



U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388
(404) 331-3369

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TO: Deborah Vincent, General Deputy Assistant Secretary For Public and
Indian Housing, P

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

SUBJECT: Assessment of Progress
Puerto Rico Public Housing Administration
San Juan, Puerto Rico

We completed a limited review of the Puerto Rico Public Housing Administration (PHA). The former Secretary of the U. S. Department of Housing and Urban Development (HUD) requested the review to assess the PHA's progress in correcting its long standing problems. Specifically, we focused our review on the PHA's progress in completing certain goals, strategies, and tasks listed in its Partnership Agreement and Memorandum of Agreement. Our limited review was not intended to depict all accomplishments, nor all areas needing improvement.

This report will not be formally controlled under HUD's Audits Management System. However, we plan to evaluate the PHA's efforts in subsequent audits after the PHA has an opportunity to complete many of the past due actions.

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

Executive Summary

We completed a limited review of the Puerto Rico Public Housing Administration (PHA). The former HUD Secretary requested the review to assess the PHA's progress in correcting its long standing problems. The PHA signed a Partnership Agreement and a Memorandum of Agreement (MOA) with HUD on February 6, 1995, and June 21, 1996, respectively. These agreements laid out goals and strategies designed to improve the overall performance of the PHA so that it could be removed from HUD's troubled housing list.

Our assessment showed the PHA had slowly implemented some of the goals and strategies contained in the agreements. We noted that the PHA did not complete many of its strategies within the established target dates. Although the PHA had made some improvements, it still had much work to do to become operationally sound. The PHA still lacked adequate systems, controls and procedures. Many of the PHA's actions involve continuing activities. The PHA needs to be more diligent and aggressive in pursuing corrective actions. It also needs to periodically assess its actions to assure its initiatives correct the problems they were designed to address.

We gave a draft report to the Secretary of Housing and the PHA Administrator and held an exit conference on April 27, 1998. The PHA provided written responses for each chapter. The PHA's comments are summarized with each chapter and included as Appendix A. We did not include the supporting attachments, but will make them available upon request.

The PHA agreed that not all the goals and strategies were met within the time schedule agreed upon, but its overall goal of getting off HUD's troubled list was reached. The tasks and time schedules changed once the PHA met the overall goal. The PHA stated that it is continuing its efforts in correcting aspects in the agency that need focused attention. The officials recognized that a major deficiency was the lack of a functional computerized system. They stated they recently received approval of the computer plan, and are moving forward to complete the installation of equipment, update software, and train personnel.

We did not make any recommendations in this report. Accordingly, this report will not be formally controlled in HUD's Audit Management System. However, we plan to evaluate the PHA's efforts in subsequent audits after the PHA has an opportunity to complete many of the past due actions.

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Abbreviations

CGP	Comprehensive Grant Program
CIAP	Comprehensive Improvement Assistance Program
DEP	Drug Elimination Program
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
MOA	Memorandum of Agreement
PHA	Puerto Rico Public Housing Administration
PHMAP	Public Housing Management Assessment Program

Introduction

Public housing and urban renewal programs first started in Puerto Rico in 1938. The Puerto Rico Urban Renewal and Housing Corporation was created in 1957 for the purpose of consolidating and reorganizing those programs. On June 10, 1972, the government of Puerto Rico established the Department of Housing, attaching the Corporation to the Department of Housing, and transferring the powers and faculties of the Board of Directors of the Corporation to the Secretary of Housing.

The Puerto Rico Public Housing Administration was created in 1989 and also placed under the direction of the Department of Housing, for the purpose of creating an efficient and flexible administration of public housing. In 1991, the Corporation was dissolved and placed under liquidation due to lack of management capability.

Currently, the Puerto Rico Public Housing Administration is the second largest public housing agency in the nation. Approximately 10 percent of the island's population live in public housing. The PHA operates 337 housing projects, with 56,994 units scattered throughout 78 municipalities. All projects are built of concrete with construction dates ranging from 1941 to 1991. The highest concentration of units, representing about half of the total, is in the San Juan area.

Over the last 3 years HUD has provided over \$187 million in operating subsidies. Also, HUD has provided the PHA over \$560 million for the following additional programs:

Source of Funding	1994	1995	1996
Drug Elimination Grant	\$ 14,289,750	\$ 12,822,360	\$ 10,724,453
Hope VI (Urban Revitalization Program)	50,000,000	400,000	
Lead Based Paint Risk Assessment		1,320,880	
Comprehensive Grant Program	<u>172,718,545</u>	<u>163,594,656</u>	<u>134,424,279</u>
Total Additional Funding	<u>\$237,008,295</u>	<u>\$178,137,896</u>	<u>\$145,148,732</u>

HUD and the PHA have known about problems at the PHA for many years. In 1981, the Caribbean Office designated the predecessor agency as "financially troubled." In 1985, it was redesignated as operationally troubled due to serious fiscal, administrative, and maintenance deficiencies. The PHA continued failing to meet expected performance. In 1988, a comprehensive review of its operations revealed it had an increasingly deteriorating trend. By 1990, the Caribbean Office and the PHA had entered into their second MOA to try to address the problems. Twelve months later, the PHA still was not able to resolve its problems and did

not show any signs of improvement. Finally, in mid-1991, HUD imposed severe sanctions by freezing about \$288 million of unobligated modernization funds and \$20 million of unobligated development funds. To find a solution to the management problems, the Governor took several radical steps. In March 1992, he transferred the modernization and development programs to the Public Building Authority to act as an agent for the PHA. At his direction, on August 1, 1992, the PHA contracted with private management firms to administer and maintain the developments. The PHA was dramatically downsized from a work force of over 4,500 employees to under 100 employees. In November 1996, the PHA transferred the administration of the modernization program from the Public Building Authority to three private management firms. Therefore, the PHA's role was reduced to an "asset manager" with supervisory responsibilities and oversight of the private management firms.

Although major aspects of public housing operations were under private management, the PHA failed to meet the expected performance standards and was designated as "troubled" for fiscal years ending June 30, 1993, and 1994. HUD assigned scores of 53 and 54 percent under the Public Housing Management Assessment Program (PHMAP). HUD assigned failing scores in the areas of uncollected rents, unit turnaround, and development.

In February 1995, HUD and the PHA entered into a 6 month action plan. The action plan listed eight major areas needing operational and administrative improvement. The purpose of the plan was to identify specific goals and activities for specific start-up technical capacity building and systems development, and to allow the PHA to develop a 2 year improvement plan. The strategies were to be completed by August 1995, and the 2 year operational improvement plan was due by October 1, 1995. A consultant assessed progress after 4 months of implementation. The report concluded that the PHA was an organization in crisis needing fundamental organizational changes. It further stated that the PHA lacked trained staff to carry out many tasks which all housing authorities are required to perform. The report disclosed that only 36 percent of the strategies were completed, and the rest were in various stages of implementation.

HUD contracted with a consultant to perform an independent PHMAP assessment for the year ended June 30, 1995. The consultant assigned a score of 50 percent in the draft report. However, HUD did not accept the report, and did not provide a PHMAP score for fiscal year ending June 30, 1995. HUD found unresolvable discrepancies in determining a PHMAP score in the areas of vacancies, unit turnaround, and routine operating expenses.

