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Audit Case Number	2001-AT-1004

TO: Gloria Cousar, Acting General Deputy Assistant Secretary, Office of
Public and Indian Housing, P

A handwritten signature in black ink, appearing to read 'N. H. Cooper'.

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

SUBJECT: Puerto Rico Public Housing Administration
HOPE VI Program, Comprehensive Grant Program, and Economic Development
and Supportive Services Program
San Juan, Puerto Rico

This report presents the results of our efforts to audit the Puerto Rico Public Housing Administration's (PHA) Housing Opportunities for People Everywhere (HOPE) VI Program. The HOPE VI Program was directed toward revitalization of an area known as the New San Juan Gateway. We also reviewed the PHA's Comprehensive Grant Program (CGP) and the Economic Development and Supportive Services Program (EDSS) as they related to the revitalization initiative. We conducted the review in response to Department of Housing and Urban Development (HUD) officials' concerns about the PHA's financial management of the HOPE VI grants.

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 attempted to audit the HOPE VI Program of the Puerto Rico Public Housing Administration to revitalize the New San Juan Gateway. We reviewed the HOPE VI Implementation and Planning grants, and related funding from the Comprehensive Grant Program and the Economic Development and Supportive Services Program. We conducted the audit work in response to HUD officials' concerns about the PHA's financial management of the HOPE VI Program.

In general, our audit objective was to determine whether the PHA properly administered HOPE VI, CGP, and EDSS funds assigned to the Gateway initiative. Our audit disclosed a total breakdown of the PHA's administration of the New San Juan Gateway Project. The PHA lacked effective management and accounting controls over its Federal funds and did not effectively monitor the activities of its project manager, Carrero and Associates. Due to the unreliability of the amounts reported in the grant program accounts, we were unable to determine total program expenditures. The HOPE VI grants and related funds were essentially unauditible. However, at the request of HUD, we attempted to determine the application of funds and compliance with program regulations. We identified \$5.4 million of ineligible expenditures, \$10.5 million of unsupported costs, and \$3.8 million in cost efficiencies (see Appendix A).

Our audit disclosed:

- The PHA failed to provide full and open competition when it awarded a sole source contract to the project manager of the Gateway project and did not perform a price or cost analysis when procuring the services. In addition, the PHA made payments in excess of the contract limits and did not maintain proper disbursement control. We also determined that the PHA acquired property on which to develop replacement housing that was still sitting vacant after 5 years. The former PHA management was inept and appeared to make no attempt to monitor the activities of its project manager. As a result, HUD has no assurance that services were acquired at the most beneficial terms and that the funds were used in an economical, efficient, and effective manner. Of the \$28.3 million disbursed as of August 2000, we have questioned a total of \$12.1 million spent from these two grants.
- Carrero and Associates did not comply with Federal or the PHA's procurement requirements. It did not: (1) follow established procedures, (2) use the proper procurement methods, (3) maintain procurement files, and (4) perform price or cost analyses. The project manager obtained goods and services without full and open competition, charged unrelated and unnecessary costs to the HOPE VI project. We identified ineligible costs of \$736,031 and unsupported costs totaling \$196,206 (see Appendix C). This occurred because the PHA failed to monitor the activities of its project manager as required. As a result, HUD has no assurance that goods and services were obtained at the most advantageous terms.

- Carrero and Associates did not follow proper procurement procedures in contracting with its subcontractor, Freeman and Associates. Instead, Carrero selected the firm as a sole source without justifying the lack of competition or the validity of the cost. Further, the PHA did not review invoices submitted by Carrero for the services provided by Freeman. Had it done so, the PHA would have found unnecessary, unrelated, and unsupported charges. The PHA was negligent in its oversight of Carrero. We identified \$10,508 of ineligible costs and \$923,542 as unsupported.
- The PHA failed to properly administer payments of CGP funds. It approved \$3.8 million as project management fees without proper solicitation of the vendor and without cost analysis and justification. In addition, the PHA did not maintain adequate documentation to support the disbursements to Carrero and Associates, paid excessive charges, and failed to obtain proper approval prior to disbursement. These actions occurred because PHA's management disregarded Federal procurement requirements and did not establish adequate internal controls over payments. In the absence of proper support, the PHA is liable for \$3.8 million (\$1.7 million paid as of May 1999) for improper project management fees and \$326,260 for other unsupported costs.
- The PHA had no system of internal control. It had an inadequate accounting system, inadequate disbursement control and recordkeeping, and commingled cash from the various grants. It failed to meet matching state requirements, and used Federal funds to overcome a shortfall in state funds. The PHA executed no inventory control over purchases of goods and services for the HOPE VI Program and failed to monitor its project manager. This situation existed, in our opinion, because the PHA's management was unprepared or incapable of administering the program and disregarded program requirements. Consequently, the HOPE VI grants were unauditible, millions in costs are questionable or unsupported, and HUD has no basis for assurance of economy or efficiency of this project.

We recommend that you declare the PHA in default of its grant agreements for the HOPE VI Program and take the necessary steps to oversee completion of the Gateway initiative as planned. We also recommend that you take administrative action against former PHA officials who disregarded program requirements and failed to take corrective action on known deficiencies. We have questioned over \$19.8 million in costs which the PHA must repay from non-Federal sources or justify. Finally, we recommend that you work closely with the newly appointed PHA administration to rebuild its management and internal controls systems.

We provided copies of the draft report to the PHA and HUD on February 2, 2001. We discussed the report with the officials at the exit conference on February 8, 2001. The PHA provided written comments on March 12, 2001. Top officials in both the Puerto Rico Department of Housing and the PHA have been replaced. The new administration is working to implement programmatic reform and to create internal controls to safeguard the integrity of its programs. The PHA response is limited by the fact that the new administration has had, as we did,

significant difficulty in locating many of the documents pertaining to the HOPE VI Program. The PHA is committed to continue to work to resolve this problem. The letter responds to the recommendations and sets forth the action being taken by the new administration to correct the deficiencies found at the PHA. The PHA's comments are summarized in the findings and included in their entirety as Appendix F.

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Table of Contents

Management Memorandum	i
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Executive Summary	iii
-------------------	-----

Introduction	1
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Findings

1	The PHA Failed to Properly Administer its HOPE VI Implementation and Planning Grants	7
2	The Project Manager Disregarded Program Requirements	19
3	The PHA Paid Ineligible and Unsupported Costs for Professional Services of a Subcontractor	25
4	The PHA Made Improper Payments from the CGP Grant	31
5	The PHA Failed to Maintain an Adequate Financial Management System	35

Management Controls	41
---------------------	----

Follow-Up On Prior Audits	43
---------------------------	----

Appendices

A	Schedule of Ineligible and Unsupported Costs and Cost Efficiencies	45
B	Summary of HOPE VI Disbursement Deficiencies (Finding 1)	47
C	Summary of Procurement Deficiencies (Finding 2)	49
D	Summary of Public Relations Charges (Finding 2)	51
E	Summary of CGP Disbursement Deficiencies (Finding 4)	55
F	Auditee Comments	57
G	HUD Comments	63
H	Distribution	67

Abbreviations:

CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
EDSS	Economic Development and Supportive Services
FY	Fiscal Year
HOPE	Housing Opportunities for People Everywhere
HUD	Department of Housing and Urban Development
PHA	Puerto Rico Public Housing Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

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 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 PHA Administrator is appointed by the Puerto Rico Secretary of Housing. The PHA is the second largest public housing agency in the nation. As of July 1, 2000, it had 328 housing projects with 56,393 units scattered throughout Puerto Rico.

The PHA has a long history of management problems. In 1981, HUD designated its predecessor agency 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 was 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 remained troubled. In the latest fiscal year (FY) 1999 review, HUD cited the PHA's continuing financial management problems and need for corrective actions, but designated only the modernization program as troubled.

The FY 1997 and 1998 Single Audit reports contained findings similar to findings in this report. They cited the PHA for: (1) not properly monitoring the activities of its project manager, (2) not properly safeguarding and organizing accounting records, (3) processing adjusting journal entries without supporting documentation, (4) commingling program funds, (5) not keeping supporting documents for disbursements, and (6) making disbursements without approval by the authorized official. The FY 1998 report disclosed that although the PHA is working towards correcting prior year findings, the total amount of unresolved questioned costs from FY 1992 to FY 1998 in Single Audit reports alone totaled \$18.7 million.

Previous OIG reviews

Previous OIG audits have disclosed continued serious weaknesses in the PHA's ability to manage its procurement and related financial management systems. Our most recent report, No. 00-AT-201-1003 dated March 6, 2000, identified \$21.8 million of ineligible costs and \$4.1 million in cost efficiencies. We recommended declaring the PHA in substantial default and placing the PHA on a reimbursement basis for funding.

HOPE VI Program

HUD established the HOPE VI Program for the purpose of revitalizing severely distressed or obsolete public housing developments. Permitted activities include major reconstruction, rehabilitation and other physical improvements, replacement housing, management improvements, planning and technical assistance, community service programs and supportive services, and the planning for any such activities.

The PHA was selected to participate in the HOPE VI Implementation Program on November 19, 1993, under the FY 1994 Appropriation and awarded \$50 million. In May 1995, HUD awarded the PHA a \$400,000 HOPE VI Planning grant to plan the strategy for selected public housing projects. In addition, \$33.4 million in CGP funds and \$1 million of EDSS funds were assigned. All funds were to be directed at the revitalization of the New San Juan Gateway.

In April 1995, the PHA contracted with Carrero and Associates, Inc. d/b/a PROGRESSA to administer and implement its HOPE VI Program. Through subsequent contract amendments, Carrero and Associates was authorized to administer the supplemental funds assigned to

the initiative. The responsibilities were to procure suppliers, bill the PHA for completed work, and pay the suppliers. The activities of the revitalization of Gateway included:

- Rehabilitation of 360 units at Manuel A. Perez,
- Demolition of 40 units at Manuel A. Perez,
- Demolition of high-rise buildings at Crisantemos I and II,
- Construction of 80 units (40 elderly) of replacement housing at Crisantemos I,
- Construction of 40 units of replacement housing at Manuel A. Perez,
- Acquisition of Berwind property for construction of 959 units of replacement housing.

The HOPE VI Planning and Implementation grants and the Economic Development and Supportive Services grant are governed by their respective grant agreements. Title 24, Code of Federal Regulations (CFR), part 968 governs the CGP. Title 24 CFR 85 governs the procurement activities and associated management controls. Also, all grantees and subgrantees must comply with the cost principles contained in the Office of Management and Budget (OMB) Circular A-87.



Program
disbursements

The Gateway project expenditures totaled about \$38.4 million. At August 15, 2000, HUD's Letter of Credit Controls System showed that the PHA had disbursed \$28.6 million of HOPE VI and EDSS Program funds. The CGP funds disbursed for the Gateway project could not be determined from the system. Based on the PHA records, as of January 13, 2000, the amount of CGP funds disbursed was \$9.8 million. The following table summarizes the grants and disbursed amounts.

<i>Grant</i>	<i>Budgeted (million)</i>	<i>Disbursed (million)</i>
HOPE VI - Implementation	\$50.0	\$27.9 ¹
HOPE VI - Planning	.4	.4 ¹
CGP	33.4	9.8 ²
EDSS	1.0	.3 ¹
Totals	\$84.8	\$38.4

¹ As of August 15, 2000.

² As of January 13, 2000. The PHA's accounting system did not segregate expenditures by project. The information was obtained from the most recent data available from the PHA records.

The majority of the disbursements made by the PHA were to Carrero and Associates, who in turn made disbursements to various vendors.

HUD Headquarters officials informed us that the Gateway project was behind schedule. There was an agreement pending for the PHA to turn the project over to HUD for completion. It appeared HUD planned to hire someone to manage the remaining phases of the project. We did not evaluate the progress of the project. Our focus was on the concern that the PHA did not have accurate records detailing the costs. That concern was valid, and we found it necessary to compile data in order to perform our audit.

