



U.S. Department of Housing and Urban Development

District Office of the Inspector General
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June 26, 1996

Audit Related Memorandum
No. 96-AT-201-1821

MEMORANDUM FOR: Miriam Saez, Acting Director
Public Housing Division, 4NPH

FROM: Kathryn Kuhl-Inclan
District Inspector General for Audit, 4AGA

SUBJECT: Puerto Rico Public Housing Administration
San Juan, Puerto Rico
Comprehensive Grant and Drug Elimination Programs

We completed a limited review of selected activities of the Puerto Rico Public Housing Administration (PRPHA). Our review included: (1) interviews with HUD, PRPHA and management agent officials, and (2) review of PRPHA and management agent records. Our review was conducted from April to December 1995 and covered the period from July 1992 to December 1995.

Our review primarily covered the use of funds, procurement and related practices for the construction of access controls and fences at selected public housing projects. We also reviewed the accountability and use of drug elimination grant funds.

While conducting the review, we noted indications of administrative deficiencies that appear to warrant additional attention by both HUD and PRPHA staff. We did not develop the deficiencies as we normally would to meet reporting standards for generally accepted government auditing standards.

SUMMARY

Our findings and recommendations are in Attachment 1. We found that:

- Procurement actions were not properly documented in accordance with federal procurement requirements.
- A management agent charged \$433,736 of duplicate costs to federal programs.

- Accounting records for the 1990 Drug Elimination Grant program were deficient and \$347,839 could not be traced to supporting records.
- The PRPHA had not remitted to HUD \$1,175,998 of unspent 1990 Drug Elimination Grant funds.

Within 60 days, please furnish this office, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should your staff have any questions or need additional information, please contact James D. McKay, Assistant District Inspector General for Audit on (404) 331-3369 or Aurora Rodriguez, Senior Auditor at (809) 766-5540.

Attachments:

- 1 - Findings and Recommendations
- 2 - Schedule of Ineligible and Unsupported Costs
- 3 - Distribution

FINDINGS AND RECOMMENDATIONS

1. **Noncompliance with Procurement Requirements**

The PRPHA awarded contracts for the construction of access control facilities, such as the construction of fences and guard houses at the public housing projects.

Our review disclosed that the records maintained by the PRPHA did not:

- a. Have detail of the significant history of a procurement. These records should include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price (24 CFR 85.36 (b)(9)).
- b. Show cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profit (24 CFR 85.36(d)(4)(ii)).
- c. Show that PRPHA performed a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated costs, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis is necessary when adequate price competition is lacking, and for sole source procurement, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis should be used in all other instances to determine the reasonableness of the proposed contract price (CFR 85.36(f)(1)).
- d. Show that the PRPHA negotiated profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration must be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work (24 CFR 85.36 (f)(2)).
- e. Show that the PRPHA evaluated contractor's integrity, records of past performance and financial and technical resources (24 CFR Part 85.36(b)(8)).

Further, the contracts for the construction of access control facilities did not contain 12 of the contract provisions required by 24 CFR Part 85.36(i). The only provision included was the one specified in 24 CFR 85.36 (i)(1) that provides for legal remedies when contractors violate or breach contract terms.

Additionally, the PRPHA's accounting records do not provide for an accounts payable subsidiary ledger or other similar record from which the project's budget and history of contract payments could be easily determined. Instead, the PRPHA relies on a disbursement vouchers file. To determine the payments made to a contractor, the accounting employee must add the amounts of the payment vouchers contained in the vouchers file. The PRPHA's accounting system does not meet the requirements specified in 24 CFR 85.20.

Recommendations

We recommend that you require the PRPHA to:

- 1A. Establish controls to ensure compliance with 24 CFR 85.36 and other local/state procurement procedures.
- 1B. Establish and maintain financial management systems as required by 24 CFR Part 85.20.

2. Duplicate Charges to Federal Programs

Inter Island Rental P.R. Corporation (management agent), charged \$433,736 of duplicate costs to federal programs.

The management agent made improvements at various public housing projects as part of HUD Comprehensive Grant Program. The management agent charged the total cost of the improvements on HUD Form 50080 (Comprehensive Grant Program Payment Voucher), which generally were submitted monthly to the PRPHA. The PRPHA reimbursed the management agent for the total costs.