HUD and the PHA executed a new MOA on June 21, 1996. The MOA included short term strategies as well as an overall improvement and operational guide. The PHA desired to improve its management performance and eliminate its troubled status by accomplishing the goals and strategies outlined in the MOA. The MOA targeted the following areas for improvement: vacancies, modernization, rent collections, unit turnaround, outstanding work orders, annual inspections, tenant accounts receivable, and development. The MOA was to remain in effect for a 2 year period ending June 1998, and the PHA agreed to take all possible actions to achieve the targets and time frames. Also, the PHA agreed that the terms of the MOA would continue in effect for the period specified, even if HUD certified to a passing score of "60" or above on a PHMAP assessment prior to the completion of all tasks.

On August 14, 1996, the PHA submitted its PHMAP certification for fiscal year ending June 30, 1996, and requested modifications for indicators 2 (Modernization), 5 (Unit Turnaround), 6 (Work Orders) and 7 (Housing Quality Standards). HUD approved the requested modifications by letter dated December 13, 1996. The PHA obtained a passing score for indicators 2 and 5, but did not obtain a passing score on indicators 6 and 7, even with the modifications. However, the modifications allowed the PHA to obtain an overall passing score of 67 percent. Our computations showed that the overall PHMAP score without the modifications would have been below 60 percent, which would have kept the PHA in the Troubled Category.

HUD reviewed the PHA's documentation and certifications for fiscal year ended June 30, 1997. On November, 4, 1997, HUD approved a score of 63.6 percent. HUD did not grant any PHA modification requests, but adjusted the overall score by adding two points to reflect an adjustment given for differences in neighborhood environment. The PHA received less than 60 percent for modernization, therefore it was designated Modernization Troubled. HUD concluded that the PHA had made significant improvements, but pointed out two critical areas needing improvement: financial management, and modernization organization.

Review Objectives, Scope and Methodology

The objective of the review was to assess the PHA's progress in implementing the strategies contained in the MOA and eliminating its long standing problems reported in past reports and reviews.

Our review assessed the actions taken by the PHA between February 6, 1995, and December 31, 1996. The period was extended as necessary. Our field work was performed between February and August 1997. We interviewed HUD and PHA personnel and consultants to identify procedures and assess actions taken or scheduled. To assess the progress of the PHA in addressing its agreements with HUD, we examined the following:

- HUD monitoring reports
- Consultant studies
- The February 1995 Six Month Action Plan
- Public Housing Management Assessment Program records
- The June 1996 Memorandum of Agreement
- Memorandum of Agreement (MOA) Quarterly Performance Target Progress Reports

We provided a copy of this report to Honorable Ana Carmen Alemany, Secretary, Puerto Rico Housing Department and to John S. Blakeman, Administrator, Puerto Rico Public Housing Administration.

Vacancy Reduction and Unit Turnaround

Previous HUD and consulting reviews showed the PHA did not have an effective vacancy reduction and unit turnaround program. Further, the reviews disclosed that the PHA did not have: a system to track vacancy/unit turnaround; reliable data to support certified scores on vacancy numbers and percentages; information for vacancy adjustments such as units vacant due to modernization and illegal occupancy; and accurate records on occupancy dates.

Vacancy Number and Percentage

HUD uses vacancy information to determine a PHA's progress in reducing vacancies. The goal was to achieve an actual vacancy percentage of 2 percent or less for a score of "B." The MOA pointed out that in 1994 the PHA had 1,918 vacant units, representing a "C" score in the PHMAP evaluation. In order to increase the score, the PHA proposed to undertake a number of administrative changes which would enhance its ability to track and to provide reliable data and make the property managers accountable for units which remained vacant in excess of 20 days. The PHA proposed 12 strategies with the following target dates:

1.	Track vacancy reports submitted monthly by property management companies.	7/1/96
2.	Develop computerized tracking system for occupancy for each development and each area. This will require modification for CAM II software.	9/30/96
3.	Report of non compliance to companies for failure to reach specified occupancy goals.	8/1/96
4.	Develop/update Annual Comprehensive Occupancy Plan.	9/15/96
5.	Meet monthly with management agents who are meeting their occupancy targets.	10/1/96
6.	Develop technical assistance plans for areas where targets are not being met.	On-going
7.	Coordinate with Modernization and Planning Division to ensure advance notice of relocation or reoccupancy timeliness.	7/1/96
8.	Properly code all vacancies.	9/1/96
9.	Develop plan for monitoring follow-up and review of all vacancies.	8/1/96
10.	Assign tenant selection and assignment function to management agents.	2/1/97
11.	Initiate meetings with judges regarding need to support evictions for non-payment of rent.	3/1/97
12.	Provide training to judges regarding public housing program.	6/1/97

Nine of the 12 strategies were due to be completed by December 31, 1996. The PHA reported in its December 31, 1996, progress report that it had accomplished strategies 3, 5, 6, and 9. The PHA reported that there was no need to meet with management agents regarding occupancy targets because the vacancy reports for October and November 1996 were in compliance (strategies 3, 5 and 6). We reviewed summary vacancy reports and noted that some management agents reported vacancies that exceeded the PHA's goal of 2 percent. For example, the management agent for area 9 reported vacancy rates of 8.5 percent for each month of October, November, and December 1996. The management agent for area 19 reported vacancy rates of 3.2, 3.3, and 2.5 percent. The management agent for area 20 reported vacancy rates of 2.2, 2.4 and 2.5 percent. Therefore the management agents were not in compliance with the PHA goals, and the PHA should have issued reports of non compliance for failure to reach specified occupancy goals. We asked a PHA official why the management agents were reported as in compliance when they were not. The official stated they included information without ensuring it was correct.

The PHA reported it had developed a plan for follow-up and review of all vacancies (strategy 9). However, a PHA official stated they did not go on site to verify the accuracy of reported vacancy information.

We discussed the status of the other strategies with PHA staff. PHA staff said they had started but had not completed the strategies due to reorganizations and staff limitations. They indicated the target dates would have to be extended.

Unit Turnaround

Unit turnaround measures the average number of calendar days between the day a unit is vacated and the day it is leased. The goal was to reoccupy the unit in less than 20 calendar days. The 1996 MOA pointed out the PHA lacked a system but reported an average of 18 calendar days to reoccupy the units. However, the inability of some management agents to document their results raised questions about the accuracy of the data. The lack of an adequate tracking system resulted in an "F" (fail) rating. The MOA contained 12 strategies to address unit turnaround:

1.	Develop uniform tracking system with appropriate reporting forms.	5/96
2.	Translate forms into Spanish.	5/96
3.	Develop training program for management agents on the use of forms, interpretations of policy and how to fill out forms properly.	5/96
4.	Develop computerized tracking system through modifications in the property management software.	10/1/96
5.	Assess implementation of training system and use of forms.	7/30/96
6.	Provide follow-up technical assistance to property managers not properly using forms	7/1/96
7.	Identify areas that are not in compliance through spot checks as well as regular site audits by the Asset Management Division - establish area targets.	7/1/96

8.	Develop report of non-compliance of property managers who fail to meet defined turnaround targets.	7/1/96
9.	Use tracking system to identify program areas that are responsible for the greatest amount of time in turnaround time and concentrate technical assistance.	10/1/96
10.	Develop user manual and policy guidebook for CAM II property management software.	7/1/96
11.	Train all property management companies on maximizing use of CAM II software.	7/1/96
12.	Request from HUD modifications of this PHMAP indicator.	8/15/96

All strategies were to be completed by October 1, 1996. The PHA reported in its December 31, 1996, progress report that it had completed 10 of the 12 strategies. The strategies reported as not complete were strategies 6 and 10. However, we noted that five strategies, reported as complete, were not fully accomplished.