**Audit objectives,
scope, and
methodology**

Our objectives were to determine whether the PHA: (1) properly administered its HOPE VI, CGP, and EDSS funds assigned to the Gateway project, (2) properly monitored its project manager, Carrero and Associates, and (3) complied with applicable rules and regulations of the programs. We also assessed whether the PHA and Carrero and Associates: (1) followed procurement policies and procedures that complied with HUD requirements, (2) adequately determined the need for goods and services, and (3) had adequate controls to ensure receipt of goods and services and to preclude duplicate payments.

To accomplish our objectives, we:

- reviewed applicable laws, regulations, and other program related requirements,
- evaluated HUD internal correspondence, monitoring reports and Independent Public Accountant audit reports,
- interviewed responsible HUD, PHA, and project management officials and contractors,
- made site visits to dwelling units and a community center and verified the delivery of various goods,
- examined procurement and disbursement records and contract files, and
- assessed related management controls.

We judgmentally selected 34 disbursements made by the PHA from April 1995 through January 2000 totaling \$12.2 million. In general, we examined: (1) HOPE VI Implementation grant and CGP disbursements over \$300,000 and other judgmentally selected disbursements, (2) HOPE VI Planning grant disbursements over \$25,000, and (3) EDSS disbursements exceeding \$5,000. The disbursements examined were as follows:

<i>Grant</i>	<i>Disbursements Examined</i>	<i>Amount</i>
HOPE VI-Implementation	12	\$7,560,200
CGP	8	4,329,863
HOPE VI-Planning	7	223,292
EDSS	7	93,006
Total	34	\$12,206,361

In addition, we judgmentally selected and reviewed the procurement and related support for \$1.9 million in charges made by the project manager.

Our review was conducted at the PHA and project manager, Carrero and Associates' offices in San Juan, Puerto Rico. The audit primarily covered the period of April 1995 through December 1999. We extended the audit coverage as appropriate. We conducted our audit in accordance with generally accepted government auditing standards.

During the period covered by our audit, Miguel Rodriguez and John Blakeman served as PHA Administrators and Carlos Vivoni, Ana Carmen Alemany, and Carlos Gonzales served as Secretaries of the Puerto Rico Department of Housing. As a result of the November 2000 election, a new administration has taken over. The PHA administration in office as of date on this report was not responsible for creating the conditions cited in the findings of this report.

The PHA Failed to Properly Administer its HOPE VI Implementation and Planning Grants

The PHA failed to provide full and open competition when it awarded a sole source contract to the project manager of the Gateway project and did not perform a price or cost analysis when procuring the services. In addition, the PHA made payments in excess of the contract limits and did not maintain proper disbursement control. We also determined that the PHA acquired property on which to develop replacement housing that was still sitting vacant after 5 years. The former PHA management was inept and appeared to make no attempt to monitor the activities of its project manager. As a result, HUD has no assurance that services were acquired at the most beneficial terms and that the funds were used in an economical, efficient, and effective manner. Of the \$28.3 million disbursed as of August 2000, we have questioned a total of \$12.1 million spent from these two grants.

Criteria

The November 1994 Implementation Grant Agreement requires the Authority to comply with procurement guidelines contained in 24 CFR 85.36. Section (c) (1) requires all procurement transactions to be conducted in a manner providing full and open competition. Section (f) (1) requires the grantees and subgrantees to perform a cost or price analysis in connection with every procurement action. Section (b) (9) requires the grantees to maintain sufficient records to detail the significant history of each procurement. Section (d) (4) (i) states that procurement by noncompetitive proposals may be used only when award of a contract is infeasible under small purchases procedures, sealed bids or competitive proposals, and one of the following circumstances applies: (a) the item is available only from a single source, (b) the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation, (c) the awarding agency authorizes noncompetitive proposals, and (d) after solicitation of a number of sources, competition is determined inadequate.

Article XIII of the Grant Agreement states that the PHA must keep records in accordance with 24 CFR 85.20 that facilitate an effective audit to determine compliance with program requirements, and which fully disclose the amount and disposition of funds received under the HOPE VI grant, including sufficient records that document the reasonableness and necessity of each expenditure.

On September 18, 1995, the PHA and HUD entered into a HOPE VI Planning Grant Agreement. Article IV.5 of the Grant Agreement provides that the grantee will not commingle HOPE VI grant funds with funds from any other sources. Article IV.8 states the grantee will comply with, and be subject to, the requirements, policies, and standards set forth in 24 CFR 85. Article VIII.1(a) requires that the grant funds are to be used in accordance with the budget that was attached to the Grant Agreement.

Improper procurement process

On April 1, 1995, the PHA awarded Carrero and Associates (as a sole source) a 3-month contract, renewable up to a maximum of 2 years to administer a 1994 \$50 million HOPE VI Implementation grant. The fees for the services were not to exceed \$2.88 million for the 2-year period. On January 19, 1996, 10 months later, the PHA amended its contract with Carrero and Associates. It extended the contract through June 30, 2000, and increased the maximum compensation to \$7.2 million. The contract amendment also authorized supplemental funding for the Gateway project as follows:

<i>Program</i>	<i>Amount</i>
CGP	\$30,897,876
Section 8 Rental Certificates	2,286,600
Section 8 Rental Vouchers	1,230,244
EDSS	1,000,000
1995 HOPE VI Planning Grant	400,000
Total	\$35,814,720

The procurement process was seriously flawed. In a letter dated November 4, 1994, Carrero and Associates informed the former PHA Administrator of its intent to submit a competitive proposal for project manager in response to a request for proposal planned for issuance by the PHA. On November 28, 1994, before the request for proposal was issued, the former PHA Administrator requested HUD's approval of a sole source contract with Carrero and Associates, as project manager, in an effort to expedite the implementation of the HOPE VI grant. He said the selection was based on the firm's knowledge and experience in new developments and modernization of public housing. The PHA also told HUD that no other

firms in Puerto Rico could perform the work. HUD approved the request on March 9, 1995, on the condition that the PHA perform a cost analysis and ensure that the final cost was competitive and justifiable.

Although the PHA claimed that Carrero and Associates was the only knowledgeable and experienced firm, it did not provide any support or document its efforts to contact other sources. The cost proposal submitted by Carrero and Associates dated February 25, 1995, stated that it would contract with five external consultants, as part of its team, specializing in the areas of construction management, economic development, relocation, community services, and communications. The fact that external consultants were needed indicated that Carrero and Associates did not have the capacity or experience to perform the work and that it was not the only source available to conduct the work as claimed by the PHA.

The PHA officials stated that they did not have any procurement files related to the procurement of Carrero and Associates as project manager. The PHA did not provide evidence that a cost analysis was performed or that the \$7.2 million in fees to be charged by Carrero and Associates was competitive and justifiable. This was contrary to requirements of 24 CFR 85.36 and HUD's instructions.

Payments in excess of
contract limits

The PHA did not establish adequate internal controls to monitor and track payments to Carrero and Associates to assure they were in accordance with the terms of the contract. PHA officials acknowledged the lack of controls and informed us that the only way to know the amount of fees paid would be to examine all the disbursements made, separating the fees from other costs. Therefore, we compiled the invoices and estimated that Carrero and Associates billed the PHA at least \$11.4 million in management fees between April 1995 and March 2000 as follow:

Finding 1

Project Management ⁽¹⁾	\$9,812,710
Administrative Fees ⁽²⁾	160,584
Contract Management Fees ⁽³⁾	663,640
Reimbursements ⁽⁴⁾	50,272
Reference Materials ⁽⁵⁾	9,965
Consultants ⁽⁶⁾	792,401
Total	\$11,489,572

Notes:

- (1) Staff Salaries of Carrero and Associates
- (2) Administrative fee charged on utilities, stipends paid to volunteers, supplies, equipment, etc.
- (3) 15 percent fee charged on work billed by consultants
- (4) Items such as airfare, apartment rent, relocation costs, etc. of Carrero and Associates
- (5) Copies, maps, etc.
- (6) Consulting services contracted by Carrero and Associates included in the cost proposal

As of March 2000, the PHA had disbursed \$11.2 million to Carrero and Associates, leaving an unpaid balance of \$240,033. This was \$4 million over the contract limit of \$7.2 million. We estimated the PHA reached the full contract amount as early as November 1997. The excess charges to the HOPE VI Program occurred because the PHA was negligent in monitoring the payments to its project manager.

Although the PHA was informed in May 1999 by one of its consultants of the excess payments, it took no action until March 2000 when it contracted with a public accounting firm to reconstruct payments to Carrero and Associates. The report, issued on June 27, 2000, concluded that Carrero did not maintain a complete general ledger that adequately identified the source and application of the funds. Also, the accountant could not trace deposits and expenses to the general ledger. The report did not state the amount billed by Carrero. The report stated that payments totaling \$289,806 made by the PHA to Carrero could not be traced to Carrero's books.

We consider the \$4,049,539 over the contract limit to be ineligible.

Inadequate
disbursement controls
– Implementation grant

We analyzed 11 disbursements by the PHA from the HOPE VI Implementation grant for goods and services. Ten disbursements were to Carrero and Associates, who in turn made disbursements to various vendors. In addition, we reviewed Carrero's invoices from April 1995 to November 1997. The PHA's controls were not effective because it: (1) paid invoices that were not properly supported, (2) paid excessive administrative and contract management fees, (3) paid for costs not incurred, (4) paid unreasonable expenses, and (5) allocated costs to incorrect accounts.

- **Invoices Not Properly Supported** Disbursements made by the PHA were not properly supported. Seven disbursements consisting of 16 invoices did not contain sufficient support to document the reasonableness and necessity of the charges. For example, Carrero and Associates submitted an invoice that consisted of adjustments to prior 1996 and 1997 invoices. The adjustment resulted in an additional charge of \$84,583. The documents submitted by Carrero and Associates did not provide detail to support how the adjusted amounts were determined. The documentation only contained information about the previous bill's old amount and what the correct amount should have been. In another example, the PHA paid invoice no. 1C-1058 which included a change order that resulted in a net increase of \$5,450; however, there was no documentation explaining the nature of the change. Consequently, \$248,841 is unsupported (See Appendix B, footnote 2).
- **Excess Administrative and Contract Management Fees** Carrero and Associates charged the PHA \$521,561 for administrative and contract management fees between April 1995 and November 1997¹ as follows:

¹Period in which the contract limit of \$7.2 million was reached.

Finding 1

	<i>Administrative</i>	<i>Contract Management</i>	<i>Total</i>
Apr-Dec 1995	-	\$107,681	\$107,681
Jan-Dec 1996	\$25,560	247,471	273,031
Jan-Nov 1997	34,554	106,295	140,849
Total	\$60,114	\$461,447	\$521,561

Administrative fees were charged for stipends, utilities, supplies, and furniture purchased for the project by Carrero and Associates. Management fees were charged for work performed and billed by consultants. The fees ranged from 10 to 15 percent. For example, Carrero and Associates submitted an invoice for October 16 - 31, 1996, which included \$11,174 for contract management fees, and a 10 percent administrative fee of \$1,536 added as a percentage of: (a) salaries and stipends paid to volunteer program staff, (b) office and maintenance supplies, (c) utilities, (d) rent, etc.

We found that various consultants were billing an administrative fee for work that they subcontracted. Carrero and Associates billed the PHA for those consulting services plus its own 15 percent fee. For example, in October 1995, COMMUNICAD, Inc. submitted invoice number 1034 for \$4,629 related to a Washington, DC trip. The invoice included a charge of \$621 for dinner arranged by a subcontractor, MAPA Communications, Inc. MAPA added a 15 percent "agency fee" of \$93 to the invoice. COMMUNICAD billed Carrero and Associates for the \$714 dinner costs charged by MAPA plus its administrative fee of \$126 (18 percent). In November 1995, Carrero and Associates billed the PHA \$840 charged by COMMUNICAD, plus \$126 (15 percent) for its contract management fees. In total, an additional \$345 (56 percent) in fees was charged to the HOPE VI Program for a \$621 dinner.

