



Audit Report

District Inspector General for Audit Southwest District

Report: 98-FW-201-1003

Issued: March 6, 1998

TO: Elinor R. Bacon, Deputy Assistant Secretary
Office of Public Housing Investments, PT

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: Housing Authority of the City of El Paso
HOPE VI Grants
El Paso, Texas

As part of a nationwide audit of the HOPE VI Program, we performed an audit of the Housing Authority of the City of El Paso's (Authority) HOPE VI grants to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities; (3) met the objectives of its Revitalization Plan; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the grant term.

The audit disclosed serious concerns relating to major Authority procurements. These concerns include: (1) sole-source and non-competitive contracts; (2) apparent conflicts of interest and contractor influence in Authority procurements; (3) multiple contracts being awarded to a few contractors; and (4) poor contract documentation. In addition to procurement concerns, the audit found the Authority may not be able to sustain its community and supportive services. Due to the significance of the procurement problems, we are reporting the results of our review now rather than waiting until the completion of the nationwide audit.

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

Please write or call me at (817) 978-9309 if you or your staff have any questions.

Executive Summary

As part of a nationwide review, we audited the Housing Authority of the City of El Paso's (Authority) HOPE VI grants to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities; (3) met the objectives of its Revitalization Plan; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the grant term. We found the Authority expended amounts for eligible activities, and has made progress towards achieving the goals of its Revitalization Plan. However, the Authority needs to improve its procurement practices and determine how it will sustain its community and supportive services programs.

In general, the Authority is satisfactorily carrying out its HOPE VI grant activities. However, the audit disclosed serious concerns relating to major Authority procurements, including: (1) sole-source and non-competitive contracts; (2) apparent conflicts of interest and contractor influence in Authority procurements; (3) multiple contracts being awarded to a few contractors; and (4) poor contract documentation. This occurred because Authority management did not ensure strict adherence to federal and Authority procurement requirements. In addition to procurement concerns, the audit found that, due to poor planning, the Authority may not be able to sustain its community and supportive services programs.

Procurement practices give the appearance of favoritism

Contrary to HUD requirements and Authority policy, the Authority sole-sourced two contracts under the Kennedy implementation grant without soliciting any bids or proposals. Further, the Authority awarded one other contract non-competitively, after receiving a response from only one vendor. Authority files did not contain a written justification or price/cost analyses for these sole-source and non-competitive awards.

The Authority awarded three HOPE VI contracts where apparent conflicts of interest clearly existed between Authority agents or employees and contractors. For two of the contracts, Authority agents or employees involved in the contractor selection process had business or personal relationships with contractors they evaluated. Further, officials of these two contractors had influence in the Authority's awarding of two sole-source contracts and one non-competitive contract. In a third case, the Authority awarded a contract to an entity to evaluate the social services programs. The head trustee of the entity is also president of a social service provider whose services the entity is responsible for evaluating.

The appearance of favoritism in Authority contracting for HOPE VI activities is strengthened by the fact that some contractors received multiple HOPE VI

contracts and subcontracts. Housing Development Partners, Alvidrez and Associates, Creative Decisions, and The Communications Group received multiple major HOPE VI awards from the Authority or from subcontracts with each other.

The Authority's poor contract documentation added to, and further complicated procurement problems and the appearance of favoritism. The Authority had a difficult time providing various documents such as advertisements, specifications, bids, bid envelopes, and other documents. In some instances, Authority employees had to fill in details from memory. In other instances, information had to be obtained from contractors. We are recommending you require the Authority to follow its procurement policy, take appropriate action against employees who violate its procurement policy, provide justification and cost analyses for non-competitive contracts, and repay the program for any awards exceeding fair value.

Future of community services funding in doubt

The Authority could not provide evidence to show how it is going to fund its current and future community and supportive services. Based on the current budget, the Authority would need about \$687,500 annually in order to continue providing community and supportive services after HOPE VI funds are depleted. The Authority cannot provide information showing how it will fund these programs. In addition, the Authority may not be able to obtain from the City the required 15 percent supportive services match. We are recommending the Authority make every effort to leverage public and private support to sustain the program after the grant term and obtain matching contributions from the City.