The PHA reported that it had developed a uniform tracking system with appropriate reporting forms (strategy 1). Although a manual system had been developed, we noted the management agents submitted contradictory and inaccurate information. For example, some units were reported as both vandalized and deferred due to modernization. Also, units in the pre-modernization stage were not accounted for as part of unit turn around time.

The PHA reported that it had completed a computerized tracking system (strategy 4) and evaluated implementation after training the management agents (strategy 5). However, we determined that the computerized tracking system was not fully developed. The software produced some reports with some information that would be needed in a tracking system. However, the reliability of the information was questionable. For example, we reviewed a December 31, 1996, turnaround report. We noted the report contained several errors pertaining to the move-in and move-out dates of new and former residents. The errors resulted in a negative amount of turn around days, which obviously can not occur. A PHA official stated that they did not really have a computerized tracking system. The official said the software program contained historical data that could be used to follow or trace certain trends, but was not a tracking system. The official advised that the software would need to be modified to meet the new HUD PHMAP requirements. However, a new version of the software was not expected to be released until the end of 1997.

The PHA reported that it had reviewed the October and November 1996 reports and determined they were in compliance (strategies 7 and 8). We noted that reports prepared by PHA monitors showed average turnaround times of 68 days at one project and 119 days at another project, which were not in compliance with the PHA's 18 day goal.

A PHA official provided various reasons for not meeting the target dates. He stated that most of the dates were not real target dates, and once the PHA was off the troubled list, they forgot the MOA. He also stated that considerable efforts were targeted to the changes required under the new PHMAP rules.

HUD staff performed a confirmatory review of PHMAP documentation and certifications for fiscal year ended June 30, 1997. Although HUD's review objective did not assess strategy implementation, HUD did assess vacancy and unit turnaround time. HUD pointed out that staff still produced reports manually, and that the system was archaic, time consuming and contributed to a high level of errors. HUD pointed out the PHA needed to complete development of the computerized tracking system.

Auditee Comments

The PHA commented that it is currently discussing changes with the software vendor. It is also no longer required to track and report unit turnaround data as a result of the revised PHMAP rules.

Conclusion

Although the PHA had made some progress, we concluded the PHA still did not have a reliable tracking system supported by reliable and accurate data. The PHA needed to continue efforts to develop an automated system to produce reliable and accurate data.

Maintenance

Previous HUD and consultant reviews showed the PHA work order system was inadequate. The reviews disclosed that the system was not sufficient to provide the PHA with a means of monitoring the maintenance operations and tracking the work actually performed.

HUD uses information concerning outstanding work orders (emergency and non-emergency) to evaluate how the PHA accounts for and controls its work orders, and its timeliness in preparing and issuing work orders. The MOA pointed out that in 1994, the PHA had 6 percent outstanding non-emergency work orders, representing a “C” score in the PHMAP evaluation. The PHA established a goal to reduce outstanding non-emergency work orders to 4 percent, and complete 99 percent of emergency work orders within 24 hours. The MOA consolidated PHA efforts to improve the work order system. The MOA pointed out that property managers did not use a standard work order reporting form, did not use uniform work order assignment forms for their employees, and did not uniformly classify work order requests. The MOA contained the following 11 strategies to improve the work order system:

1. Develop uniform tracking system with appropriate reporting forms; emphasis on standardization.	5/96
2. Translate forms into Spanish.	5/96
3. Develop training program for management agents on the use of forms, interpretations of policy and how to fill out forms properly.	5/96
4. Develop computerized tracking system through modifications in the property management software.	10/1/96
5. Assess implementation of tracking system and use of forms.	6/30/96
6. Provide follow-up technical assistance to property managers not properly using forms.	6/30/96
7. Identify areas that are not in compliance through spot checks as well as regular site audits.	8/1/96
8. Develop report of non compliance for property managers who fail to meet defined turnaround targets.	8/1/96
9. Update maintenance and tenant charges list.	9/1/96
10. Update policies and procedures for tenant supplied appliances such as stoves, refrigerators, water heaters, and electric hot water shower heads.	9/1/96
11. Request from HUD a modification for calculation of this indicator.	8/15/96

All the strategies should have been completed by October 1, 1996. The PHA's December 31, 1996, progress report showed that 8 strategies had been addressed and were considered complete (strategies 1, 2, 3, 4, 6, 7, 8, and 11). We found that one of the strategies was not fully implemented (strategy 4). The PHA reported that it had developed a computerized tracking system to monitor work orders. However, we found that not all property managers used or submitted the required reports.

Although the PHA had made progress in implementing the strategies, the efforts had not been effective in improving the PHA's performance.

HUD's confirmatory review for fiscal year ending June 30, 1996, showed the PHA's outstanding non-emergency work orders exceeded 12 percent and that it had completed only 87 percent of emergency work orders within 24 hours. The result was an "F." The PHA's December 31, 1996, progress report disclosed that the PHA met the 99 percent target on emergency orders. However, its score on outstanding non emergency work orders worsened to 17 percent.

HUD staff performed a confirmatory review of PHMAP documentation and certifications for fiscal year ended June 30, 1997. The PHA certified to a grade of "F" for emergency work orders completed or abated within 24 hours, and an average of 48 days to complete non-emergency work orders for a grade of "D". Although HUD's review objective did not assess strategy implementation, HUD did assess the work order system. HUD pointed out that the PHA modified the form used by the tracking system. The form omitted essential information that identified the number of work orders for repair of units or systems generated by the annual inspections. Also, the PHA did not generate work orders for failed items identified in the annual inspections. For example, HUD noted the PHA did not generate emergency work orders for safety violations concerning gas stoves and shower water heaters that were connected to the bathroom lamp with extension cords. Thus, HUD could not ascertain the actual number of emergency work orders generated and whether they were corrected or abated within 24 hours. Furthermore, HUD could not determine the number of deferred non-emergency work orders outstanding, nor the number of days that should have been calculated. HUD concluded there was a system to track work orders, but the system was not effectively used since some work items bypassed the system, and the PHA was not consistent in issuing emergency work orders.

Auditee Comments

The PHA stated it had recently corrected all inspection forms to capture missing information. The PHA said it plans to purchase 12,000 electric stoves for those units in developments that are in violation of HUD housing quality standards. The PHA also plans to purchase water heaters for those units where shower head heaters are currently in use. They believed these measures will lead to safer living environments, and substantially improve the PHMAP score.

Conclusion

Although, the PHA had implemented many strategies, we concluded the PHA had not established an effective computerized maintenance tracking system and implemented procedures and controls to complete work orders within acceptable time frames.

Annual Inspections

Previous HUD and consultant reviews showed that the PHA lacked adequate systems for tracking annual inspections and the condition of units and systems.

