



Issue Date	April 22, 2004
Audit Case Number	2004-AT-1006

TO: Olga Saez, Director, Public Housing Division, 4NPH

James D. McKay

FROM: James D. Mc Kay
Regional Inspector General for Audit, 4AGA

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

INTRODUCTION

We completed a review of selected activities of the Puerto Rico Public Housing Administration (PRPHA). The review was performed as part of our audit of the Department of Housing and Urban Development's (HUD) oversight of Public Housing Agency activities with related nonprofit entities. Our objective was to determine whether the PRPHA diverted or pledged resources subject to an Annual Contribution Contract (ACC) or other agreement/regulation to benefit other entities without HUD's approval.

To accomplish our objectives we reviewed applicable HUD regulations, the PRPHA's ACC, and other program related requirements. We reviewed PRPHA's files and records including financial statements, general ledgers, check vouchers, and invoices. We examined the PRPHA's records to identify activities with related nonprofit organizations and verify balances of account receivables. We also interviewed responsible PRPHA and Caribbean Office Public Housing officials.

We performed our on-site work between October and December 2003. Our review generally covered the period July 1, 1998, through June 30, 2003, and other periods as necessary. We performed our review in accordance with generally accepted government auditing standards.

We discussed our audit results with HUD and PRPHA officials during our review and at an exit conference held on March 1, 2004. We provided a copy of our report to the Honorable Ileana Echegoyen, Secretary, Puerto Rico Housing Department and Carlos Laboy, Administrator, Puerto Rico Public Housing Administration. The PRPHA provided written comments to our draft on March 22, 2004, and generally agreed with our report. Their comments are summarized in the finding and included in their entirety as Appendix D.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me or Michael A. Rivera, Assistant Regional Inspector General for Audit at (787) 766-5540.

SUMMARY

Our review identified several conditions regarding the use of HUD funds that were in violation of the ACC. As of September 30, 2003, PRPHA accounting records reflected net account receivables owed to its Low-Income Public Housing Program exceeding \$5.97 million. Review of these receivables disclosed that the PRPHA:

- ❑ Improperly used HUD funds totaling about \$1.1 million for activities not related to the administration of its public housing projects, and
- ❑ Did not provide support for \$4.23 million owed to its public housing program by the Puerto Rico Public Buildings Authority (PBA), and its public housing management agents.

We recommend that you require the PRPHA to reimburse \$1.1 million to the ACC projects, from non-Federal funds, for ineligible expenses not related to the operation of its housing projects. We also recommend that you require the PRPHA to submit all supporting documentation and determine the accuracy of the \$4.23 million owed by the PBA and its management agents. Any amounts determined ineligible must be reimbursed to the ACC projects from non-Federal funds. Further, we recommend that you require the PRPHA to establish and implement policies and procedures to ensure that grant funds are used solely for authorized purposes. In addition, we recommend your office work with the PRPHA to identify and refer the officials responsible for the mismanagement of HUD funds to the Departmental Enforcement Center (DEC).

BACKGROUND

Puerto Rico's public housing and urban renewal started in 1938. By 1957 the Puerto Rico Urban Renewal and Housing Corporation, the PRPHA's predecessor, was created by Commonwealth Law No. 88 for the purpose of reorganizing the programs. In 1972, the government of Puerto Rico established the Department of Housing (Law 97 dated 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 PRPHA 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 Secretary of Housing. The PRPHA is the second largest public housing authority in the nation with over 55,000 dwelling units scattered throughout Puerto Rico.

In 1992, the PRPHA contracted all of its housing project management functions to private management agents. The contracts were cancelled in 1995 and another bid process was performed. For this bid process, the contracts were effective until April 1999. In November 1998, the PRPHA started another procurement process for the administration of its public housing projects, and in April 1999 the PRPHA awarded 5-year contracts to 15 management companies.

A new organizational structure was implemented within the PRPHA in 2001, which included the creation of the Office of Internal Auditor (Administrative Order 01-65 dated October 10, 2001). This new office was created with the purpose of providing an objective and independent service towards the improvement of operational procedures in the PRPHA.