In another example, COMMUNICAD submitted invoice number 1080 for \$45,419 related to the implosion of Crisantemos I. The invoice included a

charge of \$4,500 for helicopter services. COMMUNICAD billed Carrero and Associates the \$4,500 plus an administrative fee of \$1,000 (22 percent). In August 1996, Carrero billed the PHA \$5,500 charged by COMMUNICAD, plus \$825 (15 percent) for contract management fees. Accordingly, an additional \$1,825 (41 percent) in fees was charged to the HOPE VI Program for helicopter services that should have cost \$4,500.

These transactions are considered a “cost plus a percentage of cost” and are prohibited by 24 CFR 85.36. As a result of the excessive fees charged, the PHA paid Carrero and Associates ineligible fees of \$521,561.

- Costs Not Incurred** Our test of the payroll records disclosed that Carrero and Associates charged the PHA in excess of the actual amount it incurred for payroll. For example, time and attendance records reflected that some employees worked overtime during the pay period of June 16 - 30, 1997. Carrero and Associates billed the PHA for all the hours included on the employees’ timesheets including the overtime. However, payroll records reflected that these employees were not paid overtime. Accordingly, the PHA paid \$5,650 that its project manager never incurred as follows:

<i>Position</i>	<i>Hourly Rate</i>	<i>Total Hours Billed</i>	<i>Hours Paid Per Payroll</i>	<i>Hours Billed in Excess of Actual Payment</i>	<i>Estimated Overcharge</i>
Dir. Operational	\$77.91	110.50	86.67	23.83	\$1,857
Field Off. Assist. Admin.	25.96	105.50	86.67	18.83	489
Senior Planner	57.69	103.50	86.67	16.83	971
Dir. Planning	72.12	100.00	86.67	13.33	961
Human Resources	43.29	90.50	86.67	3.83	166
Accountant	34.62	88.50	86.67	1.83	63
Training Specialist	40.41	97.50	86.67	10.83	438
Community Coordinator	25.96	95.00	86.67	8.33	216
Community Organizer	17.31	88.00	86.67	1.33	23
F/O Administrator	36.35	99.50	86.67	12.83	466
Total		978.50	866.70	111.80	\$5,650.00

- Unreasonable Expenses** Although Carrero and Associates was established in Puerto Rico, the PHA paid invoices for airfare, apartment lease (\$1,600/month), automobile rental (\$750/month), meals and incidentals (\$750/month), and relocation expenses. Between April 1995 and November 1995, the PHA paid the following:

<i>Description</i>	<i>Amount</i>
Airfare	\$17,059
Apartment Lease	12,800
Automobile Rental	6,000
Meals and Incidentals	6,000
Relocation Expenses	8,413
Total	\$50,272

Disbursements made by the PHA did not contain documentation that the expenditures were necessary and reasonable for the project. Without such evidence, the \$50,272 was unsupported.

- Costs Allocated to Incorrect Accounts** We identified \$383,769 in charges that were allocated to incorrect accounts or where the cost allocation was not supported. For example, expenditures related to the rehabilitation of a temporary facility were charged to management improvements (account 1408). The correct account was non-dwelling structures (account 1470). In addition, administration (account 1410) was improperly charged with legal and public relations costs incurred by Carrero and Associates. The costs to be charged to the administration account were those incurred by PHA staff, not its contractors.

HUD cited similar deficiencies on April 20, 2000, and disallowed over \$1 million in similar costs improperly charged to the administration account. Improper allocation of costs resulted in inaccurate project financial information.

PHA acquired a parcel of land which was not used

On May 1997, the PHA acquired property on which to develop replacement housing with \$3.2 million of HOPE VI funds. The property was originally acquired in 1967 with Commonwealth funds by the predecessor housing authority, the Puerto Rico Urban Renewal and Housing Corporation. The current PHA purchased the property from the trustee (a Commonwealth entity) in charge of liquidating the assets of the Puerto Rico Urban Renewal and Housing Corporation. Although the acquisition was made in 1997, development had not taken place at the site.

Inadequate disbursement controls – Planning grant

We examined 7 transactions totaling \$223,292. Neither the PHA nor the project manager maintained accurate and current accounting records as required in 24 CFR 85.20. The review disclosed that the PHA: (1) disbursed funds with inadequate supporting documents, (2) made adjusting journal entries without adequate support, and (3) commingled its HOPE VI Planning and Implementation grant funds.

- **Missing or Inadequate Support** The PHA did not provide disbursement vouchers and supporting documents for 2 of the 7 disbursements (check numbers 182 and 39771) totaling \$82,988. The supporting documentation for check numbers 17 and 31 totaling \$28,363 and \$25,246 respectively, was not sufficient to determine the eligibility of the charges. The supporting documentation for check number 378 for \$25,445 and check number 380 for \$28,801 included charges for personnel not approved in the HUD budget.
- **Unsupported Journal Entry** On February 28, 1998, the PHA prepared a three-page journal entry reclassifying \$75,984 in costs between the HOPE VI Planning and Implementation grants. The PHA financial consultant said the Planning grant expenditures were improperly charged to the Implementation grant, and vice versa. In the journal entry, there was an adjustment transferring \$14,499 in costs to the Implementation grant. The entry was

to reclassify costs to agree with the HOPE VI Planning grant budget approved by HUD. The three-page journal entry was not properly documented and did not clearly show that the reclassification of expenditures between the two grants was correct. The final entry appeared to be an arbitrary charge to the Implementation grant simply to correct the budget overrun in the Planning grant.

Grant closeout audit
not conducted

The Planning Grant expired on May 8, 1998. The closeout procedures for the HOPE VI Program require an audit of expended grant funds in accordance with OMB Circular A-133. HUD reviews the audit report to determine whether expenditures are allowable, activities were completed in accordance with the grant agreement, and all Federal requirements were satisfied. The PHA did not provide evidence that this audit was conducted as instructed in HUD's May 11, 1998, letter. As a result, the PHA cannot assure that funds expended under its Planning grant were in accordance with program requirements. Consequently, the \$400,000 in Planning grant was unsupported.

* * * * *

It is clear from the PHA's records that it failed to properly administer the HOPE VI grants. Its procurement of the project manager was improper, it failed to oversee that project manager, and it failed ensure propriety of expenditures. Consequently \$4.5 million is ineligible, \$7.3 million is unsupported, and \$240,033 will be ineligible if paid. These deficiencies are material and constitute a default of Article XVIII of the Grant Agreement.

Auditee Comments

“. . . without the records and files of the [PHA] and its consultant, there is no means by which this Administration can justify or explain the questioned disbursements. However, the [PHA] is in the process of reorganizing the [PHA] in order to create the internal controls and management needed to prevent this type of situation from occurring in the future.

“. . . [PHA] will not be managing its programs by contractors, as had been the practice under the previous administration. Instead, the [PHA] is creating program offices, procurement offices, and financial offices to manage and run its programs with permanent career staff. This will allow the [PHA] to develop expertise and institutional knowledge which will facilitate the [PHA] in the administration of its programs, including the HOPE VI grant for New San Juan Gateway.

“[The PHA] believes that the 1994 HOPE VI grant agreement should not be declared in default. The [PHA] will have in place by August 31, 2001 the necessary staff to properly implement and manage the HOPE VI grant.

“The [PHA] is preparing a [request for proposal] to retain a certified public accounting firm to provide this information.”

(The draft report’s Finding No. 5 was merged with Finding No. 1.)

OIG Evaluation of
Auditee Comments

The new administration at the PHA is in the process of implementing steps to correct the deficiencies. We will provide the PHA the opportunity to review the relevant documents in our possession to assist in responding to the recommendations.

Recommendations

We recommend that you:

- 1A. Declare the PHA in default of its 1994 HOPE VI Implementation Grant Agreement and take necessary steps to oversee completion of the Gateway initiative.
- 1B. Require approval from HUD’s Office of General Counsel for all future sole source contracts by this PHA.
- 1C. Determine, by comparison to similar modernization or development projects, the reasonableness of project management fees of \$7.2 million.

Finding 1

- 1D. Require the PHA to reimburse HUD \$4,049,539 of Implementation grant costs from non-Federal sources for the ineligible payments over the contract limit.
- 1E. Require the PHA to reimburse HUD \$521,561 of Implementation grant costs from non-Federal sources for the ineligible fees (this amount is included in the project management fees of \$7,200,000).
- 1F. Require the PHA to reimburse HUD \$5,650 of Implementation grant costs from non-Federal sources for costs not incurred by Carrero (this amount is included in the project management fees of \$7,200,000).
- 1G. Request justification for the \$248,841 of unsupported Implementation grant costs or recover from non-Federal funds.
- 1H. Determine the proper disposition of remaining obligated invoice amounts of \$240,033 for ineligible project management fees.
- 1I. Require the PHA to formally develop plans for use of the acquired parcel of land (Berwind) or sell the property and return funds to HUD.
- 1J. Request justification for the \$400,000 of unsupported Planning grant costs or recover from non-Federal funds.
- 1K. Require the PHA to obtain a closeout audit of HOPE VI Planning grant to assess the eligibility of the Planning grant costs.

The Project Manager Disregarded Program Requirements

Carrero and Associates did not comply with Federal or the PHA's procurement requirements. It did not: (1) follow established procedures, (2) use the proper procurement methods, (3) maintain procurement files, and (4) perform price or cost analyses. The project manager obtained goods and services without full and open competition and charged unrelated and unnecessary costs to the HOPE VI project. We identified ineligible costs of \$736,031 and unsupported costs totaling \$196,206 (see Appendix C). This occurred because the PHA failed to monitor the activities of its project manager as required. As a result, HUD has no assurance that goods and services were obtained at the most advantageous terms.

Criteria

The November 1994 Grant Agreement requires the Authority to comply with procurement guidelines contained in 24 CFR 85. Part 85.36 (c) (1) requires all procurement transactions to be conducted in a manner providing full and open competition. Section (f) (1) requires the grantees and subgrantees to perform a cost or price analysis in connection with every procurement action. Section (b) (9) requires the grantees to maintain sufficient records to detail the significant history of each procurement. Section (d) (4) (i) states that procurement by noncompetitive proposals may be used only when award of a contract is infeasible under small purchases procedures, sealed bids or competitive proposals, and one of the following circumstances applies: (a) the item is available only from a single source, (b) the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation, (c) the awarding agency authorizes noncompetitive proposals, and (d) after solicitation of a number of sources, competition is determined inadequate.

The Grant Agreement, Article XIII, also states that the PHA must keep records in accordance with 24 CFR 85.20 that facilitate an effective audit to determine compliance with program requirements, and which fully disclose the amount and disposition of funds received under the HOPE VI grant and the reasonableness and necessity of each expenditure.

Procurement
deficiencies

Paragraph 3 of the contract between Carrero and Associates and the PHA states that the contractor will comply with all Federal and state laws, regulations, and ordinances applicable to the terms of the contract.

Public Relations Services Carrero and Associates charged the PHA \$720,744 for public relations services, associated with its April 1995 contract. The scope of the contract work consisted of consulting in the areas of “public affairs, community and media relations, and private and public sector information materials.” The scope also included “assistance in the economic development procurement.”

The services were procured from COMMUNICAD, Inc. as a sole source vendor, yet there was not a procurement file to support the noncompetitive procurement or the cost. Accordingly, Federal and PHA procurement requirements were not followed. As evidenced by the invoices, the work was not necessary for the administration of the HOPE VI project. The activities were targeted to promote the government and for entertainment purposes, rather than providing a direct service to the targeted community.

Attachment B of OMB Circular A-87 does not allow the costs of entertainment. It also provides the following as unallowable advertising and public relations costs,

- Costs of displays, demonstrations, and exhibits,
- Costs of meeting rooms,
- Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings,
- Costs of promotional items and memorabilia, including models, gifts, and souvenirs, and
- Costs of advertising and public relations designed to promote the governmental unit.