The MOA pointed out the PHA did not have standard reporting and tracking forms, did not monitor property managers' performance, and failed to provide continued technical assistance to those firms who were not in compliance. Additionally, the PHA needed to formalize a number of significant housing quality policy issues. For example, the PHA did not provide stoves, refrigerators, or domestic hot water. Many tenant supplied appliances and hot water makers were often hazardous. Also, most smoke detectors were battery operated, and there was no program to assure that batteries were functioning. The PHA proposed 13 strategies with the following due dates:

1.	Develop uniform tracking system with appropriate reporting forms.	5/96
2.	Translate forms into Spanish.	5/96
3.	Develop training program for management agents on the use of forms, interpretations of policy, and how to fill out forms properly.	5/96
4.	Develop computerized tracking system through modifications in the property management software.	10/1/96
5.	Assess implementation of tracking system and use of forms.	6/30/96
6.	Provide follow-up technical assistance to property managers not properly using forms.	6/30/96
7.	Identify areas that are not in compliance through spot checks as well as regular site audits by the Asset Management Division.	7/1/96
8.	Develop report of non-compliance for property managers who fail to meet defined turnaround targets.	7/1/96
9.	Develop policies and procedures for inspection of propane tanks, water heaters, refrigerators and stoves; include responsibility for tenant supplied appliances and tenant charges if tenant does not correct deficiencies.	9/1/96
10.	Develop tracking system for major system repairs.	9/1/96
11.	Computerize tracking system on calendar days to correct deficiencies found in Housing Quality Standards (HQS) inspections.	10/1/96
12.	Ensure compliance with local building codes; develop checklist of local code issues.	8/1/96
13.	Request from HUD a modification or an exclusion for calculation of this indicator.	8/15/96

All the strategies should have been completed by October 1, 1996. The PHA's December 31, 1996, progress report showed that it had completed 10 strategies (strategies 1, 2, 3, 4, 6, 7, 8, 10, 11, and 13). We found that three of the completed strategies were not fully implemented. The PHA reported that it had developed a computerized tracking system through modifications in the property management software (strategy 4), and provided training and technical assistance to property managers on the new computerized forms (strategy 6) and tracking system (strategy 11). However, our discussions with a PHA official disclosed the property managers were not submitting computerized tracking system reports to the PHA, training was provided on manual forms, not computerized forms, and that some management agents continued to submit required reports in manual form.

When questioned concerning reasons for not timely meeting MOA strategies, a PHA official explained that lack of adequate planning had resulted in difficulties in meeting established deadlines. Also, the PHA official indicated the PHA initially may have established goals it could not achieve.

HUD evaluated the PHA's inspection program and tracking systems during its confirmatory review of the PHA's documentation and certifications for fiscal year ended June 30, 1997. HUD pointed out the PHA had developed a system to track work orders and plan maintenance activities. However, the PHA did not properly record all work items, which made the system ineffective. For example, PHA inspections showed that only 59 percent of the units passed HQS, thus work orders should have been generated for the 41 percent that failed HQS. HUD found that the PHA did not provide information concerning work orders generated for the failed units. HUD also observed deficiencies regarding the quality of inspections for units and systems. For example, some units failed while others with the same deficiencies were passed. Also, maintenance plans were not found for some communities, while plans for other communities were actually preventive maintenance programs. Furthermore, the PHA still had not addressed serious housing quality issues. For example, the PHA had not addressed the issue of hazardous tenant supplied water heaters and stoves with gas tanks stored in the units.

Auditee Comments

The PHA believed the inspection program had improved significantly over the past 2 years. New forms had been developed, monitors had been trained, management agent staff had received technical assistance and spot checks had improved. It also planned to install a computerized tracking system during the next fiscal year.

Conclusion

Although the PHA had implemented many strategies, we concluded the PHA still did not have an effective inspection program and had not addressed serious housing quality issues.

Modernization

Previous consultant and HUD reviews disclosed problems with the PHA's modernization programs. The PHA lacked appropriate tracking systems for budgets and implementation schedules for the Comprehensive Improvement Assistance Program (CIAP) and the Comprehensive Grant Program (CGP). Consequently, funds were not timely obligated, or spent and planned improvements were not performed.

The MOA pointed out the PHA systems were not sufficiently designed to obtain accurate information nor were they able to track expenditures properly. To correct these deficiencies, the PHA proposed 29 strategies with the following due dates:

1. Request HUD approval of budget revisions and project implementation revisions for all CIAP modernization projects.	6/1/96
2. Request HUD approval for modification of modernization PHMAP score due to conditions beyond its control.	8/15/96
3. Issue bid for accounting services to reconstruct special purpose modernization dollars from the 1992 CGP distributed by HUD and the PHA during the transition to private management companies.	7/8/96
4. Award contract for accounting services to firm with modernization experience to reconstruct 1992 CGP special purpose dollars.	8/1/96
5. Receive report on 1992 CGP.	11/1/96
6. Make necessary budget revisions based on report.	30 days after receipt
7. Make current all expenditures for 1993, 1994, and 1995 CGP.	9/1/96
8. Develop a computerized financial tracking system for all CGP expenditures, including contract amount, obligated funds, expended funds, unobligated funds, and unexpended funds.	7/1/96
9. Assess budget revision/implementation schedule in order to obligate all funds and to transfer unobligated funds for CGP 1992.	30 days after receipt
10. Request HUD approval of budget revisions and project implementation schedules for all CIAP. Revise budget and project implementation schedules as required.	7/1/96
11. Train compliance monitoring unit of Modernization and Planning Division.	10/1/96

12.	Put out to bid project management services for CGP 1995.	6/15/96
13.	Award project management services for CGP 1995.	8/15/96
14.	Monitor project management services.	10/1/96
15.	Monitor modernization projects managed by the Puerto Rico Public Buildings Authority.	6/1/96
16.	Take corrective action on HUD modernization review significant findings.	6/15/96
17.	Prepare budget submission for CGP 1996.	7/18/96
18.	Determine if CGP1996 to be bid or contracts awarded for CGP 1995 will be amended to include 1996 award.	30 days after approval
19.	If amended contract permissible, then amend contracts and enter into negotiations.	30 days after approval
20.	If CGP 1996 to be bid, determine bid schedule.	30 days after approval
21.	Take corrective action to ensure that projects are coming in under budgets, on time and with quality modernization.	6/1/96
22.	Develop work plan for siting modernization monitoring field offices for monitoring Public Building Authority projects, private management projects, and managing agent projects.	7/15/96
23.	Deploy modernization monitoring staff to field offices.	8/1/96
24.	Review modernization monitoring structure for effectiveness.	2/15/97
25.	Develop master list of HQS related modernization items, i.e., smoke detectors, hot water heaters, and propane storage tanks.	9/1/96
26.	Submit to HUD for review any project implementation schedule revision if needed.	10/1/96
27.	Develop work plan for Fundware implementation of modernization module.	8/1/96
28.	Complete software implementation.	9/15/96
29.	Train staff on software.	8/1/96

All but one of the strategies should have been completed by November 1, 1996. The PHA's December 31, 1996, progress report showed that it had completed 13 strategies (strategies 1, 2, 3, 4, 12, 13, 14, 15, 16, 17, 18, 19, and 20).

We discussed the status of the remaining strategies with PHA officials. The officials said they had not completed the strategies due to various reasons. For example, they could not complete strategies 5, 6, 7, 9, and 26 until they awarded an accounting service contract and received the report. They could not complete strategies 8, 21, 28, and 29 due to technical problems, such as electrical and communication line connections, and computer viruses. Strategy 27 could not be implemented because there was no module available. They could not complete strategies 11, 22, 23, 24, and 25 due to problems in hiring licensed engineers.

HUD evaluated the PHA's modernization program during its confirmatory review of the PHA's documentation and certification for fiscal year ended June 30, 1997. HUD found many problems and concluded the PHA lacked the ability to obligate and use funds timely. For example, CIAP grants 1987-1990 were not expended until the end of August 31, 1997. Also, CGP 1992 and 1993 grants had unexpended funds at September 30, 1997. Therefore the funds were not spent within the 3 year time period. Also, funds were not obligated within the latest approved implementation deadlines. For example, the PHA received two Lead-Based Paint (LBP) Testing grants, one in 1993 and the second in 1995. The PHA did not meet its implementation schedule deadline of spending the funds within 18 months as funds remained unexpended at June 30, 1997. Furthermore, both grants did not meet the newly approved HUD revised implementation deadline. HUD also found that modernization records were poorly organized, not readily available, and substantially incomplete. The PHA failed to provide copies of revised implementation schedules, current budgets, recent reports, and quarterly obligation data and back-up in a timely fashion. Program reporting and management was split between two departments with poor coordination between them. For example, one department requested an extension to spend the LBP 1993 grant, only to discover the funds were already spent. No technical or management staff appeared to assume any responsibility for the payment process, HUD draws, budget monitoring and revisions, implementation schedule compliance, and reporting. HUD designated the PHA as "Modernization Troubled."