In 2003, the Board of Governors of the Public Housing Administration (the Board) was created, placing the PRPHA and its Administrator under the supervision of the Board (Law 71 dated January 10, 2003). The Board was formed to promote citizen participation in overseeing the administration and services provided to the public housing sector. The creation of the Board was expected to maximize government resources and improve the quality of public housing. The Board is composed of seven members, and is presided by the Secretary of the Puerto Rico Department of Housing.

In fiscal year 2002, the PRPHA was approved for \$258 million of Federal funding, including \$165 million for its Capital Fund Program, and \$93 million for operating subsidy. For fiscal year 2003, the PRPHA was expected to receive \$127 million for its Capital Fund Program and \$97 million for operating subsidy. The PRPHA's books and records are maintained at 606 Barbosa Avenue, San Juan, Puerto Rico.

Finding 1 - Improper and Unsupported Use of HUD Funds

The PRPHA did not comply with Federal requirements governing the management and use of HUD funds. It improperly withdrew and used over \$1.1 million in operating subsidies for program activities not related to the administration of its public housing projects. In addition, the PRPHA did not provide support to document the purpose of over \$4.23 million owed to its Low-Income Public Housing Program by the Puerto Rico PBA, and its public housing management agents. We attribute these deficiencies to the PRPHA’s disregard of program requirements and because it did not efficiently implement controls to ensure that grant funds were used solely for authorized purposes. As a result, Federal funds were unduly disbursed.

CRITERIA

Part A, Section 9 of the ACC, allows the PRPHA to withdraw funds from the General Fund only for: (1) payment of the costs of development and operations of the projects under its ACC with HUD; (2) the purchase of investment securities as approved by HUD; and (3) such other purposes as may be specifically approved by HUD.

Additionally, Title 24 of the Code of Federal Regulations, Part 85.20(a)(2) provides that grantees must have adequate fiscal controls and accounting procedures to trace grant funds and ensure that they are used solely for authorized purposes.

Activities Not Related to Public Housing

The PRPHA disregarded HUD requirements and improperly withdrew and used over \$1.22 million in Public Housing operating funds to pay for activities not related to the administration of its public housing units. Among the ineligible activities not related to its public housing program were: (a) legal services (\$602,627); (b) acquisition of motor vehicles (\$121,071); (c) transfers to the Puerto Rico Department of Housing-Special Communities Program (\$115,000); and (d) emergency relief efforts (\$68,003). The PRPHA did not provide evidence of HUD approval for the expenditures. As of September 2003, the PRPHA’s accounting records showed account receivables of \$1,222,429 for activities not related to its Low-Income Public Housing Program as follow:

FEMA (Emergency relief efforts)	\$ 68,003
Puerto Rico Department of Housing	124,921
State Programs (non-Federal) (Various Vendors-See Appendix B)	1,029,505
Total	\$ 1,222,429

On March 3, 2004, following the exit conference, the PRPHA provided additional documents related to the acquisition of motor vehicles (\$121,071) mentioned above. The new information showed the PRPHA had reimbursed its Low-Income Public Housing Program but failed to reduce the account receivable. The PRPHA adjusted the accounting records on March 2, 2004, to reflect the correct balance. Therefore, charges of \$121,071 are considered resolved, leaving a remaining balance of \$1,101,358.

Receivables Without Support

- a) **Puerto Rico Public Buildings Authority** The PRPHA's accounting records, as of September 2003 reflected that the PBA owed over \$2.54 million to its public housing program. The PRPHA did not provide any documentation that could explain the purpose, accuracy, or eligibility of the transaction. The PRPHA's Budget Analyst indicated that in the past, the PBA was in charge of the modernization efforts of its housing projects, but could not explain the nature or how this amount was determined.
- b) **Public Housing Management Agents** According to the PRPHA's accounting records, as of September 2003, its public housing management agents owed the public housing program over \$1.69 million (see Appendix C). According to PRPHA's Assistant Administrator for Finance and Administration, in the past, management agents received advances to manage the daily operations of its public housing units. The PRPHA's former Independent Public Accountant consultant, responsible for the administration of the Finance Department, determined the amounts owed prior to 2000. However, the PRPHA did not provide any documentation that could support the purpose and accuracy of the amount owed by the management agents.