For the period June 21, 1993 to June 21, 1994, the agent also claimed a refund of \$438,598 for the same site improvements costs from the "Administracion del Derecho al Trabajo" (ADT), a local government agency. ADT administers the Special Work Incentive Program of the U S Department of Agriculture sponsored by the Commonwealth of PR Social Services Department. The amount of \$438,598 was adjusted to \$433,736 for which the management agent had received \$424,598 at the audit field work date. Invoice No. 708-7300 for \$9,138 had not yet been paid.

Under the Special Work Incentive Program, employers are entitled to a reimbursement of 50 percent of the salaries paid to program participants. The management agent requested the 50 percent reimbursement from this federal program although 100 percent of the salaries had also been claimed from the HUD Comprehensive Grant Program.

In summary, the wages were claimed (100 percent) from HUD as a cost incurred undertaking CGP activities. Additionally, the agent submitted invoices to ADT asking for reimbursement of 50 percent of the wages paid to the participants, when these costs were billed to HUD. These invoices were paid by the Social Services Department. Therefore the agent claimed and received duplicate reimbursement for wages. We consider \$433,736 as ineligible program costs.

Recommendation

- 2A. We recommend that you require the PRPHA to seek reimbursement of the \$433,736 from the management agent.

3. Accounting Records for the 1990 Drug Elimination Program were Deficient

The PRPHA did not maintain adequate accounting records for the 1990 Drug Elimination Program. As a result, \$347,839 of the \$1,573,528 reported by the PHA as expended in its Financial Status Report dated March 11, 1994, could not be traced to the PRPHA's accounting records. The \$347,839 are unsupported.

Part 85.20(b)(2) of the CFR requires Grantees to maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

The only record made available by the PHA was a Transaction Listing by Fund. From this record we were able to trace expenditures amounting to \$1,225,689 or 78 percent of the reported expenditures. The balance of \$347,839 (\$1,573,528 - \$1,225,689) could not be traced to the PRPHA accounting records.

The PRPHA has been in a troubled status since 1981 and one of its main problems has been with record keeping and reporting.

Recommendations

We recommend that you:

- 3A. Require the PRPHA to either provide evidence that the \$347,839 are traceable to their accounting records or to deduct this amount from the amount claimed for program closeout.
- 3B. Require the PRPHA to submit a certification showing that the accounting records for program years 1993, 1994 and 1995 are kept in accordance with program requirements.

4. The PRPHA has not Remitted Unspent 1990 Drug Elimination Funds to HUD

Contrary to program requirements, the PRPHA had not remitted to HUD \$1,175,998 of unexpended funds. As a result, unnecessary finance charges on borrowed funds are incurred by the United States Treasury.

Program regulations (24 CFR Part 961.30(f)) state that Grantees are required to use grant amounts according to their approved work plan, which generally shall not exceed 24 months. This was reemphasized by HUD in the grant approval letter dated September 21, 1990. According to information in a HUD monitoring report dated September 1991, the grant beginning date was March 11, 1991 and the ending date was March 11, 1993. The PRPHA submitted the 1990 Drug Elimination Program Final Financial Report on March 23, 1994. Instead of remitting to HUD the unexpended funds, the PHA requested HUD approval to use them.

We believe HUD should require the PHA to remit the 1990 unused funds because the time period for use of the funds has lapsed. Furthermore, the PRPHA has been slow in using the additional funds awarded. For example, at our audit field date the PRPHA had used only \$2.5 million of the \$6 million awarded for 1993, and only \$4,000 of the \$14.2 million awarded for 1994. The PRPHA had not used any of the \$12 million awarded for 1995.

Recommendation

We recommend that you:

- 4A. Require the PRPHA to remit the \$1,175,998 to HUD.
- 4B. Advise the PRPHA that 1993, 1994 and 1995 funds not used within the grant period must also be remitted to HUD. The PHA should also be reminded that program regulations became more specific on this area in 1993, permitting only a maximum extension of 6 months to the 24 months already established.

SCHEDULE OF INELIGIBLE COSTS

<u>Recommendation</u>	<u>Ineligible Costs</u> ¹	<u>Unsupported Costs</u> ²
2A	\$ 433,736	
3A		<u>\$347,839</u>
4A	<u>1,175,998</u>	
Total	<u>\$1,609,734</u>	<u>\$347,839</u>

¹ Costs not allowable by law, contract, HUD or local agency policies or regulations.

² Costs not clearly eligible or ineligible but warrant being contested (e.g., lack of satisfactory documentation to support the eligibility of the cost).

Distribution

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