Auditee Comments

The PHA said it hired a private company in January 1998 to assist and train PHA staff in the day to day operations of the modernization department. Over the next 18 to 24 months, this firm will develop systems to ensure programmatic and regulatory compliance.

Conclusion

Although the PHA had made some progress, we concluded the PHA still did not have a reliable tracking system supported by reliable and accurate data. The PHA needed to continue efforts to develop an automated system to produce reliable and accurate data, obligate and use funds timely, and improve overall documentation.

Rent Collection and Tenant Accounts Receivable

Previous HUD and consultant reviews disclosed that the PHA had been deficient in collecting rents and maintaining accurate and reliable data. Also, account receivable balances maintained at the central office did not reconcile with information maintained at the projects. The 1996 MOA contained strategies targeted to implement an aggressive rent collection program and improve the data record keeping.

Rent Collection

The PHA's goal was to collect 90 percent of total rent. The MOA showed that in 1994, the PHA collected 82 percent of the rent, for an "F" score. The MOA included 10 strategies to improve PHA performance in collecting rents:

1.	Implement a write-off policy to ensure regular and timely accounting of uncollected rents.	7/1/96
2.	Modify property management software to track rent collection activity; and to separate current rents, back rent, tenant charges, and late charges.	9/30/96
3.	Assess data collection systems and modify as needed.	12/1/96
4.	Develop a rent collection policy that includes eviction procedures.	7/1/96
5.	Reduce monthly management fee for management agents who have collected less than required rent collection and who have not taken action to collect back rent due.	On-going
6.	Develop action plans for areas identified as "hard to collect."	7/1/96
7.	Develop centralized repayment agreements data base from information tracked through property management software.	9/1/96
8.	Track evictions through centralized data bank.	2/1/97
9.	Develop internal controls to track rent collection in order to reconcile on-site rent collection data (rents charged, rents collected, rent collection reports submitted by agents, manager's financial ledgers, rent deposits and HUD form 52295).	10/1/96
10.	Amend property management contracts or design policy to ensure management agents reconcile bank statements monthly.	12/1/96

Nine of the 10 strategies were due by December 1, 1996. The PHA reported in its December 31, 1996 progress report that it had completed two strategies (strategies 2 and 5). The PHA reported that it had modified the property management software and provided training to all property managers (strategy 2). However, in March 1997, the PHA determined the software did not provide for the computation of the dwelling rent uncollected. Therefore the system would have to be modified to identify, track, and report on uncollected dwelling rent. A PHA official said a new version of the software would not be released until late 1997. The PHA reported that it did not have to reduce monthly management fees because all management agents were in compliance (strategy 5). Our review disclosed that this was not true. We found 8 agents had uncollected rent that exceeded 10 percent. The uncollected rent ranged from 37 to 11 percent. PHA officials did not provide any reason why HUD was given incorrect information, and why there was no need to enforce any penalty to reduce management fees.

We discussed the status of the remaining strategies with PHA officials. They said the write-off and rent collection policies (strategies 1 and 4) and action plans (strategy 6) were being drafted. They said strategies 3, 7, 8, and 9 could not be completed because the computer system was not fully operational. They said they requested bank reconciliations from management agents (strategy 10). However, a sample letter showed the management agent had not provided the bank reconciliations for 6 months.

Tenant Accounts Receivable

HUD also uses information concerning tenant accounts receivable to evaluate the PHA's collection practices. The PHA goal was to have outstanding tenant accounts receivable balances, excluding amounts covered by formal up-to-date repayment agreements, of less than 10 percent of the total rent charges for the reporting month. The MOA disclosed that in 1994, tenant accounts receivable for tenants in possession was 55 percent of total rent charges resulting in an "F" score. To improve the performance in this area the PHA proposed 9 strategies:

1. Ensure management agents provide monthly rental income information.	7/1/96
2. Analyze monthly reports.	Monthly
3. Ensure management agents are sending out rent arrears letters and entering into payment plans.	Monthly
4. Maintain centralized repayment agreement inventory and ensure for monthly update.	Monthly
5. Computerize notification system, rent information and repayment information systems.	10/1/96
6. Develop and implement internal control policy that adequately distinguishes between rents and other charges.	8/1/96
7. Make necessary adjustments to software to ensure implementation of internal control policy.	8/1/96

8. Design and implement tenant account receivable write-off policy for residents not in possession to distinguish between rents and other charges written off.	8/1/96
9. Reconcile the accounts of each management agent to account for amounts owed the companies by the PHA for receivables other than rents that were collected.	10/1/96

All the strategies were to be completed by October 1, 1996. The PHA's December 31, 1996, progress report showed that the PHA had completed four strategies (strategies 1, 5, 6, and 7). However, the PHA did not have supporting documentation to show that they had completed strategies 5, 6, and 7. A PHA official said the PHA would not complete the remaining strategies because they were not applicable to the new PHMAP requirements.

HUD reviewed rent collection during its confirmatory review of the PHA's documentation and certifications for fiscal year ended June 30, 1997. HUD determined rent collection had improved but noted some discrepancies between various documents. For example, the beginning balance of tenants in possession reported on form HUD-50072 did not agree with the ending balance at June 30, 1996. There was a 821 unit discrepancy in the total units reported on form HUD 52295 and the Statement of Operating Receipts and Expenditures. Also, tenant accounts receivable per the consolidated balance sheet did not agree with the amounts reported on form HUD 52295 for June 30, 1997. Furthermore, HUD could not identify the tenants who vacated units during the year that were reported in the \$498,293 for vacated tenants accounts.

Auditee Comments

The PHA said it contracted with an accounting firm in January 1998 to assist in the management of the Finance and Administration Area. The firm will provide resources and expertise to ensure the efficient administration of fiscal systems, establish internal controls and safeguards, and provide appropriate training to PHA finance staff.

Conclusion

The PHA should continue efforts to establish controls and procedures to improve its rent collection practices and ensure the accuracy and reliability of tenant accounts receivable data.

Development

Previous consultant and HUD reviews disclosed the PHA lacked a system to track development program expenditures and failed to timely close out completed development projects. Also, the PHA lacked budgets, and obligation and expenditure data; therefore, it could not assure program obligations and expenditures were within program budgets.

The MOA showed that the PHA received an “F” score (0 points) for 1994 in both components - Timeliness of Development, and Budget Control. The MOA expected that within 1 year, all outstanding development budgets would be closed out and that all appropriate budget revisions would be made where necessary. The PHA established six strategies to enhance its tracking ability and close out completed projects:

1. Close out existing development projects from previous years.	3/30/97
2. Create system to track development, including development close-out.	11/30/96
3. Staff compliance monitoring unit in the Modernization and Planning Division.	9/30/96
4. Meet quarterly with Caribbean Office of Public Housing to develop regular update list of development status.	7/1/96
5. Computerize project management and case tracking system for all development deals.	11/1/96
6. Submit Actual Development Cost Certificates (ADCC) for all open development projects for which construction activities were completed and are currently under management.	8/30/96

Five of the six strategies were due by December 31, 1996. The PHA reported in its December 31, 1996 progress report that it had completed one strategy (strategy 4).