The PRPHA's Assistant Administrator for Finance and Administration acknowledged that HUD funds were improperly used for activities not related to project operating costs, and recorded as accounts receivable. The Assistant Administrator indicated that these receivables included in the operating subsidy fund account were originated prior to 2000 under the former PRPHA Administrator.

AUDITEE COMMENTS

PRPHA officials attributed most of the improper transactions to very poor accounting procedures and almost nonexistent record keeping procedures under the previous administration.

PRPHA officials stated it is in the process of reconstructing the accounts receivable due from the Department of Housing. The officials believed \$437,456 was improperly entered as an account receivable in the Low-Income Public Housing Program account. This sum represents the payment of salaries advanced by the Department of Housing on behalf of PRPHA, and the accounting was intended to reflect reimbursement by PRPHA to the Department of Housing. If further review determines that the amounts are due, PRPHA will seek reimbursement from nonfederal funds.

The officials stated PRPHA would submit documentation to determine the accuracy of the \$4,230,646 owed by the PBA and its public housing management agents. PRPHA will provide an explanation of the monies used by PBA in its modernization efforts and will seek reimbursement from PBA of all modernization funds not properly spent. Additionally, PRPHA will provide an accounting of the amounts demanded of the management agents.

The official believed the current administration had established and implemented policies and procedures to ensure that all grant funds are used solely for the authorized purposes.

OIG EVALUATION OF AUDITEE COMMENTS

The PRPHA actions to perform detailed review of the account receivables and the submission of additional support may resolve some of the questioned costs. The PRPHA also proposed the reimbursement, from non-Federal funds, of any balance due. The PRPHA's comments and actions if timely and fully implemented in accordance with HUD requirements, should correct the deficiencies discussed in the finding and improve administration of its programs.

RECOMMENDATIONS

We recommend that you:

- 1A. Require the PRPHA to submit supporting documentation or reimburse \$1,101,358 to its ACC projects, from non-Federal funds, for ineligible expenses not related to the operation of housing projects.
- 1B. Require the PRPHA to submit all supporting documentation and determine the accuracy of the \$4,230,646 owed by PBA and its public housing management agents. Any amounts determined ineligible must be reimbursed to the ACC projects, from non-Federal funds.
- 1C. Require the PRPHA to establish and implement policies and procedures to ensure the proper recording of program transactions, and the timely reconciliation and collection of program account receivables.
- 1D. Work with the PRPHA to identify and refer the officials responsible for the mismanagement of HUD funds to the DEC. The referrals should be monitored until a final decision is made by the DEC.

MANAGEMENT CONTROLS

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

We determined the following management controls were relevant to our audit objectives:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.
- Allowable costs/cost principle

To assess the relevant controls, we:

- Interviewed HUD and PRPHA officials;
- Reviewed the regulations governing the program;
- Reviewed PRPHA general ledgers, cash disbursement records, cancelled checks, and other related documentation; and
- Reviewed PRPHA's Financial Statements.

A significant weakness exists if management controls do not provide reasonable assurance that resource use is consistent with laws, regulations and policies; and, that resources are safeguarded against waste, loss, and misuse.

Based on our review, we identified the following significant weaknesses:

- Compliance with Laws and Regulations – PRPHA's management violated its ACC with HUD by inappropriately disbursing public housing funds for ineligible program expenditures. (See Finding 1)
- Safeguarding Resources - PRPHA's management inappropriately allowed the misuse of public housing funds for activities not related to the operation of its public housing units. (See Finding 1)

FOLLOW-UP ON PRIOR AUDITS

The most recent audit of the PRPHA that impacts the objectives of this audit was an Office of Inspector General for Audit's report (No. 2003-AT-1002 dated March 21, 2003) on the procurement of its management agents. The report concluded that the former PRPHA Administrator failed to ensure that the contracts awarded were procured in a manner providing full and open competition consistent with the standards, and were reasonable and beneficial to the PRPHA. The PRPHA: (1) disregarded procurement requirements; (2) executed financially burdensome management contracts; (3) paid excessive non-project salaries; and (4) paid excessive overhead and profit. It was estimated that the 5-year contracts were awarded at \$35 million more than necessary. The report contained four findings with five recommendations. At the time of this review, two recommendations were not resolved.