Furthermore, the Housing Department already had a communications office that could have performed these tasks. The charges of \$720,744 were ineligible (see Appendix D).

Our review disclosed the following examples:

- Unnecessary and/or Unsupported Charges** We examined COMMUNICAD invoices and the majority were not supported. Some included charges that were not necessary or reasonable for the administration of the program, such as breakfasts for congressional staff (\$1,019), flower arrangement for a HUD official (\$73), dinner for Commonwealth officials (\$840), press conference luncheon (\$1,770), 4,082 T-shirts/polo shirts, key chains, pins, and caps (\$35,166), framed posters for the governor and other officials (\$1,662), photography and video services (\$19,857), recognition plaque (\$202), helicopter services (\$27,412), large TV screens (\$3,059), catering services (\$45,252), tents/stages (\$12,679), stationery and business cards (\$1,330), breakfast meetings with PHA officials (\$1,430), coordination for League of United Latin American Citizens convention (\$1,406), Request For Quotations for a state project (Villa Panamericana) (\$30,275), and meeting at a restaurant (\$1,206).
- Charges Over Contract Limit** The February 1995 contract between Carrero and Associates and COMMUNICAD specified a monthly retainer of \$6,600. COMMUNICAD billed \$22,998 in excess of the contract amount, without any explanation or support.

<i>Invoice Number</i>	<i>Invoice Date</i>	<i>Fee Charged</i>	<i>Fee Per Contract</i>	<i>Excess Amount</i>
1032	10/06/1995	\$13,075	\$6,600	\$6,475
1035	11/06/1995	13,680	6,600	7,080
1043	12/06/1995	11,643	6,600	5,043
1051	01/09/1996	11,000	6,600	4,400
Total		\$49,398	\$26,400	\$22,998

Carrero and Associates did not have controls to ensure that all charges were in compliance with the contract prior to submitting the invoices to the PHA.

Passenger Van The project manager bought a 15-passenger van to be used by the volunteer program and charged the PHA \$31,222. The van was registered to Carrero and Associates who has since filed Chapter 11 bankruptcy.

The PHA regulations require that a procurement of \$10,000 or more must be advertised and bid. Instead, the acquisition was done through the solicitation of quotes. An official of Carrero and Associates stated that there was an urgency in acquiring the vehicle and a public bid would take too long. The project manager obtained three quotes, but the lowest quote was not selected. According to the officer of Carrero, the reason for not selecting the lowest quote was that the vehicle would not be available from the dealer for up to 6 months. However, the file did not contain any support for the selection or that there was an emergency for the purchase.

During the same month, the PHA issued a purchase order for acquisition of a similar 15-passenger van for \$22,822. Had Carrero followed the PHA's procurement policy, they could have acquired the vehicle at a much lower price. Accordingly, the excessive charges of \$8,400 were ineligible.

Computer Equipment Carrero and Associates acquired \$65,514 in computer equipment. Despite PHA regulations that require a procurement of \$10,000 to be advertised and bid, Carrero obtained four quotes. The project manager said they used the abbreviated process because there was an urgency to open the small business and employment center and a public bid would take too long. PHA provided no evidence that the opening of the center constituted an emergency. Costs of \$65,514 were unsupported.

Legal Services Carrero and Associates charged \$12,527 for legal services. The services appeared to relate to tenant relocation and court action, but the relationship to the HOPE VI project could not be identified. There was no procurement file to document the necessity and reasonableness of the services and therefore support the costs.

Photocopier Carrero and Associates charged the PHA \$8,205 for the acquisition of a photocopier. The equipment was for the small business and employment center. However, Carrero and Associates did not maintain a procurement file showing the full procurement history and that it was acquired at the most advantageous terms. We determined that a cheaper machine could have been purchased for \$1,395 based on the Puerto Rico General Services Administration list. Accordingly, the excess charges of \$6,810 were ineligible.

Office Rehabilitation Work Between December 1997 and March 1998, Carrero and Associates charged the PHA \$118,165 for the rehabilitation of a rented facility used as the temporary small business and employment center. The rehabilitation completed on the rented property included items such as air conditioners \$21,775, installation of walls \$14,700, acoustic ceiling \$10,620, 18 mahogany doors \$9,000, windows with mahogany frame \$2,130; kitchen furniture \$1,500, and electrical locks \$1,000.

In April 1996, Carrero and Associates entered into the lease agreement contract for \$1,000 per month. The revitalization tasks of the Gateway project were scheduled for completion by June 2000 when the center would move to new facilities. The improvements made to the rented facilities were equivalent to 9 years of lease charges. These types of leasehold improvements were extravagant for a 4-year lease and inappropriate for a Federal program. Accordingly, the charges of \$118,165 were unsupported.

Utility Bill Carrero and Associates charged the PHA for an electric bill on a residential unit in the Municipality of Guaynabo. The account was in the name of one of Carrero's employees. The \$77 utility bill did not relate to the HOPE VI project and was ineligible.

Auditee Comments

“Safeguards and internal controls will be implemented. The Office of Procurement will be fully staffed and the Procurement Manual is being amended and will be controlling for all future procurements.”

OIG Evaluation of
Auditee Comments

The new administration at the PHA is in the process of implementing steps to correct the deficiencies.

Recommendations

We recommend that you:

- 2A. Take administrative action against responsible PHA management officials who failed to properly monitor Carrero and Associates.
- 2B. Require the PHA to reimburse the ineligible costs of \$736,031 paid for excessive and unnecessary expenditures.
- 2C. Request justification for the \$196,206 of unsupported grant costs or recover from non-Federal funds.
- 2D. Require the PHA to file appropriate liens with the bankruptcy court to protect its interests in assets purchased with HUD funds.

The PHA Paid Ineligible and Unsupported Costs for Professional Services of a Subcontractor

Carrero and Associates did not follow proper procurement procedures in contracting with its subcontractor, Freeman and Associates. Instead, Carrero selected the firm as a sole source without justifying the lack of competition or the validity of the cost. Further, the PHA did not review invoices submitted by Carrero for the services provided by Freeman. Had it done so, the PHA would have found unnecessary, unrelated, and unsupported charges. The PHA was negligent in its oversight of Carrero. We identified \$10,508 of ineligible costs and \$923,542 as unsupported.

Criteria

Article XIII of the HOPE VI Grant Agreement, "Record keeping/Access Requirements/Audits," provides that the grantee will keep records in accordance with 24 CFR 85.20 that facilitate an effective audit to determine compliance with program requirements, and which fully disclose the amount and disposition of funds received including sufficient records that document the reasonableness and necessity of each expenditure.

Title 24 CFR 85.36 (c) (1) requires all procurement transactions be conducted in a manner providing full and open competition; Section (f) (1) requires the grantees and subgrantees to perform a cost or price analysis in connection with every procurement action; Section (b) (9) requires the grantees to maintain sufficient records to detail the significant history of each procurement; and Section (d) (4) (i) states that procurement by noncompetitive proposals may be used only when award of a contract is infeasible under small purchases procedures, seal bids or competitive proposals and one of the following circumstances applies: (a) the item is available only from a single source; (b) the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; (c) the awarding agency authorizes noncompetitive proposals; and (d) after solicitation of a number of sources, competition is determined inadequate.

Paragraph 3 of the April 1, 1995, contract between the PHA and Carrero and Associates states that the contractor agrees to comply with all the Federal and state laws, regulations, and ordinances applicable to the terms of the contract.

Our review of Freeman’s contracts and invoices disclosed improper contracting and questionable contract clauses. Carrero and Associates contracted with Freeman and Associates, a Minnesota based consulting firm, to provide services related to the Gateway project. The services were part of Carrero’s proposal to the PHA. The following contracts were executed:

Contract Date	Hourly Rate	Contract Amount
02/04/1995	\$75	\$ 21,655
08/28/1995	\$75	127,995
06/26/1996	\$80	250,000
06/06/1997	\$80	4,400
06/27/1997	\$85	200,000
07/01/1998	\$95	200,000
07/01/1999	\$100	130,000
	Total	\$934,050

The February 4, 1995, contract was for relocation consulting services. On August 28, 1995, Carrero and Freeman signed an amendment that significantly expanded the scope and value of the original contract. The amendment included management improvement tasks in addition to relocation services. The added tasks included development of: (1) tenant selection and occupancy policies, (2) a lease compliance handbook, (3) a management agent operations handbook, and (4) analysis of past subsidy calculations and a proposal to HUD for an increase in the allowable expense level.

Improper procurement process and questionable contract clauses

From inception, Carrero contracted the services of Freeman without following the procurement procedures prescribed in 24 CFR 85.36 or the PHA's procurement regulations. According to a Carrero official, Freeman was procured by a non-competitive proposal. The procurement file did not demonstrate that Freeman was the only source available, the need for sole source procurement, or that the costs were reasonable. All subsequent amendments and contracts were made without competition or cost analysis.

Since the contract amendment of August 1995, the scope of subsequent contracts did not change significantly, yet the total contract amount increased by over \$700,000. For example, development of a management agent operations handbook was in the August 1995 amendment and also in the 1996, 1997, 1998, and 1999 contracts. Accordingly, Freeman and Associates was given almost 5 years to develop an operations handbook for management agents. File documents indicated that all products relating to the operations handbook, except an administration handbook, were presented to the PHA on March 6, 1997. Why the task was extended through the 1999 contract is unclear.

The 1995 amendment included three other management improvement tasks that were unnecessarily extended throughout the 5-year period of the contracts. A Carrero official informed us that the tasks were completed as of June 2000. This task to analyze past subsidy calculations made for the PHA and develop a proposal to increase the allowable expense level were not part of the HUD approved revitalization plan. In fact, it was related to a lawsuit filed against HUD and was clearly ineligible as a cost of a Federal grant. We found one Freeman invoice from July 1995 for \$2,700 for this work. We could not determine the total amount Carrero charged in relation to the HUD lawsuit because Freeman invoices were not adequately supported.

Review of invoices

We reviewed invoices totaling \$632,457 for Freeman from February 1995 to December 1996 and from July 1997 to June 1999. From February 1996, the invoices did not contain sufficient detail to assess the eligibility. Our review disclosed the following:

Unsupported Reimbursable Expenses The invoices submitted by Freeman and Associates consisted of two charges - labor and reimbursable expenses. The labor charges included hours worked for the period times the applicable hourly rate. The reimbursable expenses included hotel, meals, airfare, and mileage, etc. Freeman billed \$181,601 of reimbursable expenses, although \$158,472 of the charges did not contain sufficient supporting documentation to assess the eligibility. Freeman invoices only documented the support for the reimbursable expenditures for the period of April 1995 to January 1996. The other expenditures were not supported.

Non-HOPE VI Charges Freeman charged unrelated costs to the HOPE VI Program. They included \$1,875 for work at the Crisantemos II site (a CGP project), \$75 for technical assistance to Carrero staff, and \$3,512 for assistance in preparing an application for the 1997 HOPE VI funds. The PHA could have prevented the charges by adequately reviewing Carrero's invoices before payment.

Unnecessary Lodging for the Minnesota Firm The June 1996 through July 1998 contracts between Freeman and Carrero allowed reimbursement for the lease of an apartment including utilities, cable TV, household items, maintenance, dry cleaning, etc. The lodging expenses were paid based on the apartment's actual monthly rent, regardless of whether the consultants were in Puerto Rico or not. We identified \$79,187 in lodging charges.

The HOPE VI project paid for personal items, such as a hair dryer, groceries, coffee table, beach chairs and other household items. Freeman was reimbursed with HOPE VI funds for these goods although they did not benefit the project in any way. During 1995 and 1996, Freeman was reimbursed at least \$2,010 for the purchase of such personal goods. Freeman was also reimbursed for airport luggage carts, tips paid, etc. We could not determine the amount for subsequent years because the invoices were not adequately supported.