The PHA reported in its September 30, 1996, progress report that arrangements were in process to award the single audit and close out existing development projects (strategy 1). We found that was not correct. A May 9, 1997, memorandum showed the PHA had not started the procurement process. On January 27, 1997, the PHA submitted ADCCs for four projects that were completed (strategy 6). However on July 9, 1997, HUD returned the documents to the PHA because they contained inaccurate information. During our review, the PHA completed strategy 3 by staffing the monitoring unit.

We discussed the status of the remaining strategies. PHA officials told us that strategies 1 and 6 would be included in the single audit of the housing department. At the end of our audit field work, the PHA still had not contracted for the single audit. PHA officials told us the computerized system for strategies 2 and 5 would be completed by May 31, 1997. However, at July 8, 1997, the computerized tracking system did not meet its intended purpose because the

system did not include development projects that had been closed or were in the process of being closed. The system showed only the status of the development projects from the date of fund reservation until the project was physically completed. It did not show whether the projects were closed or in what stage of closing they were in. Also the system did not provide information on budget and expenditures.

Auditee Comments

The PHA said the private firm contracted to provide assistance in the modernization area would also establish a coordinated plan for development funds. The plan includes the development of close out procedures to track outstanding funds, and creation of a computerized tracking system to ensure regulatory compliance and provide regular status updates.

Conclusion

We concluded the PHA did not have an adequate system to track development expenditures and budgets. The PHA needed to continue efforts to develop an automated system to produce reliable and accurate data and timely close out completed projects.

Financial Management Functions

Previous consultant and HUD reviews disclosed serious financial management and record keeping issues. The reports pointed out that poor organization, limited data processing capability, staff capacity limitations, and the lack of a coordinated and effective budget planning and monitoring function all impeded the PHA's operations. As a result, financial reports were not reliable or timely prepared.

The MOA did not provide any short term strategies. However, it included a 2 year improvement plan to address the financial management problems. The PHA established two primary objectives - rebuilding the financial structure, and creation of a financial monitoring and tracking system. The 2 year plan listed 10 tasks with 54 steps to accomplish the objectives. We selected and evaluated the PHA's implementation of 3 tasks containing the following 17 steps:

Task 2 - Develop a fiscal monitoring system and establish internal controls:

1. Establish a uniform accounting system for the private management areas and Central Office.	7/1/96
2. Establish an electronic communication system with administrative agents' offices, projects, and central office.	7/15/96
3. Provide access to all the administrative agents and central office staff.	7/1/96
4. Train users of system: Use the provider resources of the accounting system, and perform tests of the operating system.	10/30/96
5. Discontinue actual accounting system and establish the new official system.	7/1/96
6. Establish internal controls as prepared by financial consultants.	5/96

The PHA completed only 2 (steps 2.4 and 2.5) of the 6 tasks. The PHA discontinued the use of its old accounting system and started using a new system referred to as "FUNDWARE." However, we noted the system did not provide for an accounts payable subsidiary ledger or other similar record from which a history of contract payments could be easily determined. The computerized system was not able to produce a list of all payments made to a specific supplier. PHA officials said the system would not be fully implemented until late 1997.

We noted the PHA still lacked adequate internal controls. During our review, the PHA improperly disbursed four payments totaling over \$1 million. PHA staff had not properly reviewed the documents because the vouchers were supported by copies instead of original documents.

A previous Office of Inspector General audit (96-AT-201-1821, dated June 26, 1996) disclosed a management agent charged duplicate costs of \$433,736 for a comprehensive grant program, and we recommended the PHA recover the funds. During our review, we found the PHA recovered the funds but deposited the funds to the operating account instead of the comprehensive grant program. Our audit also disclosed the PHA had not remitted unspent 1990 Drug Elimination Grant funds. We recommended the PHA remit \$1.1 million of unused funds to HUD. The amount was later reduced to \$970,812, and the PHA sent a check to HUD in December 1996. HUD advised the PHA in January 1997 to remit the funds by wire transfer. The PHA did not correctly follow the wire transfer process and, at our audit completion date, had not reimbursed HUD.

Task 3 - Reconcile accounts for FY1992, FY1993, and FY1994:

1. Request from HUD funds for financial management services to reconcile accounts in FY1992, FY1993, and FY1994.	7/1/96
2. Prepare an inventory of accounts and documents to facilitate the reconciliation.	8/15/96
3. Create a reconciliation task force to expedite process.	8/1/96
4. Compile all expense reports from the managing agents.	9/15/96
5. Complete the reconciliation of accounts for the years 1994-1995.	1/15/97
6. Complete the reconciliation of accounts for the years 1992-1993 and 1993-1994.	5/15/97

The PHA had not completed any of the six tasks. The PHA awarded a contract for the reconstruction and reconciliation of the financial data for the 1987 through 1991 Comprehensive Improvement Program, and the 1992 and 1993 Comprehensive Grant Programs. The auditor identified \$21 million of unobligated CIAP funds and \$31 million of unobligated CGP funds. The audit contract was initially awarded to reconstruct and reconcile the CGP funds but was amended twice to include the CIAP funds for a total price of \$991,000. The PHA did not contract any financial services to reconcile the other accounts. The PHA needed to reconcile all accounts so the auditors can perform the annual financial audit.

Task 7 - Ensure that the financial audits are current:

1. Expand the contract scope of the PHA external auditors, Price Waterhouse, to complete the single audits for 1993-94 and 1994-95.	8/1/96
2. Complete the process of reorganizing, creating, and contracting for an internal auditor for the PHA.	12/5/96
3. Compile the manuals and guides for the internal auditors.	12/1/96
4. Develop a plan for the internal audits to maximize the accounting of the private management contracts and central office.	On-going
5. Receive audits.	12/1/97

At the time of our review, the PHA had not contracted for the single audits for fiscal years 1994, 1995, and 1996 that were past due. The last single audit report was for the year ended June 30, 1993. The independent auditor issued his report October 31, 1995, but was not able to and did not express an opinion on the financial statements. He concluded the PHA's internal controls and procedures were inadequate and the records did not provide sufficient evidence supporting transactions and balances on the financial statements.

During its 1997 confirmatory review, HUD observed that the PHA financial reports were not fully reliable or timely. HUD noted numerous instances of poor documentation and unexplained variances in reports. For example, there was a \$494,845 difference between the amount of investments shown on the balance sheet and the amount reported to HUD for the year ended June 30, 1997. Also, there was a \$ 323,860 difference for the amount of total routine expenses. HUD pointed out that the lack of computerization was having an impact on data collection, data consolidation, and timely reports. The lack of a computer system required many manual steps to complete reports for projects managed by 18 different management agents and 12 self-managed resident corporations.

Auditee Comments

The PHA said it had recently reconciled various accounts, and is in the process of establishing property ledgers. The auditee commented that it had recently reviewed, revised and strengthened many procedures, and purchased new computer hardware and software. An accounting firm began the single audit in April 1998.

Conclusion

Although the PHA had made some improvements, it still did not have an adequate financial system, had not reconciled all accounts, and lacked adequate controls and procedures to safeguard HUD funds.

AUDITEE COMMENTS

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF HOUSING
VIVIENDA

ANA CARMEN ALEMANY
SECRETARY

May 7, 1998

Ms. Nancy Cooper
District Inspector General
for .Audit - Southeast/Caribbean
Urban Development
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Ms. Cooper:

Enclosed for your review is the Department of Housing Public Housing Administration (PRPHA) response to the limited review of the PRPHA (Report 98-AT-201-18 IX) by the office of the Inspector General.