Authority response to draft report

Authority officials responded in writing to the draft report in a December 11, 1997 letter (Appendix A), and verbally at an exit conference held January 13, 1998. The Authority partially agreed with the findings and recommendations, and generally indicated it was or has taken corrective action, or its actions were justified. However, although we have made some revisions to the report, in our opinion the Authority's response, still does not satisfactorily address the concerns raised in the report.

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Abbreviations:	
CDBG	Community Development Block Grant
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

Background

The HOPE VI Program. HUD established the HOPE VI Urban Revitalization Program for the purpose of revitalizing severely distressed or obsolete public housing developments. Congress provided funding for HOPE VI in the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies 1993 Appropriations Act. Over 5 fiscal years, 1993 to 1997, Congress has appropriated \$2.6 billion to fund planning and implementation grants under HOPE VI. Congress intended HOPE VI to remedy the distress of family developments that are too large to be addressed by HUD's conventional public housing modernization program. This program provides local communities with up to \$50 million per City¹ to accomplish the comprehensive revitalization of severely distressed developments. Permitted activities include funding of the capital costs of major reconstruction, rehabilitation and other physical improvements, the provision of replacement housing, management improvements, planning and technical assistance, implementation of community service programs and supportive services, and the planning for any such activities.

The El Paso Housing Authority. The Housing Authority of the City of El Paso (Authority) was established under Texas statute in 1937. The Authority administers over 6,200 units of public housing as well as approximately 3,000 Section 8 certificates and vouchers. A five-person Board of Commissioners provides general oversight of Authority activities, while Mr. Robert Alvarado, the Executive Director, is in charge of day-to-day operations. Authority administration and records are located at its offices at 1600 Montana Avenue in El Paso, Texas.

The Authority's HOPE VI Program. HUD has awarded the Authority \$37,124,644 in HOPE VI funds, including two planning grants and one implementation grant.

In August 1994, HUD awarded the Authority a \$500,000 HOPE VI planning grant for the Kennedy Brothers Memorial Apartments. The Authority used these funds to hire a consultant to prepare a Revitalization Plan for Kennedy Brothers. In February 1995, HUD awarded the Authority a \$36,224,644 HOPE VI implementation grant² for the Kennedy Brothers site. The Authority's Revitalization Plan includes: the demolition of 124 units and the rehabilitation of the remaining 240 units, construction of a community center, construction of an additional 124 public housing units and 50 homeownership units on 45 acres purchased adjacent to Kennedy Brothers, and community and supportive services.

¹ For Fiscal Year 1997, the amount of funding for which an Authority could apply was reduced to \$35 million.

² This includes the original award of \$35,224,644 and an amendment for \$1,000,000.

In April 1994 the Authority hired Housing Development Partners as project manager for the implementation grant.

In July 1995, HUD awarded the Authority a \$400,000 HOPE VI planning grant for the Rafael Marmolejo Jr. Apartments, Ruben Salazar Park, and Sherman Plaza housing sites (Marmolejo, Salazar, and Sherman). The Authority used these funds to hire a consultant to prepare a Revitalization Plan for the sites. The Authority submitted a Revitalization Plan for Ruben Salazar Park under the 1996 HOPE VI Notice of Funding Availability, but HUD did not fund it.

Audit Objectives, Scope, and Methodology

Our audit objectives in reviewing the Authority's HOPE VI grants were to determine if the Authority: (1) properly procured contracts under its HOPE VI grants; (2) only expended amounts for eligible activities;³ (3) met the objectives of its Revitalization Plan; and (4) implemented its community and supportive services components effectively, efficiently, and in a manner that will allow the activities to be sustained beyond the grant term.