Billing Errors Carrero did not adequately review the subcontractor’s invoices. We identified four instances where billing errors occurred resulting in an overcharge of \$336 to the program.

Deficient Monthly Progress Reports Freeman submitted monthly progress reports to Carrero and Associates. The description of the tasks performed was insufficient to evaluate the reasonableness of hours charged during the period. The narrative within the reports was generic and contained only general information on the tasks performed. The reports did not contain hours charged per task or dates when the tasks were accomplished. Also, the number of days per month spent by Freeman in Puerto Rico was not included. This made it impossible to assess the reasonableness of fees and reimbursable expenses charged by Freeman. Furthermore, not all monthly reports were available for our review.

We question the charges from Freeman for its work on the Gateway project totaling \$10,508 as follows:

<i>Nature of Ineligible Cost</i>	<i>Amount</i>
Preparation of 1997 HOPE VI application	\$ 3,512
Lawsuit against HUD	2,700
Work related to Crisantemos II project	1,875
Purchase of household goods	2,010
Billing errors	336
Technical assistance to Carrero staff	75
Total	\$10,508

However, based on the lack of support for work performed under the contract and the failure to follow the procurement policy, we consider the remaining contract costs of \$923,542 unsupported.

Auditee Comments

“[PHA] is unable to contest this dollar figure at this time due to lack of documentation. [The PHA] would appreciate the opportunity to review any relevant documents in the IG’s possession to assist . . . in responding to this recommendation.”

OIG Evaluation of
Auditee Comments

The OIG will provide the PHA the opportunity to review the relevant documents in our possession to assist in responding to the recommendations.

Recommendations

We recommend that you:

- 3A. Require the PHA to reimburse \$10,508 of ineligible costs from non-Federal funds paid to the consultant for unnecessary, unsupported, and unrelated program expenses.
- 3B. Request justification for the remainder of the contract costs of \$923,542.

The PHA Made Improper Payments from the CGP Grant

The PHA failed to properly administer payments of CGP funds. It approved \$3.8 million as project management fees without proper solicitation of the vendor and without cost analysis and justification. In addition, the PHA did not maintain adequate documentation to support the disbursements to Carrero and Associates, paid excessive charges, and failed to obtain proper approval prior to disbursement. These actions occurred because PHA's management disregarded Federal procurement requirements and did not establish adequate internal controls over payments. In the absence of proper support, the PHA is liable for \$3.8 million (\$1.7 million paid as of May 1999) for improper project management fees and \$326,260 for other unsupported costs.

Criteria

Title 24 CFR 85.20 (2) and (6) require that grantees maintain records to adequately identify expenditures and maintain accounting records supported by source documents. Section (3) requires grantees to maintain effective control and accountability for all grant and subgrant cash, real property, and other assets. Grantees and subgrantees must adequately safeguard all such property and assure that it is used solely for authorized purposes.

Unsupported project manager fees

The PHA failed to comply with procurement requirements by not providing full and open competition. In June 1999, the PHA amended its contract with Carrero and Associates extending the contract until August 2002. HUD did not approve the amendment. The amendment stated that \$33.4 million in CGP funds was assigned to the Gateway project and that Carrero and Associates was approved fees of \$3.8 million in CGP funds to administer the funds. The management fees were 12 percent of the CGP funds. The amendment also reflected that as of May 31, 1999, Carrero and Associates had billed the PHA \$1,787,443 in CGP fees.

Although the PHA Administrator and other officials were involved in the development of the fourth contract amendment, no one could provide information to support the amounts or the procurement process followed. The PHA did not provide any information showing how the

Payment deficiencies and other unsupported costs

contracted fee was determined or the reasonableness of the charges. Therefore, the reported CGP expenditures of \$1.7 million are considered unsupported. Also the PHA may incur \$2.1 million in additional unsupported costs if corrective actions are not taken.

We reviewed CGP disbursements made by the PHA from April 1995 to January 2000. The disbursements were to Carrero and Associates for payment of management fees and goods and services on behalf of the PHA to carry out the Gateway project. We selected 8 disbursements totaling \$4.3 million, representing 44 percent of the total amount disbursed of \$9.8 million. The 8 disbursements paid 54 invoices submitted by Carrero. We identified payment deficiencies in each disbursement, which included 42 of the invoices (see Appendix E). The deficiencies included the following:

<i>Deficiency</i>	<i>No. of Invoices</i>
Improper cost allocation	3
Invoices not properly approved as required	16
Expenses not properly supported	28
Excessive/Questionable charges	13
False statements/irregularities	1

In addition to the unsupported project management fees, we identified \$326,260 of other unsupported costs. The following examples illustrate some of the project deficiencies:

Invoice No. IC-1443 The invoice pertained to architectural services provided from September 1 to October 31, 1998, by Arquitectos Diaz. The services were provided in association with Domenech, Hicks and Krockmalnic Architects, a Boston based firm, for the revitalization of the Manuel A. Pérez project. Arquitectos Diaz charged \$7,473 for “Construction Doc. Phase II” but did not include any supporting documentation. Other unsupported reimbursable expenses included reproduction and delivery charges of \$69.

Invoices Nos. IC-1157 and 1160 The Carrero and Associates invoices included program and construction management services provided by Robert S. Prann. The services included work related to the Villa Panamericana and Las Orquideas public housing projects for March and April 1998. The invoices totaled \$31,348 and \$35,792 respectively. However, the amount related to the housing projects could not be determined. In January 1998, HUD's Headquarters Office of Public Housing notified the PHA that no public housing funds could be used for the disposition and redevelopment or the administration of these two projects. Because adequate documentation was not maintained to segregate the costs, we question the total invoice amounts.

Invoice No. 1605 Carrero and Associates claimed its \$56,400 project management fees for August 1999 for the management of the Gateway Project. Although the fees claimed agreed with the contract payment schedule, a required monthly report showing the progress of the project and other documents indicating the services rendered were not included in the PHA's disbursement documentation.

In addition, Carrero and Associates claimed \$1,696 as other relocation costs. Of the costs, \$850 was for lodging and training for two of Carrero's employees in Philadelphia and Puerto Rico. An invoice for the hotel lodging totaling \$762 was included. The other \$88 was for a Basic Access Program training course attended by another employee. There was no support to show that these expenses related to the Gateway Project.

Carrero included a \$325 charge from Lanier Puerto Rico, Inc., with no explanation for the charge.

Invoice No. IC-1431 The invoice noted that a \$575 CGP charge was for relocation coordination services provided by Freeman and Associates at the Gateway Project in February 1999. However, the PHA's disbursement voucher did not contain documentation to support the charges of \$285 (\$95/hr. x 3 hrs.) and \$290 for food, lodging, and transportation by Freeman.

* * * * *

As a result of the deficiencies, HUD has no assurance that CGP funds paid for the Gateway project were used by the PHA in an effective, efficient and economical manner to benefit low income persons.

Auditee Comments

The CGP program “. . . will have appropriate [PHA] staff to manage and oversee the program. The Executive Aide for Management of Capital Improvement will administer the capital improvement program, including the budget needs and compliance with program requirements.”

OIG Evaluation of Auditee Comments

The new administration at the PHA is in the process of correcting the deficiencies. The OIG will provide the PHA the opportunity to review the relevant documents in our possession to assist in responding to the recommendation.

Recommendations

We recommend that you:

- 4A. Determine, by comparison to similar modernization or development projects, the reasonableness of the \$1,787,443 paid as of May 1998 for project management fees.
- 4B. Determine the proper disposition of remaining obligated contract amount of \$2,105,817 for project management fees.
- 4C. Request justification for the \$326,260 of unsupported costs. Recover any unsupported costs from non-Federal funds.

The PHA Failed to Maintain an Adequate Financial Management System

The PHA had no system of internal control. It had an inadequate accounting system, inadequate disbursement control and recordkeeping, and commingled cash from the various grants. It failed to meet matching state requirements, and used Federal funds to overcome a shortfall in state funds. The PHA executed no inventory control over purchases of goods and services for the HOPE VI Program and failed to monitor its project manager. This situation existed, in our opinion, because of the PHA's management was unprepared or incapable of administering the program and disregarded program requirements. Consequently, the HOPE VI grants were unauditable, millions in costs are questionable or unsupported, and HUD has no basis for assurance of economy or efficiency of this project.

Criteria

The Grant Agreement, Article XIII provides that the PHA must keep records in accordance with 24 CFR 85.20 that facilitate an effective audit to determine compliance with program requirements, and which fully disclose the amount and disposition of funds received under the HOPE VI grant, including sufficient records that document the reasonableness and necessity of each expenditure.

Title 24 CFR 85.20 provides that accurate, current, and complete disclosures of the financial results of assisted activities must be in accordance with financial reporting requirements of the program. In addition, it requires accounting records that adequately identify the source and application of funds provided for financially assisted activities.

- **Inadequate Accounting Records** The project manager, Carrero and Associates, used an accounting system that did not segregate costs among the three Federal grant programs. The PHA's accounting system was also inadequate. It could not provide a cost ledger for the HOPE VI funds documenting the line item numbers according to the HUD approved budget. In addition, the PHA and its project manager commingled the HOPE VI funds. In January 1999, Carrero opened one checking account for all federal funds. The PHA's

check register for the HOPE VI Program also showed that HOPE VI Planning and Implementation grant funds were commingled and did not identify the grant to which expenditures related. This was contrary to its grant agreement.

The PHA made journal entries on its books without any support. For example, on April 15, 1998, the PHA made an adjusting journal entry reclassifying \$3.9 million of HOPE VI Program costs to various accounts. The employee who made the adjustment stated that there were no supporting documents to show which transactions were affected or how the amounts were determined.

- **Inadequate Disbursement Control and Recordkeeping** Upon requesting HOPE VI records, we were led to the storage area pictured below. It was in total disarray, and the PHA did not have any organization or index of the files maintained there. The inadequacy of the records storage was also raised in the 1997 Single Audit Report issued in February 1999. The PHA responded to that audit that a contract was awarded to organize the documents on the sixth floor and transfer them to an off-site warehouse. However, as shown in the photograph taken in July 2000, the storage area remained in total disarray.



We noted numerous payment control weaknesses. We reviewed 54 invoices for the CGP Program for the period of June 1998 through December 1999 and identified 16 instances in which the responsible PHA official did not properly approve the invoices. Nine HOPE VI invoices were not stamped "paid" to avoid resubmission and duplicate payment.

Findings 1-4 describe numerous examples of improper disbursement control, lack of adequate documentation, and payment of ineligible costs. Neither the PHA nor its highly compensated project manager, Carrero and Associates, maintained financial systems capable of administering such large Federal grants. In total, these four findings include \$5.3 million in ineligible costs, \$10.5 million in unsupported costs and \$2.3 million in costs to be reprogrammed (cost efficiency).

- **Matching Requirements Not Documented** The PHA could not show that it complied with the matching requirements contained in the HOPE VI Grant Agreement. Article VIII of the agreement requires the PHA to provide contributions for supportive services in an amount equal to 15 percent of the HOPE VI grant funds awarded for supportive services under the Revitalization Plan. The latest HOPE VI budget approved by HUD reflected \$10 million budgeted for supportive services. Accordingly the matching contribution should be \$1.5 million. Article XVIII provides that failure to obtain a matching contribution constitutes a default by the PHA. The \$1.5 million remains owed.
- **HOPE VI Program Funds Used to Overcome Shortfall in State Funds** The PHA issued a resolution on May 12, 1995, authorizing the disbursement of \$149,547 from the HOPE VI Program to pay for services rendered by Carrero and Associates. The resolution recognized, retroactively, debts and expenditures before the HOPE VI contract was executed. In this case, Carrero submitted the PHA an invoice for work performed under a Commonwealth

funded contract executed on December 16, 1994, that exceeded the Commonwealth's obligated contract limit. Through the resolution, the PHA Administrator authorized HOPE VI funds to pay the shortfall. Accordingly, the \$149,547 charged to the HOPE VI grant was ineligible.