The purpose of the review was to assess the PHA's progress in correcting its long-standing operational problems,

We include the following documents:

1. PRPHA Comments to the Report of the HUD Inspector General "Assessment of Progress made on Agreements with HUD"
2. PRPHA OIG Action Action Plan Results
3. PRPHA 1998 Improvement Plan

We look forward to your comments on the aforementioned, and if you have any questions please contact us.

Sincerely,

Ana Carmen Alemany
Secretary

c: Mr. John Blakeman
Ms. Hildamar Ortiz

PRPHA COMMENTS TO THE REPORT OF THE
HUD INSPECTOR GENERAL
"ASSESSMENT OF PROGRESS MADE ON AGREEMENTS WITH HUD"

The March 26, 1998 Draft Report from the District Inspector General for Audit, Southeast/Caribbean, 4AGA has noted PRPHA's non-compliance with time schedules for completing various tasks related to individual PHMAP Indicators. However, the 1995 Action Plan, the 1996 MOA, and the 1998 Improvement Plan all have two objectives in common: to get the PRPHA off of HUD's list of troubled agencies and to create an efficient administration of Public Housing in Puerto Rico. The first of these objectives was achieved by June 30, 1996. With this objective in hand, tasks and time schedules changed. They changed once again after the 1997 PHMAP as noted in the 1998 Improvement Plan - see enclosed copy of revised strategies and time schedules. The achievement of the second objective is on going and will ensure that the PRPHA will remain off HUD's list of troubled agencies. The following is a brief executive summary of the actions taken by the PRPHA to improve its administration of public housing.

Executive Summary

In October of 1994, the Puerto Rico Public Housing Administration (PRPHA) requested technical assistance from HUD to develop proper operating systems and ensure an efficiently managed public housing agency. In January 1995 HUD responded by providing such assistance. The first document produced from this technical assistance was the February 6, 1995 Action Plan (AP) between the Puerto Rico Department of Housing, the PRPHA and HUD.

The AP served as a strategic planning document to ensure that the PRPHA was focused on the creation of systems and the institutionalization of changes. The goal of the technical assistance and of the AP was to ensure the PRPHA's removal from HUD's list of troubled agencies. The first PHMAP submitted by the PRPHA for the fiscal year ending June 30, 1995 resulted in HUD not issuing a score and instead, entering into an agreement for long-term improvement. This Memorandum of Agreement (MOA), which was signed on June 21, 1996, was to be in effect until June 1998 irregardless of whether or not PRPHA qualified as a "standard performer" under PHMAP.

This second agreement (MOA) signed on June 21, 1996, was prepared in the midst of preparing the data for the 1996 PHMAP. The purpose of this MOA was to ensure the PRPHA's removal from HUD's list of troubled agencies. However, the next PHMAP submitted was for the fiscal year ending June 30, 1996 just nine (9) days after signing the MOA. Nonetheless, after the Confirmatory Review, HUD certified a score of 67% thereby qualifying the PRPHA for "standard performer" status under PHMAP regulations. Thus prior to completing the implementation of the MOA, the PRPHA was removed from the troubled list. Therefore, it can be concluded that although all the goals and strategies were not specifically met within the time schedule agreed upon, the overall goal of the MOA was reached.

For the fiscal year ending June 30, 1997, the HUD Caribbean field office confirmed a passing PHMAP score for a second consecutive Year. The organization building process, which began with the signing of the Action Plan in 1995, and the MOA in 1996, had made demonstrable progress. Based on the results of the 1997 PHMAP and in line with CFR requirements, the PRPHA set the MOA aside and prepared an Improvement Plan that received HUD approval on April 8, 1998.

Through the continuing implementation of the MOA's and Improvement Plan's strategies and the revision of tasks and sub-tasks originally outlined, the maturation of the agency staff, the technical assistance received and continuing, the PR.PHA is well on its way to re-building an organization that in 1995 was functionally deficient.

The PRPHA continues to concentrate its efforts on correcting aspects in its agency that need focused attention - particularly those stated in this report. One of the major deficiencies depicted in the report was the PRPHA's lack of a functional computerized system. The delay in establishing this system has been in large part out of the control of the PRPHA. All government agencies are required to receive approval from the Office of Management and Budget for their Mechanization Plan. It was not until February 1998, that the PRPHA finally received approval of its mechanization plan. With the approval in hand, the PRPHA is moving forward with all possible haste to complete the installation of the equipment, update software, and train personnel. In January 1998, the PRPHA took aggressive action to restore the financial and modernization programs of the agency by contracting with two private firms to assist and train PRPHA staff to properly manage the day to day operations of the finance and modernization departments. The two contracted firms are responsible for ensuring regulatory compliance in their respective areas and for developing systems to ensure the accuracy of data, timeliness of transactions and efficiency of systems. This aggressive step has already provided results that will institutionalize systems and operations at the PRPHA and, over the long term, create an efficiently administered agency,

Chapter 1: Vacancy Reduction and Unit Turnaround

Vacancy Number and Percentage

In the confirmatory review for the fiscal year ending June 30, 1997, the PPPHA received a score of "A" in this indicator. In HUD's comments, they found that the tracking system was adequate and that the information reported could be easily tracked. HUD recommended that this function be computerized to limit the number of errors associated with manual transcription of data from the site, to the central management agent office, to the PRPHA central office. The agency, as part of a larger correction to its property management software is currently in discussions with the software vendor to effect such changes.

Unit Turnaround

The MOA was signed in June 1996. This MOA was to be in effect for two years. The MOA was designed to coincide with the PHMAP rules then in effect. In December 1996, HUD published final rules that substantially altered the calculation of the PHMAP score.

Although the new rules did not take effect until December 31, 1996, the PRPHA, in conjunction with the HUD Caribbean field office, commenced planning and training sessions as early as the summer of 1996. The revised PHMAP rules forced the housing authority to redirect its efforts on the implementation of new PHMAP rules and less on the corrective actions envisioned under the MOA. '

Under the new PHMAP rules, the amendments made to this indicator were substantial. Thus, as a result of receiving a grade higher than "C" in vacancy percentage, the PPPHA is neither required to track unit turn around data nor report this information as part of the PHMAP certification. Therefore, strategies developed in 1995 and 1996 to address the then outlined deficiencies are no longer required.

Chapter 2: Maintenance

Since January 1998, together with the assistance of the HUD Caribbean field office, all inspection forms have been corrected to capture the missing information pointed out in the confirmatory review related to the inspection of propane gas tanks, stoves and water heaters. This is a manual tracking system that is used by all the companies. In addition, starting in January 1998, all the management agents were trained in the use of these forms, and the monitors of the asset management division have conducted regular audits to ensure compliance with the use of the inspection forms.

In March 1998, the PRPHA issued an RFP to purchase approximately 12,000 electric stoves for those units in developments that are in violation of HUD housing quality standards. That is, the stoves will be provided to those units that do not have exterior gas shelters and where the units are in violation of the fire and safety code. It is the policy of the housing authority that it is the responsibility of each resident to maintain their appliance in proper working order and to repair any violation that the property manager may detect during the annual inspections. The housing authority is also amending the lease to ensure that no tenant can have propane tanks inside their units during the life of their tenancy. These measures will resolve many of the outstanding inspection issues identified in the confirmatory review and, in the future, lead to the establishment of safe living environments for our residents and to a substantially improved PHMAP score.