To achieve the audit objectives we: (1) reviewed HOPE VI regulations and guidelines, Authority procurement policy, contract files, and any related documentation; (2) interviewed Authority, HUD, and contractor officials; and (3) made site visits to the HOPE VI developments. Our audit procedures included:

- Examining the selection and award process for all HOPE VI contracts, and reviewing the contracts to determine eligibility of activities.
- The Authority let one HOPE VI contract under the Kennedy Brothers planning grant; a \$425,000 award to Housing Development Partners. Housing Development Partners had three subcontracts under the contract. The Authority used the remaining \$75,000 of the \$500,000 grant for administrative costs. The \$500,000 has been fully expended.
- Under the Kennedy Brothers implementation grant, the Authority awarded 26 contracts. As of May 31, 1997, the Authority had spent \$12,539,234 of the \$36,224,644 grant (34.6 percent), including \$312,925 of the \$700,000 (44.7 percent) allocated for administration.
- The Authority awarded one contract for \$340,000 to Barajas and Bustamante under the Marmolejo, Salazar, and Sherman planning grant. Barajas and Bustamante subcontracted with two firms under the contract. The Authority used the remaining \$60,000 of the \$400,000 grant for administrative costs. The \$400,000 has been fully expended.

³ Except for administrative costs, the audit scope generally did not include a detailed review of support for HOPE VI disbursements.

- Reviewing support for administrative costs the Authority charged to its HOPE VI grants.
- Reviewing the Authority's Revitalization Plan for the Kennedy implementation grant to determine if: (1) it met HOPE VI requirements; (2) the Authority will be able to successfully and timely complete the program; and (3) the Authority has adequate procedures to monitor the progress and performance of the grant.
- Visiting the Kennedy Brothers development to observe the location strengths and weaknesses, and work in progress. Also, made site visits to the Marmolejo, Salazar, and Sherman developments.
- Reviewing the community and supportive services programs for the Kennedy implementation grant. The review included determining whether the programs: (1) are eligible; (2) have clear and measurable results; (3) are being adequately monitored; (4) will be sustainable after the grant term; and (5) are receiving required matching contributions from the City.

We performed field work at the Authority offices and HOPE VI sites during February, March, and June 1997. The audit generally covered the period August 1994 to June 1997, although the period was extended as appropriate. We performed the audit in accordance with generally accepted government auditing standards.

Findings

Finding 1

Apparent Favoritism Underlies Questionable Authority Procurements

Improper and questionable procurement practices have resulted in a strong appearance of favoritism in Authority contracting under its HOPE VI Programs. These improper and questionable practices include a lack of competition, conflicts of interest, multiple awards to the same contractors, and poor contract documentation. This occurred because Authority management did not always adhere to federal and Authority procurement requirements.

Federal and Authority procurement requirements

The Grant Agreement requires the Authority to comply with procurement guidelines contained in the Code of Federal Regulations (24 CFR §85.36). In addition, the Authority has its own procurement procedures. The federal regulations and Authority procurement procedures state that:

- Competition:
 - All procurement transactions must be conducted in a manner providing full and open competition (§85.36 (c)).
 - Section III of the Authority's procurement procedures provides that, for small purchases between \$1,500 and \$15,000, price quotes will be solicited from at least three offerors. Formal contracting procedures (sealed bids and requests for proposals) are used for purchases over \$15,000. Contract requirements shall not be artificially divided to constitute small purchases (i.e., to avoid formal contract procedures).
 - The Authority must perform a cost or price analysis for every procurement action. A cost analysis will be necessary when adequate price competition is lacking, and for sole-source procurements, including contract modifications or change orders (§85.36(f)). If only one responsive bid is received from a responsible bidder, award shall not be made unless a cost or price analysis verifies the reasonableness of the price (Authority procurement procedures, paragraph III C.3.)