The Single Audit Report of the PRPHA for the year ended June 30, 2002, was issued on March 12, 2003. The Independent Public Accountant gave an unqualified opinion on the 2002 statements. The report questioned costs totaling \$372,460. Among the deficiencies reported were: (1) payment of payroll related services incurred prior to contract execution, (2) inadequate monitoring system of management agents activities, (3) tenants files lacked required records and eligibility supporting documentation, (4) lack of documentation evidencing compliance with cash management requirements, and (5) lack of documentation evidencing compliance with property acquisition and relocation assistance requirements.

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Type of Questioned Cost Ineligible¹</u>	<u>Unsupported²</u>
1A	\$1,101,358	
1B		<u>\$4,230,646</u>
Total	<u>\$1,101,358</u>	<u>\$4,230,646</u>

1 Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2 Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

SCHEDULE OF STATE PROGRAMS ACCOUNT RECEIVABLES

Professional Services and/or Personnel Training		Balance
<u>Account</u>	<u>Vendor</u>	<u>September 30, 2003</u>
1129.00		
	Confetti Flower Shop	\$ 3,150
	Depto. Vivienda	335,853
	Seguro Responsabilidad Pública	31,023
	PR Creative Designs	500
	Seminarios y Talleres	442
	Fondo Estatal	89,265
	Secretario de Hacienda	119,787
	Fernández & Gutierrez	19,883
	Fiddler Glez. Rdz.	325,786
	Aspen Systems Corporation	65
	O.C.A.L.A.R.H.	565
	Sparta Consulting Corp.	650
	N.A.H.R.O.	545
	Coalition for Juvenile Justice	560
	I.P.E.D.	1,010
	Carlos Carrero & Associates	12,420
	Centro Com. De Empresas y Empleo	38,858
	Adams Mark of Dallas Hotel & Rest.	5,883
	Others	43,260
	Total	<u>\$1,029,505</u>

SCHEDULE OF MANAGEMENT AGENT ACCOUNT RECEIVABLES

<u>Account</u>	<u>Agent</u>	<u>Balance</u> <u>September 30, 2003</u>
1129.00		
	Inter-Island Rental	\$ 386,119
	Central Housing	4,371
	American Management	177,602
	Pinnacle Realty	163,504
	Peregrine Management	36,558
	Miramar Property	11,830
	Martinal Property (58)	390
	Nereida Falto de Colé	6,186
	Cora Management	5,878
	M.J. Consulting	25,908
	Management Adm. Services	140,608
	S.P. Management	4,850
	Apj-Park Management	22,626
	Cost Control	111,674
	Housing Promoters	424
	Zeta Enterprises	306,524
	La Rosa	28,657
	Antigua Via	1,517
	Padre Nazario	2,762
	Western Housing	113,964
	Villa Los Santos I	19,714
	Cidra Housing	14,858
	El Cortijo	6,424
	Campo Verde	50,191
	Valencia	41,634
	Marini Farm	8,912
	Auto Administrados	1
	Total	<u>\$1,693,686</u>

AUDITEE COMMENTS

PUERTO RICO PUBLIC HOUSING ADMINISTRATION



Carlos G. Laboy-Diaz
Administrator

March 22, 2004

Mr. James D. Mc Kay
Regional Inspector General for Audit, 4AGA
U.S. Department of Housing and Urban Development
Region 4 Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Re: Puerto Rico Public Housing Administration
San Juan, Puerto Rico

Dear Mr. Mc Kay;

As part of the Office of Inspector General (OIG) oversight of Public Housing Agency activities, the OIG conducted a site visit to Puerto Rico Public Housing Administration (PRPHA) in October and December 2003. The review covered the period July 1, 1998 through June, 2003, and the objective of the audit was to determine whether PRPHA complied with the requirements of the Annual Contributions Contract (ACC) and other agreements and regulations.

The draft audit found several instances where accounting records of PRPHA reflect an improper use of HUD funds in violation of the ACC. As of September 30, 2003, OIG determined that PRPHA accounting records reflected net account receivables owed to its Low-Income Public Housing Program exceeding \$5.97 million. Specifically, it was determined that HUD funds totaling \$1.22 million were improperly used for activities not related to the administration of its public housing projects and there was insufficient support for \$4.23 million owed to its public housing program by the Puerto Rico Buildings Authority (PBA), and its public housing management agents. It must be noted that \$5.2 million of this money were related to transactions which were authorized by the previous administration.