- **Inventory Controls Did Not Exist** The PHA authorized its project manager to make certain acquisitions related to the administration of the Gateway project. However, it did not properly record the goods acquired by Carrero and Associates. The project manager charged the PHA for the acquisition of office furniture and equipment, computers, copiers, motor vehicle, etc. However, PHA officials stated that the equipment was not included in the PHA's inventory. Accordingly, there were no controls to safeguard assets acquired with Federal funds or to track the final disposition.

The PHA's financial system for HOPE VI was in complete shambles. Cleaning up the accounts and establishing a system of internal control will necessarily become a priority of the incoming administration.

Auditee Comments

“... [The PHA] will no longer rely on private contractors to manage its programs. The reorganization will create two new offices - Internal Auditor and Procurement, and Strategic Planning and Special Projects. The hiring of Phase I managers is anticipated to be completed by March 31, 2001. The Phase II hiring of support staff is anticipated to be completed by August 31, 2001. Acceptable managerial and internal controls will be put in place.

“... The Office of Financial Administration will establish appropriate procedures and internal controls to track grant expenditures for open grants.”

(See auditee's response to the draft report Finding No. 6).

**OIG Evaluation of
Auditee Comments**

The new administration at the PHA is in the process of implementing steps toward correcting the deficiencies. The OIG will provide the PHA the opportunity to review the relevant documents in our possession to assist in responding to the recommendations.

Recommendations

We recommend that you:

- 5A. Assist the new PHA administration in establishing acceptable managerial and internal controls to assure that grants expenditures are documented, reasonable, and in accordance with grant and program requirements.
- 5B. Require the PHA to construct audit trails for all undocumented Federal grants expenditures, and review those costs to assure they are eligible and reasonable.
- 5C. Require the PHA to provide evidence of compliance with the HOPE VI matching requirement of \$1.5 million.
- 5D. Require the PHA to reimburse ineligible costs of \$149,547 which it paid to cover the Commonwealth's shortfall.

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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 programs.
2. Procedures used to comply with Federal and PHA's procurement requirements.
3. Procedures used to monitor activities of the project manager.
4. Selection and award of contracts.
5. Eligibility of grant activities.
6. Procedures to ensure that personal property is properly accounted for and to maintain inventory control.

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 of the management control areas mentioned above. The specific weaknesses are discussed in the findings.

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Follow-Up On Prior Audits

Prior audits have resulted in findings similar to ones in this report, which impacted the objectives of this audit.

- An OIG audit report (No. 00-AT-201-1003 dated March 6, 2000) on the PHA procurement administration concluded that the PHA: (1) did not comply with Federal and agency procurement requirements and did not maintain control over the central office procurement activities, (2) paid about \$4.9 million more than necessary for professional services provided by two contractors that were contracted without competition and without performing price and/or cost analysis, (3) did not maintain effective management controls to deter waste, abuse, and fraud, (it paid invoices without proper authorization or signed agreements, invoices that were not originals, invoices without proof of delivery, invoices that exceeded contract limits, unallowable advanced payments, and invoices without support), and (4) did not maintain adequate inventory. The report contained 4 findings with 19 recommendations. At the time of this review, those findings were unresolved.
- Single audits of the Department of Housing including the PHA's FY 1997 (issued August 17, 1998) and 1998 (issued April 30, 1999) financial statements, management controls, and compliance performed by Price Waterhouse Cooper, LLP found numerous significant deficiencies. Based on those deficiencies, the firm disclaimed an opinion on the Department of Housing's statements. However, in both Single Audit reports, the firm issued an adverse opinion on compliance. Among the deficiencies reported were that the PHA: (1) did not properly monitor its Program Manager administering its HOPE VI Program, (2) could not provide all requested disbursement vouchers and their supporting documents, (3) processed disbursements without approval of the authorized official, (4) commingled HOPE VI funds with other funds, (5) had inadequate accounting and reporting controls to enhance the preparation of timely and reliable statements and federal financial reports, (6) recorded adjustments in its books, without supporting documentation, and (7) did not properly safeguard important information and files. The prior year audits reported similar deficiencies. At September 22, 2000, all the findings remained open. HUD Caribbean Office staff was in the process of evaluating the corrective action plan included in the reports.

As discussed in the Findings and Recommendations section of this report, the above conditions continued 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 and Unsupported Costs and Cost Efficiencies

Recommendation	Ineligible	Unsupported	Cost Efficiencies
1C		\$7,200,000	
1D	4,049,539		
1E	521,561	(521,561)	
1F	5,650	(5,650)	
1G		248,841	
1H			\$240,033
1J		400,000	
2B	736,031		
2C		196,206	
3A	10,508		
3B		923,542	
4A		1,787,443	
4B			2,105,817
4C		326,260	
5C			1,500,000
5D	149,547		
Total	\$5,472,836	\$10,555,081	\$3,845,850

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

Unsupported - Costs contested because they lack adequate documentation to support eligibility.

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

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Summary of HOPE VI Disbursement Deficiencies (Finding 1)

Check No.	Check Date	Invoice Number	Total Invoice Amount	Improper Account Allocation	Cost Plus a Percentage Rate	Not Properly Supported	Not Stamped Paid
27	03/06/96	Feb-96	\$ 301,965		X	X	X
212	12/31/96	I 96 URD I 06	4,926 ²		X		X
		96 URD-08	13,281 ²		X		X
		96 URD-1-11	13,612			X	X
		96 URD-1-10	9,934			X	X
		URD-1-10.2	128,109	X	X	X	X
		URD 1-11.1	77,665		X	X	X
		URD-II-10.2	6,030	X		X	X
		URD-II-11.1	3,418	X		X	X
405	12/12/97	IC-1060	84,583		X	X	
		IC-1057	46,849 ²	X			
		IC-1058	17,510 ²	X		X	
		IC-1053	960 ²				
		IC-1054	173,205	X	X	X	
449	01/07/99	IC-1324	134,868	X	X	X	
		IC-1336	192,715	X	X	X	
		IC-1341	83,368	X	X	X	
469	05/11/99	IC-1466	158,770	X	X	X	
491	10/05/99	IC-1576	5,262			X	
505	01/12/00	IC-1662	165,315 ²		X		
		IC-1645	162,766	X	X	X	
Total			\$1,785,111	11	13	16	9

² Included in Finding 1: other vendors \$248,841

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Summary of Procurement Deficiencies (Finding 2)

<i>Vendor Name</i>	<i>Amount Charged</i>	<i>Ineligible</i>	<i>Unsupported</i>	<i>Description of Goods/Services</i>	<i>Improper Procurement Process Used</i>	<i>No Procurement File</i>	<i>No Price/Cost Analyses</i>	<i>Excessive Charges</i>	<i>Costs Not Related to HOPE VI Project</i>
COMMUNICAD	\$ 720,744	\$ 720,744		Public relations and coordination efforts, souvenirs and flower arrangements, dinners and breakfast for public officials, etc.	X	X	X	X	X
Alberic Colon Auto Sales	31,222	8,400		15 Passenger Van for volunteer program. Title of vehicle registered to Carrero and Associates.	X			X	
Hi-Tech Electronics	65,514		\$65,514	Computer Equipment for Small Business Center.	X				
Pietrantonio Mendez & Alvarez	12,527		12,527	General Legal Services related to relocation of tenants.	X	X	X	X	X
Xerox Corporation	8,205	6,810		Coin operated copier for Small Business and Employment Center.	X	X	X	X	
ROALCA Construction	118,165		118,165	Rehab to temporary facilities for Small Business Center. (Improvements made to private property.) Included installation of 18 mahogany doors (\$500 each), air conditioning unit (\$21,775), acoustic ceiling (\$10,620), installation of wooden walls (\$14,700), etc.				X	
AEE	77	77		Electricity Bill- Residential Unit of an Employee of Carrero and Associates					X
Total	\$956,454	\$736,031	\$196,206		5	3	3	5	3

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Summary of Public Relations Charges (Finding 2)

<i>Invoice No.</i>	<i>Amount</i>	<i>Invoice General Description</i>	<i>Charges Not Supported</i>	<i>Excessive Charges</i>	<i>Included Charges Not Related to HOPE VI Project</i>	<i>Souvenirs, Stationery, T-shirts, and Other Unnecessary Items</i>
1013	\$ 8,842	Monthly retainers for coordination efforts, maps, framing Poster for Governor, photography services, aerial photographs, etc.	X			X
1014	5,463	Press kit, Maps, Poster Artwork, Progressa's Stationery, Photographs for former Housing Dept. Secretary (Vivoni), Video Services, Subscription to the Harry Turner PR Report	X		X	X
1015	341	Design Workshop, map copies	X			
1016	332	Framing 12 Posters	X			X
1020	8,651	Monthly retainers for coordination with DOH/AVP/HUD, artwork, reproduction of material, press kits, stationery & business cards-Progressa, etc.	X		X	X
1021	5,752	Printing Progressa's Stationery, Printing 500 NSJG Posters, Reproduction of Maps, Photographic and Video coverage on Governor's announcement on NSJG, Meeting with John Soto (PRFFA) and Kevin Marchman (HUD), Meeting at Los Chavales Restaurant Vivoni-Rodriguez-Progressa's Team	X		X	X
1022	3,322	Coordination of meeting with public housing resident, Frame four posters for VIPs, Coordination of Governor's announcement of NSJG project including pre-event meeting, etc.	X		X	X
1023	792	Press kit for NSJG press release and audio/video cassettes, general information kits, etc.	X			
1025	9,250	Monthly retainers for coordination with DOH/AVP/HUD, Press Interviews Coordination, Banners Design and Final Art, Press Release On \$400K Planning Grant Award, Press Package Presentation for Governor's Infrastructure Council, Coordination of DOH/AVP Booth at LULAC Convention.	X		X	X
1025	3,308	Coordination of activities with HUD representative during 1995 LULAC Convention, Assist in private tour of NSJG for Vivoni/Cisneros, attendance of corporate event with Leo Padilla, Ford Motor Co., Choco Mesa, Mary Cisneros, NSJG stickers, Press Brief Material, Aerial Photographs, etc.	X		X	X
1025	666	NSJG mission material requested by DOH/AVP for distribution at LULAC convention, Copy maps, etc.	X		X	X
1026	23,310	Monthly retainers for coordination with DOH/AVP/HUD, Fee for coordinating Fraternalization Activity, Cash Advance (\$10,000) for activity expense (see invoice #1030 for related expenses), Expense related to NSJG public relation program, etc.	X			
1027	1,398	Salaries paid to volunteers during Fraternalization Activity				
1028	11,172	Monthly retainers for coordination with DOH/AVP/HUD, logo sheets, stationery, posters, labels, expenses incurred during meeting with DOH Communications Dir., Coordination of breakfast for Congressional Staff visiting the island (see invoice 1031 for additional charges).	X		X	X
1030	1,505	Fraternalization Day Event-logos for T-shirts, 1,284 T-shirts, 15 walkie-talkies, flyers, baseballs, whistles, 15 water coolers, lunches, name tags, supplies to decorate stage, etc.	X			X

Summary of Public Relations Charges (Finding 2)