- Each procurement based on noncompetitive proposals shall be supported by a written justification for using such procedures (III.E.2. of Authority procedures).
- Procurement records:
 - Grantees and subgrantees will maintain sufficient records to detail the significant history of a procurement. These records must at least include the following: rationale for method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (§85.36(b)(9), and Authority procedures paragraph II.B.2.).
- Conflict of interest and ethics:
 - Under 24 CFR §85.36 (b)(3), no employee, officer or agent of the Authority can participate in selection, or in the award or administration of a contract supported by federal funds if a conflict of interest, real or apparent, would be involved. A conflict of interest would include when: "an employee, officer, or agent, any member of his immediate family, his or her partner, or an organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award." Section IX(B) of the Authority's procurement procedures "Ethics in Public Contracting" contains similar language.
 - The Grant Agreement further states: "In addition to the conflict of interest requirements in 24 CFR part 85, no person who is an employee, agent, consultant, officer, or elected or appointed official of the Grantee and who exercises or has exercised any functions or responsibilities with respect to activities assisted under this HOPE VI grant, or who is in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from the activity, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for himself or herself or for those with whom he or she has family or business ties, during his or her tenure or for one year thereafter."⁴
 - Under 24 CFR §85.36(b)(3)(iv), employees cannot solicit or accept anything of "monetary value from contractors or parties to subagreements."

Questionable procurement practices lend to appearance of favoritism

Authority management did not always adhere to federal and Authority procurement requirements. As a result, the Authority has engaged in improper and questionable procurement practices that give a strong appearance of favoritism in its HOPE VI

⁴ The Grant Agreement also provides instances when HUD may approve a conflict of interest.

contracting. These improper and questionable procurement practices include: (1) a lack of competition in major contract awards; (2) conflicts of interest, questionable relationships, and significant contractor influence in the contracting process; (3) multiple awards to the same contractors; and (4) poor contract documentation.

Sole-source and non-competitive awards

Contrary to HUD requirements and Authority policy, the Authority awarded two contracts under the Kennedy implementation grant on a sole-source basis, without soliciting any bids or proposals. Further, the Authority awarded one other contract non-competitively, after receiving a response from only one vendor. Authority files did not contain either written justification or price/cost analyses for these sole-source and non-competitive awards. As a result, the Authority could not be sure that it paid a fair and reasonable price for the services, or obtained the best services available. Also, other contractors may not have had a fair opportunity to bid on the contracts.

Creative Decisions. On August 10, 1995, the Authority entered into a contract with Creative Decisions for \$14,900⁵ to develop Request for Proposals (RFP) for the eight community and supportive services components at Kennedy Brothers. Based upon documentation provided, the Authority sole sourced this contract, making the award without soliciting bids or proposals from other vendors. The Authority's files did not include a cost/price analysis or written justification why it did not solicit bids or proposals from other vendors as required by its procurement policy.

Jones and Neuse. On August 24, 1995, the Authority made an award to Jones and Neuse for asbestos abatement specifications and contract bid document preparation. The Authority split the award into three contracts, all let on the same day, totaling \$14,999,⁶ just \$1 below the \$15,000 threshold requiring sealed bids or proposals and Board approval. The Authority later approved a \$4,207 change order for work outside the scope of the original contract. Again, the Authority did not solicit offers from other vendors, perform a cost/price analysis, or provide written justification for sole sourcing the contract as its procurement policy requires.

The Communications Group. The Authority awarded one of three social services contracts under the Kennedy implementation grant non-competitively. The Authority awarded a \$150,000 contract to The Communications Group, the only vendor who responded to the Request for Proposal, to run the Small Business Center. The Authority did not document efforts to attract additional providers or that it performed a cost/price analysis to determine price reasonableness.

⁵ This is \$100 below the \$15,000 threshold that requires formal contracting procedures.

⁶ The contracts included \$2,826 for professional services for demolition assessment; \$3,500 for friability assessment, and \$8,673 for asbestos assessment assistance.

Conflicts of interest and contractor influence

The Authority awarded three HOPE VI contracts where apparent conflicts of interest clearly existed between Authority agents or employees and contractors. For two of the contracts, Authority agents or employees involved in the contractor selection process had business or personal relationships with contractors they evaluated. Further, officials of these two contractors had influence in the Authority's awarding of two sole-source contracts and one non-competitive contract. In a third case, the Authority awarded a contract to an entity to evaluate the social services programs. The head trustee of the entity is also president of a social service provider whose services the entity is responsible for evaluating.

