, Gonzalez & Rodriguez	97-3715
6)	Gurimar Construction	97-134
7)	American Fundware	98-416
8)	Analytical Environment	97-811
9)	CVR Puerto Rico, Inc.	98-3465
10)	Global Panzardi Joint Venture	98-3823
11)	Habibe Computer	98-5121
12)	Price Waterhouse & Coopers	98-431
13)	Domenech Security	UNK
14)	Domenech Security	UNK

Summary of PRPHA's Response to Finding One

(to be inserted at p. 17)

There is no support for the vast majority of the IG's assertions in Finding One. First, the IG continues to insist that formal contracts be used rather than purchase orders, even though PRPHA has demonstrated that the regulations upon which the IG relies do not include such a requirement, and that PRPHA's use of purchase orders did not circumvent any processes required by Puerto Rico law or federal regulations. With regard to the specific purchase orders identified in Finding One:

- (1) PRPHA and GSA regulations clearly allow the purchase of the copiers, and the IG has improperly calculated its supposed disallowance.
- (2) The electric stoves were purchased with the full knowledge of HUD, if not with written HUD approval. In addition, PRPHA has provided the IG with documentation contradicting the IG's assertions about the alleged deficiencies in the purchasing of those stoves.
- (3) As documented to the IG, PRPHA has been installing the purchased water heaters and continues to do so. There was absolutely no requirement that the water heaters be installed by a certain date, and there is therefore no basis for disallowing the cost of heaters that have not yet been installed.
- (4) PRPHA has no information to substantiate the IG's claim that a false quote was submitted for the desktop computer, and the IG has not provided PRPHA with documentation to support that claim. Moreover, the computer is in use and is providing PRPHA with ongoing benefits.

With regard to the two contracts identified in Finding One, the IG is wrong. There is no justification for the IG's insistence that PRPHA should have selected the lowest bidder for Contract No. 97-6773, when that bidder was given an unacceptably low score in an assessment of the various bids. Indeed, an independent Bid Board assessed the scores and proposals of the six bidders and approved the contractor selected. Moreover, the IG's description of the contract award process is inaccurate.

With regard to Contract No. 97-3715, the IG's analysis ignores both Puerto Rico law and the realities of hiring outside contractors. First, Puerto Rico law does not require a competitive procurement process when prices are regulated by law, and the Government of Puerto Rico has established rates of \$75 to \$125 per hour for legal representation of government entities. Second, those rates are self-evidently reasonable and have in fact been approved by HUD. Third, both the Canons of Professional Ethics for Attorneys in Puerto Rico and HUD's regulations regarding House Counsel for public housing agencies make the OIG's recommendations inapposite.

Summary of PRPHA's Response to Finding Two

(to be inserted at p. 23)

There is absolutely no basis for the IG to criticize PRPHA's actions with regard to the two contracts identified in Finding Two. Both of those procurements, as well as the contracts themselves, were approved by HUD based upon extensive documentation provided by PRPHA. 24 C.F.R. § 85.36(d)(4) specifically allows HUD's approval, either because of a public exigency or emergency or in HUD's discretion. The IG's attempts to find problems with the approval process and these contracts are completely unfounded.

Summary of PRPHA's Response to Finding Three
(to be inserted at p. 28)

PRPHA has provided the IG with extensive documentation demonstrating that the IG's assertions regarding the Security Services Agreements are simply incorrect. With regard to the fictitious training invoices and fictitious management agent claims, it has been well-documented that PRPHA completely cooperated with law enforcement officials as soon as these fraudulent schemes were discovered, and PRPHA has instituted new procedures to prevent a recurrence of such schemes. The advance payments that the IG seeks to disallow are not prohibited by 24 C.F.R. § 85.36, the cited Treasury regulation, or any other statute or regulation. Moreover, that payment was approved by HUD. Finally, the IG does not fully and accurately describe either PRPHA's audit reports or the organizational changes instituted by PRPHA.

Summary of PRPHA's Response to Finding Four

(to be inserted at p. 31)

PRPHA does not dispute that additional improvements in its property management and procurement systems are desirable. Indeed, PRPHA welcomes HUD's assistance in instituting such changes. However, the problems are not nearly so extensive as suggested by the IG audit.

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