When this Administration took office in January, 2001, I inherited an agency that had very poor accounting procedures and almost nonexistent record keeping procedures in place. As such, every OIG audit during this Administration of the: past Administration has cited PRPHA for lack of program controls and lack of supporting documentation for expenditures. However, as



606 Barbosa Avenue, Juan C. Cordero Building, Río Piedras, Puerto Rico 00928
Telephones: (787) 274-2646 / 274-2607 Facsimile: (787) 763-2484

noted in this OIG report, a new organizational structure was implemented within PRPHA in late 2001. This new structure has been designed to implement policies procedures, guidelines, accountability and program integrity for the programs administered by PRPHA. The Office of Internal Auditor was created to provide objective and independent service towards the improvement of operational procedures at PRPHA. Also, in 2003, the Board of Governors of the Public Housing Administration (the Board) was created. This Board is responsible to supervise and approve the decisions of the Administrator of the PRPHA. The past administration did not have these type of controls, as has been reflected in the past several OIG audits (00-AT-201-1801, 00-AT-201-1003, 2003-AT-1002).

The OIG report cites one finding of improper and unsupported use of HUD funds. In an effort to respond to their findings, PRPHA has reviewed its records. Not all the financial records for some of the questionable items from the previous administration have been located, and further research will need to be done in order to respond. However, the following has been determined and is provided as a partial response.

\$437,456.00 was improperly entered as an account receivable in the Low-Income Public Housing Program account. This sum represents the payment of salaries advanced by the Department of Housing on behalf of PRPHA, and the accounting was intended to reflect reimbursement by PRPHA to the Department of Housing.

Due to inadequate record keeping by the previous administration, PRPHA is in the process of reconstructing the accounts receivable due from the Department of Housing. If further review determines that the amounts are due, PRPHA will seek reimbursement from nonfederal funds.

Additionally, the OIG report found that there was insufficient support for \$4.23 million owed to the public housing program by the Puerto Rico Public Buildings Authority (PBA) and its public housing management agents.

Throughout the 1990s, the public housing modernization Program was administered by the PBA. An audit of the PBA's administration of the modernization funds has been performed by a certified public accountant. Further review is necessary to reconcile the amounts that are unsupported and PRPHA will seek reimbursement from PBA if it is determined that these funds were not properly spent on public housing modernization.

Also included in this \$4.23 million are unsupported payments to the public housing management agents. These management agents have already been asked to pay back to PRPHA the questionable amounts or provide documentation to PRPHA providing entitlement to the monies paid. If they are unable to provide adequate documentation it will be determined that the funds are owed to PRPHA.

Mr. James D. Mc Kay
March 22, 2004
Page 3

Therefore, in respond to the OIG recommendation, PRPHA states the following:

1.A. PRPHA will provide documentation to determine the accuracy of the \$437,456 was wrongly included in this \$1,101,358 finding due to a posting error by PRPHA staff. If further review determines that the balance of these monies is due, PRPHA will seek reimbursement from nonfederal funds.

1.B. PRPHA will submit documentation to determine the accuracy of the \$4,230.646 owed by the PBA and its public housing management agents. PRPHA will provide an explanation of the monies used by PBA in its modernization efforts and will seek reimbursement from PBA of all modernization funds not properly spent. Additionally, PRPHA will provide an accounting of the amounts demanded of the management agents.

1.C. Our administration has established and implemented policies and procedures to ensure compliance with Title 24 C.F.R. § 85.20(a)(2). PRPHA ensures that all grant funds are used solely for the authorized purposes.

1.D. This recommendation is directed to the Director of Public Housing, HUD Caribbean Office and therefore no PRPHA action is required.

We have submitted our responses to all outstanding OIG and Single Audit Report findings. Our responses are currently under HUD Local Office review and we anticipate clearance for all outstanding findings.

If you have any questions or need to discuss this matter, please do not hesitate to call me at (787) 274-2646

Sincerely,



Carlos G. Naboy-Diaz

cc: Hon. Ileana Echegoyen-Santalla, Secretary
Commonwealth of Puerto Rico Department of Housing

Ms. Olga Saez, Director
Public Housing Division, United States Department of
Housing and Urban Development