Housing Development Partners. An apparent conflict of interest existed between Housing Development Partners, the project manager for the Kennedy implementation grant, and two architect firms. In selecting an architect for the Kennedy Brothers implementation grant, an official of Housing Development Partners, in his capacity as a project manager official for Kennedy Brothers, evaluated and ranked Alvidrez and Associates, and Barajas and Bustamante. At the time the Housing Development Partners official evaluated the architects, Housing Development Partners was a subcontractor for Barajas and Bustamante on the planning grant for Marmolejo, Salazar, and Sherman. Further, under the planning grant for Kennedy Brothers, Housing Development Partners subcontracted with Alvidrez and Associates. The Authority awarded the contract to Alvidrez and Associates. The Housing Development Partners official should have recused himself from evaluating the architects. The Authority knew, or should have known, of these business relationships relating to HOPE VI contracts and subcontracts.

The Housing Development Partners official also influenced the Authority's award of two sole-source contracts (discussed above). According to the official, he recommended that the Authority use Creative Decisions because of the owner's work during the planning grant. It appears that the Authority hired Creative Decisions as a result of the Housing Development Partners' recommendation. Creative Decisions subcontracted for Housing Development Partners under the Kennedy Brothers planning grant. The Housing Development Partners official also said his firm determined the need for asbestos abatement services and recommended that the Authority use Jones and Neuse. Therefore, Housing Development Partners influenced the Authority's decision to award these sole-source contracts. However, it is the Authority's responsibility for ensuring it procures services properly.

Creative Decisions. In its consultant proposal for the Marmolejo, Salazar, and Sherman planning grant, the firm of Barajas and Bustamante listed Creative Decisions as a subcontractor, budgeted for \$60,000. The Authority's Director of Housing Management (Housing Director), a long time friend of the Creative Decisions' owner, served on the selection committee that evaluated proposals for the contract. In August 1995, the Housing Director gave Barajas and Bustamante a

rating of 95 out of 100, and the other firm an 84. Based on the selection committee's recommendation, the Authority awarded Barajas and Bustamante a \$340,000 contract. Creative Decisions received a \$60,000 subcontract from Barajas and Bustamante. The Housing Director acknowledged that in February 1996, less than 6 months after she evaluated the Barajas and Bustamante proposal, she made a trip to France that was paid for by the owner of Creative Decisions. The Director considers the trip a birthday gift. The Housing Director said that everyone is aware of her friendship with the owner. Under 24 CFR §85.36(a)(3)(iv), employees cannot solicit or accept anything of "monetary value from contractors or parties to subagreements."

According to the Housing Director, she verbally informed the Assistant Executive Director⁷ of her friendship with the owner and questioned whether she should be on the selection committee. The Assistant Executive Director told her that the Executive Director selected her to be on the committee and she should serve and be impartial. Nevertheless, due to her longtime relationship with the owner of Creative Decisions, the Housing Director at a minimum should have recused herself from evaluating the proposals. Further, the Housing Director should have no involvement with the monitoring of the contract or supervising those employees who do.

The owner of Creative Decisions also influenced the Authority's award of a non-competitive contract (discussed above). The sole-source contract that the Authority awarded to Creative Decisions required it to develop the Requests for Proposals for the eight components of the Social Service Plan. The Authority received a total of five responses to the three Requests for Proposals developed by Creative Decisions which resulted in contracts. The owner of Creative Decisions chaired the selection committee that evaluated the responses. As a result of the selection committee's recommendation, the Authority awarded one of the three contracts non-competitively to The Communications Group, the only respondent to the Request for Proposal for the Small Business Center.

The Communications Group, and El Paso Community College. The Authority awarded two supportive services contracts to The Communications Group for the Small Business Center (\$150,000) and the Computer Literacy Program (\$100,000). In addition, the Authority entered into a Memorandum of Agreement with the Board of Trustees of the El Paso County Community College District (El Paso Community College) to evaluate its HOPE VI social services.⁸ The Memorandum of Agreement states the Authority will pay the El Paso Community College \$32,000 over a 4-year period. However, the individual who signed the Memorandum of Agreement as Chairwoman of the Board of Trustees of the El Paso Community College is also the President of The Communications Group.