<i>Invoice No.</i>	<i>Amount</i>	<i>Invoice General Description</i>	<i>Charges Not Supported</i>	<i>Excessive Charges</i>	<i>Included Charges Not Related to HOPE VI Project</i>	<i>Souvenirs, Stationery, T-shirts, and Other Unnecessary Items</i>
1031	269	Breakfast for 15 Congressional Staff members and PR Federal Affairs Administration at Ambassador Hotel (see invoice #1028 for related charges).	X		X	
1032	27,034	Monthly retainers for coordination with DOH/AVP/HUD, Fee for Coordinating Fraternalization Activity (see invoice 1026 for additional fee charged) Artwork-banners & flyers, medals, Maps, Photographic Services, General Copies, etc.	X	X		X
1032	975	NSJG stationery, Flyers, etc.	X			X
1034	4,629	Expenses regarding Washington DC trip for meetings with HUD officials and Congressional Hispanic Caucus, and Coordination of meeting and attendance of events in representation of NSJG (included floral arrangement to Kevin Marchman, \$840 dinner at Taberna del Alabardero Rest. with Carlos Vivoni, Miguel Rodriguez, and Police Superintendent Pedro Toledo)			X	X
1035	14,591	Monthly retainers for coordination with DOH/AVP/HUD, Shipping charges-caps, Trophies, Maps, NSJG Stationery, Meeting with Ana Maria Montalvo, sound system, refreshments, posters, stateside newspaper	X	X	X	X
1036	5,086	NSJG T-shirts (360) and NSJG Polos (144)	X			X
1037	4,434	Deposit on water bottles, Breakfast with Jaime Fonalledas, Meeting US Developer/Wilma Inc., Event Meeting of Fraternalization Day Event-decorations, Housing Week Event-decorations (banners, pencils, flowers, photographic services, key chain, stickers, etc.)	X		X	X
1039	594	Event Expenses-balloons, meals, ice, parking key chains, NSJG Stationery, Maps, NSJG pin sample	X			X
1043	13,653	Monthly retainers for coordination with DOH/AVP/HUD, Metro data copies of NSJG Maps, photography services during events, Artwork flyers, NSJG Stationary and Logo	X	X		X
1044	7,855	Event-HIV, Artwork-AE Design Service & Support Services/Training Coordinator ad, Shipping Charges-NSJG caps, NSJG sticker, RFP Publication, Publication of Supt. Services/Training Coordinators Ad	X		X	X
1045	867	Videos and Flyers	X			X
1047	1,852	Video services for Villa Panamericana, 250 caps, shipping/duty charges on caps, artwork for pins	X		X	X
1051	13,259	Monthly retainers for coordination with DOH/AVP/HUD, video services for HIV and No More Violence Day, Photography Services, Coordination meeting Vivoni-Rodriguez, Flyers, NSJG logo, Maps, Aerial photos	X	X	X	X
1054	704	Metro Data-maps "Economic Development", Training Session at Ramos Antonini-Catering Services 12/12,12/13	X			
1057	20,638	Coordination Fees for communication efforts for Crisantemos I & II, Villa Panamericana and Las Orquideas, RFQ Brochure, Audiovisuals -10 copies of Channel 6 NSJG news feature and demolition tape, Expenses for NSJG Meetings, etc.	X		X	
1059	46,301	Coordination Fees for communication efforts for Crisantemos I & II, RFQ Villa Panamericana, Demolition bid advertisement, NSJG Employment advertisement, Press Briefing, etc.	X			
1060	6,067	Exhibit at State Capitol Building, Architects Luncheon, Photographic services, Breakfast Meetings with DOH/AVP, etc.	X		X	X

Summary of Public Relations Charges (Finding 2)

<i>Invoice No.</i>	<i>Amount</i>	<i>Invoice General Description</i>	<i>Charges Not Supported</i>	<i>Excessive Charges</i>	<i>Included Charges Not Related to HOPE VI Project</i>	<i>Souvenirs, Stationery, T-shirts, and Other Unnecessary Items</i>
1062	29,352	RFQ For Villa Panamericana, Printing, Ads, Aerial Photos, Press Conference	X		X	
1064	27,123	Coordination fee for communication efforts, Photographer, NSJG Administrative meetings, NSJG Banner and Podium Banner, Press Kit.	X		X	X
1065	517	HUD photocopies of photographs requested by Planning Department, Deposit on NSJG Field Office Signs, Subscription Renewal	X			X
1066	923	RFQ design and artwork for Villa Panamericana project (state funded activity)	X		X	
1068	649	NSJG Administrative Meeting, Pencils, NSJG Newsletter-Sacred Heart Reporters	X			X
1070	21,250	Coordination fee for communication efforts, NSJG News letter, Crisantemos II Demolition, Pin artwork, Newsletter print	X		X	X
1073	33,254	Coordination Fees for communication efforts, photographic services Vivoni's Recognition Plaque, pins, NSJG meetings, Press Clippings, Stationery, etc.	X			X
1075	75,507	Coordination of internal/external communication efforts related to NSJG, Crisantemos I & II implosion event, 1,200 T-shirts & Polos, caps, 204 hard hats, pencils, catering services, press kits, stages & tents, banners, sound system, breakfast, etc.	X		X	X
1078	4,589	Pens, Erasers, NSJG Gen. Inf. Kit, NSJG Pin artwork, Expenses for NSJG work team meetings, flyers, NSJG Newsletter	X			X
1079	76,730	Crisantemos II Implosion Event- sound system, artwork, stages, tents, T-shirts, press conference, catering services, banners	X		X	X
1080	39,804	Crisantemos I Implosion- Catering services for meetings, stages, tents, T-shirts, breakfast, chairs, tables, sound system, dust masks	X			X
1081	49,161	Coordination of internal/external communications efforts related to NSJG, coordination and execution of Crisantemos II implosion	X		X	
1082	15,653	Crisantemos I meeting at DOH & police, notepads, aerial video, breakfast, Large TV Screens, 1,600 caps, 1,094 T-shirts, photographer, audiovisual, and event staff/coordinators/supervisors	X			X
1085	21,816	Coordination of internal/external communication services related to NSJG initiative, coordination and execution of Crisantemos I & II implosion, labels, sound system, implosion as-work, work team and staff meetings, photographic services	X		X	X
1087	10,032	Coordination of internal/external communications efforts related to NSJG, photo services, press conference meeting at Caribe Hilton \$1,770. Work performed by third parties had 15-18% mark-up.	X			X
1088	17,644	Coordination of internal/external communications efforts related to NSJG, photo & video services, printing services, catering services, etc.	X		X	X

Summary of Public Relations Charges (Finding 2)

<i>Invoice No.</i>	<i>Amount</i>	<i>Invoice General Description</i>	<i>Charges Not Supported</i>	<i>Excessive Charges</i>	<i>Included Charges Not Related to HOPE VI Project</i>	<i>Souvenirs, Stationery, T-shirts, and Other Unnecessary Items</i>
1091	14,711	Coordination of internal/external communications efforts related to NSJG, press release Crisantemos II clean up, photo services, task force meeting, refreshments, name tags, reproduction services, etc.	X		X	X
1093	11,820	Coordination of internal/external communications efforts related to NSJG, photo & video services, task force meeting coordination, reproduction services, etc.	X			X
1098	9,575	Coordination of internal/external communications efforts related to NSJG, coordination of community fair, coordination of radio program, orientation to PHA communication dir., photo services, reproduction services, etc.	X			X
1099	7,722	Coordination of internal/external communication efforts, copies for survey, videos, diskette with Secretary Alemany Changes, Design/Art for flyers and T-shirts	X		X	X
Total	\$720,744		50	4	28	41

Summary of CGP Disbursement Deficiencies (Finding 4)

Check No.	Check Date	Invoice Number	Invoice Amount	Improper Cost Allocation	Invoice Not Properly Approved	Expense Not Properly Supported	Excessive/ Questionable Charges	False Statement/ Irregularities	Amount Unsupported
2560	06/27/98	IC-1155	\$6,934						
		IC-1157	31,348	X		X			\$31,348(b)
		IC-1160	35,792	X		X			35,792(b)
		IC-1164	58,834			X	X		48,630(b)
		IC-1170	60,337						0
		IC-1180	43,257			X			43,257(b)
		IC-1192	105,816			X	X		105,816
2816	10/06/98	IC-1260	57,680			X	X		40,859
		IC-1261	26,904	X					0
		IC-1266	21,108			X			21,108
		IC-1270	22,216			X	X		22,216
		IC-1271	291,594			X	X	X	291,594
3244	05/12/99	IC-1413	95			X	X		95(b)
		IC-1418	31,603			X	X		31,603
		IC-1431	575			X	X		(a)
		IC-1433	28,101						0
		IC-1435	30,411			X			30,411
		IC-1442	17,433			X			17,433(b)
		IC-1443	9,094			X	X		7,542(b)
		IC-1451	20,261			X			20,261(b)
		IC-1452	20,261			X			20,261(b)
		IC-1453	20,261			X			20,261(b)
		IC-1454	20,261			X			20,261(b)
		IC-1455	20,261			X			20,261
		IC-1465	46,618			X	X		45,802
		IC-1471	149,374						0
		IC-1439	550						0
		IC-1414	1,520						0
		IC-1449	638,479						0
3551	09/28/99	IC-1559	57,388		X	X			56,400
		IC-1592	1,335						0
		IC-1596	280,302						0
		IC-1584	58,680		X	X	X		57,099
3612	10/20/99	IC-1598	303,713		X				0
		IC-1599	76,209		X				0
		IC-1601	3,425						0
		IC-1605	58,097		X	X	X		57,575
		IC-1607	8,717		X				0
		IC-1608	68,487		X				0
		IC-1613	281,169		X				0
3615	10/26/99	IC-1611	365,040		X				0
		IC-1617	675		X				0

Summary of CGP Disbursement Deficiencies (Finding 4)

Check No.	Check Date	Invoice Number	Invoice Amount	Improper Cost Allocation	Invoice Not Properly Approved	Expense Not Properly Supported	Excessive/Questionable Charges	False Statement/Irregularities	Amount Unsupported
3735	12/22/99	IC-1614	8,717		X				0
		IC-1641	8,717		X				0
		IC-1664	106,953		X				0
		IC-1668	8,717		X				0
		IC-1670	228,720		X				0
		IC-1671	238,224		X				0
2634	07/31/98	IC-1168	122,972			X	X		122,972
		IC-1172	103,228			X			103,228
		IC-1176	1,400						0
		IC-1184	750						0
		IC-1204	96,595			X			96,595
		IC-1205	24,658			X			24,658
	Total	54	4,329,866	3	16	28	13	1	1,393,338

Note: (a) \$575 was disallowed in Finding 3.
(b) \$326,260 – other unsupported costs

Auditee Comments



March 12, 2001

Ms. Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean
District Office of the Inspector General
Office of Audit, Box 42
US Department of Housing and Urban Development
Richard B. Russell Federal Building
75 Sprint Street, S.E.
Room 330
Atlanta, Georgia 30303-3388

**DRAFT AUDIT REPORT
PUERTO RICO PUBLIC HOUSING ADMINISTRATION
HOPE VI GRANT PROGRAM, COMPREHENSIVE GRANT PROGRAM
AND ECONOMIC DEVELOPMENT AND SUPPORTIVE SERVICES
PROGRAM**

Dear Ms. Cooper:

I am responding to the above-referenced audit on behalf of the Puerto Rico Public Housing Authority (PRPHA). The draft was provided to PRPHA for review and comment on February 9, 2001. Comments were originally requested by February 16, 2000; by verbal communication, this due date was extended until March 12, 2001.

The OIG audit of the PRPHA HOPE VI 1994 grant covers activities that occurred before January 1, 2001. The Administration responsible for managing the PRPHA programs, including HOPE VI, during the audit

Ms. Nancy H. Cooper
March 12, 2001
Page 2

The OIG audit of the PRPHA HOPE VI 1994 grant covers activities that occurred before January 1, 2001. The Administration responsible for managing the PRPHA programs, including HOPE VI, during the audit

period has been replaced. The new Administration now responsible for administering PRPHA's programs is working to implement programmatic reform and to create internal controls to safeguard the integrity of the programs. This response is limited by the fact that the new Administration in the PRPHA has had significant difficulty in locating many of the documents pertaining to the 1994 HOPE VI grant which is the subject of this audit. It is impossible at this time to provide the necessary justification for expenditures until the PRPHA receives from the contractor, Carrero and Associates, Inc. d/b/a Progressa, its files relative to their administration of the HOPE VI grant. Carrero and Associates, Inc. has filed for bankruptcy and the PRPHA through its attorney, and has requested that HOPE VI files be returned to PRPHA (copy attached). PRPHA will continue to work towards resolving this problem. In the meantime, this letter responds to your recommendations and sets forth the actions being taken by the new administration to correct the deficiencies found at PRPHA.