With regard to the water heaters, the agency has also issued an RFP to purchase water heaters for those units where showerhead heaters are currently in use. The purchase and installation of the water heaters will ensure that the units meet the local building code and are in compliance with HQS -

Chapter 3: Annual Inspections

The inspection program at the PR-PHA has improved significantly over the past two years. New forms have been developed, monitors have been trained, management agent staff has received technical assistance and spot checks have improved. As a result of increased staff capacity, the monitors have been more diligent in reviewing forms and providing technical assistance to the property managers.

Although the work orders are still tracked manually, our software vendor has assured us that the computerization of this system is due to be installed at the agency during the next fiscal year. The new version of the software will include tracking modules that correspond to information requested in the new PHMAP rules. We realize that the computerization of our tracking systems will enhance our ability to monitor the performance of the property managers.

In part, the lengthy delay in the installation of the software is attributable to a state law that requires all government agencies to have an approved MIS plan prior to installing software or purchasing new hardware. This additional local requirement created a one-year delay in the purchase and installation of necessary computer equipment. It was not until February 2, 1998 that the PRPHA received approval for its computerization plan. With the approved plan, the PRPHA was able to pursue an aggressive agenda with the software and hardware vendors to ensure installation of the new software, equipment and the training of the management agents and PRPHA staff during this year. The new software will ensure that a more accurate tracking program is instituted at the agency.

Chapter 4: Modernization ---

Since 1992, the modernization program at the PRPHA has been administered by a quasi-public entity, the Puerto Rico Public Buildings Authority (PBA). Through a contractual agreement, it was the responsibility of this agency to ensure timely obligation and expenditure of the PRPHA modernization funds. In 1996, reacting to the failure of the PBA to meet CIAP and CGP program rules, the Puerto Rico Housing Secretary concluded that a new approach was required in the modernization area. A decision was made to retain the services of 3 private program management firms whose responsibilities were to ensure regulatory and programmatic compliance in the modernization program. Simultaneously, the PRPHA restructured its modernization department to emphasize the need for an improved contract monitoring division

Working off the success of the privatization of the modernization program, the agency has issued an RFP for additional program management firms to manage the 1997 and 1998 CGP allocations. The use of program managers is producing more timely programmatic and regulatory compliance and an overall improvement in the administration of the modernization program.

Analyzing that many of the agency's modernization problems were still attributable to the continuing role of the PBA, the Housing Secretary decided to commence the process of transferring all modernization projects still under PBA control and supervision to the existing program management firms. This process was concluded in February 1998.

Given the agency's inability to recruit and hire qualified staff prepared to monitor the program management contracts, strategies previously outlined in the MOA had to be changed. In January 1998, the PRPHA retained the services of a private company to assist and train PRPHA staff in the day to day operations of the modernization department. Over the next 18 to 24 months, this firm is responsible for developing systems that will ensure programmatic and regulatory compliance with program rules. The firm will automate many of the processes that are currently handled manually, produce reliable and accurate reports, prepare timely responses to HUD requests, improve and track timely obligation and expenditure of funds, establish monitoring systems for the program management contracts, and improve the documentation of the modernization area.

The above outlined steps came about as a result of the PRPHA's constant analysis of its performance and taking aggressive and decisive action to ensure compliance with HUD program rules and regulations. Over the next two years, significant progress will be seen both by the elimination of the PBA as a program manager, and the development of a monitoring function in the modernization division.

Chapter 5: Rent collection and- tenant account receivable

The monitoring and reporting of rent collection activity at the agency has gradually improved over the course-of the past three fiscal years. For the past two consecutive years, the PRPHA has received a score of "C" in the indicator that racks rent collection activity. The HUD Caribbean office outlined a number of deficient areas that are currently being addressed. Primary among these is the need for a computerized data collection system that will eliminate inconsistent reporting.

In January 1998, the PRPHA contracted with an accounting firm to assist in the management of the Finance and Administration Area. The firm is to provide the resources and expertise to ensure the efficient administration of fiscal systems, and to establish internal controls and safeguards. The firm will also provide appropriate training to PRPHA finance staff, to ensure continuity of efficient management.

Currently, rent collection reports are being reviewed monthly. Tenant accounts receivable balances have been confirmed and reconciled with subsidiary ledgers. Rent collection bank accounts have been reconciled and are current. Areas with collection problems have been identified and an action plan is being developed to address and monitor activity, and, as per the property management contracts, impose penalties.

We are confident that the steps that we have commenced will ensure !he establishment of efficient and effective controls, and improve the accurate reporting of rent collection data.

Chapter 6: Development

The PR.PHA has taken additional steps to ensure the establishment of adequate tracking systems over expenditures and budgets. The private firm that the agency contracted with to provide assistance with the day to day management of the modernization area has among its duties to establish a coordinated plan for PRPHA development funds. This plan included the development of close out procedures to track outstanding funds, creation of a computerized tracking system, to ensure regulatory compliance for expenditure of development funds, and to provide regular status updates to the PR-HA administrator.

We believe that this step will permit the agency to establish full control over its current and any future development funds.

Chapter 7: Financial management functions

The financial management systems-of the PRPHA have undergone many changes during the past three years. When originally created, the PRPHA inherited an accounting system from the failed corporation (CRUV). Without having received accurate beginning balances, the PRPHA finances were in a constant state of disarray.

The PRPHA received technical assistance that permitted it to reconcile its accounts for fiscal year ending June 30, 1995. Although the general ledger was constructed having many assumptions and estimated data, it served as a basis for permitting the housing authority to closeout subsequent fiscal years.

When the MOA was originally developed, the intent was to reconcile all the PRPHA accounts dating back to fiscal year 1993. After further discussion with the agency's external auditors, this process was abandoned for a process that would permit the Single Audit to make determinations as to. previous year.. accounting records.

Since the completion of the fieldwork performed for the period assessed in this IG report, major improvements have occurred in the fiscal division to ensure the long-term health and fiscal stability of the agency. General ledger, fund account, and investment account balances have been reconciled. Capital grant accounting, for CIAP and CGP has been brought current, as well as corresponding reporting requirements. We are in the process of establishing property ledgers. New computer hardware and software is being purchased for installation at the Home Office and Projects, ensuring more uniform and efficient data collection. Many procedures have been reviewed, revised, and strengthened.

In April 1998, the accounting firm of Price Waterhouse began the Single Audit for the housing agency. The results of this audit will permit the agency to confirm the financial health of this agency. Coupled with the technical assistance for the management of the day-to-day operations of the Finance Area, the PRPHA within the next fiscal year will have a computerized financial department, supported by current accounts and reliable balances, disciplined through internal controls, and written policies and procedures. In addition, the PRPHA and the accounting firm will develop a monitoring system that will permit the agency to have better fiscal controls over its contractual obligations and the property managers.

Finally, we make note that the FY 92, 93, and 94 accounts to be reconciled (Task 3) were the Operating accounts, and not CIAP and CGP, as referred to. Nonetheless, they have all been reconciled.

The \$433,736 from the previous OIG audit was recovered from the Management Agent and deposited in the Comprehensive Grant Program account.

The \$970,812 was reimbursed to HUD from state funds.

CONCLUSION

Since the signing of the Action Plan in 1995 and the MOA in 1996 the PRPHA has become a substantially different agency and strategies have changed since first adopted. However, throughout this time period, the mission of the agency has remained the same: to ensure continued improvement, remain off of HUD's list of troubled agencies, and become an efficiently administered public housing agency. Although some targets have not been met and not all sub-tasks have not been completed, with the major building blocks in place the PRPHA is well on its way to becoming a sound and efficiently administered public housing agency.

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