FINDING 1: The audit report concludes that the PHA did not adequately administer its procurement activities for the HOPE VI implementation grant. As stated above, without the records and files of the PRPHA and its consultant, there is no means by which this Administration can justify or explain the questioned disbursements. However, the PRPHA is in the process of reorganizing the PRPHA in order to create the internal controls and management needed to prevent this type of situation from occurring in the future. I have attached the following exhibits outlining the organizational changes to occur at PRPHA.

Exhibit 1: The Circular Letter authorizing the reorganization of the PRPHA and the creation of new positions within PRPHA.

Exhibit 2: Description of the new positions

Exhibit 3: Reorganization Chart

Ms. Nancy H. Cooper
March 12, 2001
Page 3

As you will note from the exhibits, the PRPHA will not be managing its programs by contractors, as had been the practice under the previous administration. Instead, the PRPHA is creating program offices, procurement offices and financial offices to manage and run its programs with a permanent career staff. This will allow the PRPHA to develop expertise and institutional knowledge which will facilitate the PRPHA in the administration of its programs, including the HOPE VI grant for New San Juan Gateway.

Recommendations:

1A. This recommendation is that the 1994 HOPE VI grant should be declared in default. PRPHA believes that the 1994 HOPE VI grant agreement should not be declared in default. The PRPHA will have in place by August 31, 2001 the necessary staff to properly implement and manage the HOPE VI grant.

1B. This recommendation requires PRPHA to reimburse HUD \$5,293,937 from non-federal sources for the ineligible costs paid to the project manager. PRPHA is unable to contest this dollar figure at this time due to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

IC: This recommendation requires justification for the \$5,955,603 of unsupported implementation grant costs and reimbursement for any unsupported costs. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

ID: This recommendation requires assessment of the eligibility of the \$240,032 of cost efficiencies. PRPHA is unable to contest this dollar figure at this time due to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

FINDING 2: The project manager disregarded procurements because PRPHA did not monitor the activities of its project manager.

Ms. Nancy H. Cooper
March 12, 2001
Page 4

The exhibits attached to this response set forth the reforms in the administration of the office of the PRPHA. Safeguards and internal controls will be implemented. The Office of Procurement will fully staffed and the Procurement Manual is being amended and will be controlling for all future procurements.

Recommendations:

2A: This recommendation calls for sanctions of the appropriate PRPHA management officials who failed to monitor Carrero and Associates. We cannot respond to this recommendation because these individuals no longer work for PRPHA.

2b: This recommendation requires reimbursement of \$736,031 of ineligible costs. PRPHA is unable to contest this dollar figure at this time to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

FINDING 3: The PRPHA paid excessive, ineligible and unsupported costs for professional services by a subcontractor.

Recommendation:

3A: This recommendation requires the reimbursement of \$201,334 of ineligible costs paid in excess to the consultant and for unrelated program expense. PRPHA is unable to contest this dollar figure at this time due to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

3B: This recommendation request justification for the \$732,716 of unsupported contract costs and reimbursement of such unsupported costs. PRPHA is unable to contest this dollar figure at this time due to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

Ms. Nancy H. Cooper
March 12, 2001
Page 5

FINDING 4: The PRPHA did not adequately administer procurement payments for the CGP Grant. This program will have appropriate PRPHA staff to manage and oversee the program. The Executive Aide for Management of Capital Improvement will administer the capital improvement program, including the budget needs and compliance with program requirements.

Recommendation:

4A: The recommendation request justification for the \$3,182,506 of unsupported costs and reimbursement for any unsupported costs. PRPHA is unable to content this dollar figure at this time due to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

4B. This recommendation requires PRPHA to assess the eligibility of \$2,105,817 of cost efficiencies and reimburse any ineligible costs. PRPHA is unable to contest this dollar figure at this time due to lack of documentation. PRPHA would appreciate the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding this recommendation.

FINDING 5: The PRPHA did not adequately administer its HOPE VI planning grant.

Recommendations:

5A. This recommendation requires PRPHA to provide supporting documentation and obtain an audited HOPE VI cost certificate to assess the eligibility of the \$400,000 in unsupported charges. The PRPHA is preparing an RFP to retain a certified public accounting firm to provide this information.

FINDING 6: The PRPHA needs to improve its financial management system and controls.

6A. This recommendations requires PRPHA to provide evidence of acceptable managerial and internal controls. As indicated above, the

Ms. Nancy H. Cooper
March 12, 2001
Page 6

PRPHA will no longer rely on private contractors to manage its programs. The reorganization will create two new office : Internal Auditor and Procurement, and Strategic Planning and Special Projects. The hiring of Phase I managers is anticipated to be completed by March 31, 2001. The Phase II hiring of support staff is anticipated to be completed by August 31, 2001. Acceptable managerial and internal controls will be put in place.

6B. This recommendation requires PRPHA to reconstruct adequate audit trails and documentation for all undocumented grant expenditures. The Office of Financial Administration will establish appropriate procedures and internal controls to track grant expenditures for open grants. It is anticipated that this office will established operating procedures and guidance for the handling of disbursement.

6C. This recommendation requires review of the reconstructed expeditors and assures any eligible and reasonable costs will be accepted. To the extend it is possible to reconstruct expenses, this will be done.

6D. This will be done.

6E. This recommendation requires reimbursement of ineligible costs of \$149,547. PRPHA is unable to contest this dollar figure at this time due to lack of documentation. PRPHA would appreciated the opportunity to review any relevant documents in the IG's possession to assist the PRPHA in responding to this recommendation.

PRPHA is dedicated to taking corrective actions and to implementing its reorganization. PRPHA looks forward to working with HUD to successfully complete the reorganization and staffing so that the programs administered by PRPHA are in full compliance with HUD requirements.

Very truly yours,



Allan E. Charlotten Rivera

cc: Milan Ozdinec

HUD Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-5000

MAR 22 2001

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

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

FROM:  Milan Ozdinec, Acting Deputy Assistant Secretary
for Office of Public Housing Investments (OPHI)

SUBJECT: Significant Audit Findings
HOPE VI Grant Program, Comprehensive Grant Programs,
Economic Development and Supportive Services Program

Thank you for a copy of the draft audit of the Puerto Rico Public Housing Administration's (PRPHA) HOPE VI Program, issued February 2, 2001. We have read the draft audit with serious interest and commend the Office of Inspector General (OIG) for responding to our initial concerns regarding the PRPHA's financial management of this grant. We hope to work closely with you to find closure and resolution to the findings reported in the OIG's draft HOPE VI audit.

We take the draft findings identified and recommendations made by the OIG very seriously. Once the final audit report is issued, we will respond with a more detailed response of the findings and issue our management decisions on each recommendation. Before we can provide you with a response, we will need to seek clarification on the following three issues.

- In order to respond to the recommendations regarding the reimbursement of funds, OPHI will need a copy of the working documents that were used by the OIG in making those determinations and all documentation currently withheld by PROGRESSA due to the bankruptcy claim. Without a copy of these documents, it will be difficult for our office to render a decision.
- In a number of recommendations, you recommend that the PHA reimburse HUD for ineligible and unsupported costs from non-Federal funds. OPHI has considered that PRPHA may not have sufficient non-federal funds available to pay back ineligible and unsupported costs. In fact, reimbursement may depend on the Department's ability to pursue other parties involved in the misappropriation of HOPE VI funds.
- In Recommendation 2A, you recommend that OPHI sanction former or current PRPHA officials who failed to monitor PROGRESSA. We hope to work together with the OIG in implementing this recommendation and look forward to receiving any supporting

documentation necessary to sanction former or current employees of the PRPHA.

The OIG draft audit has identified six major findings related to procurement, and the financial management system and controls of the HOPE VI program. As you know, our office raised similar issues and concerns regarding the financial and overall management of the HOPE VI program with the PRPHA, both verbally and in writing. On April 20, 2000, we issued a six-page letter and detailed ten-page report outlining issues identified during a monitoring visit. We also hand-delivered the four-page September 2000 Site Visit Report to John Blakeman, the former Administrator of the PRPHA. The PRPHA's former administration failed to respond to our letters and reports in writing, and many of the corrective actions requested by HUD were not carried out by PRPHA.

Notwithstanding the foregoing, at our request, in early 2000, the PRPHA did engage an independent accounting firm to perform a compliance audit of all amounts billed by PROGRESSA, the former HOPE VI program manager (PM). As a result of information provided by the auditors, PRPHA reportedly determined that it was not in their best interest to keep authorizing payments of PROGRESSA's fee until the completion of the Agreed-Upon Procedures by the independent accountants and clarification of the findings. We received a copy of this draft report prepared by Aquino, De Cordova, Alfaro & Co. in August, 2000. In your draft audit, you state that you have not yet received the report from PRPHA which was scheduled for issuance in December, 2000. We have yet to receive a copy of the final report, but can furnish you with a copy of the draft report upon request.

The contract between PRPHA and PROGRESSA expired on June 30, 2000, and PRPHA did not renew this contract. In addition, PROGRESSA filed a bankruptcy claim in federal court and a lawsuit against PRPHA for its alleged failure to pay its PM fees. At the time PROGRESSA filed for bankruptcy, it kept in its possession the entire set of original documents pertaining to this program. In its March 12, 2001, response to you on this draft audit report, the PRPHA evidences the efforts it is making to obtain the files for the HOPE VI program.

As a result of these events, the HOPE VI Program in Puerto Rico has been operating with two new and inexperienced PRPHA staff members, without a PM and without a construction manager who has direct oversight and authority over the two construction contractors and three architects currently working at the two active construction sites at Manuel A. Pérez and Crisantemos. Because of our concerns over the lack of proper PRPHA oversight at the construction sites, the Corps of Engineers has been performing monthly inspections on both construction sites for over a year. Since September 2000, we have been using our own scarce technical assistance resources to monitor other aspects of the construction. Through HUD's IQC contract, an experienced

engineer from Heery International has worked with the contractors to bring their contracts into compliance, reviewed contract modifications and assisted the PRPHA in evaluating construction payment certifications.

Our office originally planned to declare the PRPHA in default of its HOPE VI Grant Agreement and intended that the PRPHA hire an Alternate Administrator to take full responsibility for dealing with the problems outlined in the various HUD reports and findings. However, understanding that there is a new administration with an interest in reforming PRPHA's structure and because of the urgency, we are now considering a Voluntary Cooperative Agreement (VCA) with PRPHA which would set in motion reform of the HOPE VI Program.

Through the VCA, OPHI will provide the PRPHA with intensive technical assistance so that the PRPHA can build its own capacity to properly manage all aspects of the program and monitor contractors properly. We will provide an experienced team of technical assistance providers, including engineers, accountants and a program manager. The team will assist the PRPHA in the administration of the HOPE VI program and development of policies and procedures for management controls, document processing, construction review, developer review, budgeting, forecasting and all financial, construction management and personnel management issues. Simultaneously with these activities, the HUD team will help PRPHA recruit and train personnel. The anticipated schedule for rebuilding the program and transition to a new PRPHA HOPE VI team is approximately four months with an option to extend.

We have discussed this approach with the new administration at PRPHA and believe that such approach will correct the urgency of the problem and help build overall internal capacity at the PRPHA. The PRPHA's cooperation and enthusiasm gives us encouragement that we can work together with them effectively and implement permanent systems with long-term benefits for this program.

Again, we look forward to working with you and the PRPHA in achieving resolution of all of these findings.

cc: Gloria Cousar, Acting General Deputy Assistant Secretary
Office of Public and Indian Housing, P

Jim Heist, Assistant Inspector General for Audit, GA

Michael R. Phelps, Acting Assistant Inspector General for
Audit, GA

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