⁷ No longer employed by the Authority.

⁸ The HOPE VI grant agreement allows the Authority to enter into non-competitive subgrants with non-profit entities or state and local governments for community and supportive service activities.

Therefore, the head trustee of the entity that will evaluate social services is also president of the firm whose social services are to be evaluated. This is a clear conflict of interest which the Authority should never have allowed.

In these instances of apparent conflicts of interest and contractor influence, it is the Authority who bears ultimate responsibility. Irrespective of contractor involvement, the Authority must be held accountable for ensuring adherence to procurement requirements and avoiding the appearance of conflict of interest and undue contractor influence in Authority contracting.

Multiple contracts to the same contractors

The appearance of favoritism in Authority contracting for HOPE VI activities is strengthened by the fact that some contractors received multiple HOPE VI contracts and subcontracts:

Housing Development Partners. The Authority awarded two contracts worth \$1,837,000 to Housing Development Partners from its HOPE VI grants. Also, Housing Development Partners received a \$120,000 subcontract on the HOPE VI contract awarded to Barajas and Bustamante.⁹ According to one of its officials, Housing Development Partners has been performing work for the Authority since 1993. By relationships developed from its previous affiliation with the Authority and working on the planning grant for Kennedy Brothers, Housing Development Partners appears to have had an unfair advantage over competitors for Project Manager and other contracts.

Alvidrez and Associates. Alvidrez and Associates performed architectural and engineering work as a subcontractor on the Kennedy planning grant (\$51,400 subcontract). This work involved feasibility studies used to design a revitalization plan for the Kennedy Brothers development. As such, Alvidrez and Associates apparently had an unfair advantage over competitors bidding on the architectural contracts under the Kennedy implementation grant. Alvidrez and Associates had intimate knowledge of the required work product for the implementation grant because they helped prepare the work requirements under the planning grant. Alvidrez and Associates received three architectural and engineering contracts on the Kennedy implementation grant for rehabilitation and demolition (\$554,000), a multipurpose center (\$227,500), and housing units (\$376,092). The Authority's procurement policy (paragraph VI.B.) recognizes the possibility of contractors having an unfair advantage:

"Specifications shall be scrutinized to ensure that organizational conflicts of interest do not occur (for example, having a consultant perform a study of

⁹ The Housing Development Partners partner said that he had assisted the Authority in preparing the application for the planning grant.

the PHA's computer needs and then allowing that consultant to compete for the subsequent contract for the computers)."

Creative Decisions (and Agave Institute). As discussed above, Creative Decisions received a \$14,900 sole-source contract for developing Requests for Proposals and was also a subcontractor (\$60,000) of Barajas and Bustamante on the Marmolejo, Salazar, and Sherman planning grant. In addition, Creative Decisions received \$4,000 as a subcontractor of Housing Development Partners on the Kennedy planning grant. Further, Agave Institute employed the owner of Creative Decisions prior to her starting Creative Decisions. Housing Development Partners compensated Agave Institute \$5,600 as a subcontractor on their Kennedy Brothers planning grant contract. Also, Authority records showed other transactions (non-HOPE VI) with Creative Decisions and Agave Institute.

The Communications Group (and El Paso Community College). As previously discussed, the Authority awarded two supportive services contracts, one non-competitively, to The Communications Group for the Small Business Center (\$150,000) and the Computer Literacy Program (\$100,000). In addition, the El Paso Community College, whose head trustee is the president of The Communications Group, received a \$32,000 non-competitively awarded contract to evaluate social services.

The following summarizes in matrix form the issues of inadequate competition, conflicts of interest and contractor influence, and multiple awards to the same contractors:

SS/NC = sole source/non-competitive

CI = conflict of interest/contractor influence

MC = multiple contracts to the same contractors

Contractor	Contract/Amount ¹⁰	SS/NC	CI	MC
Creative Decisions/ Agave Institute	Kennedy Plan	\$ 4,000	X	X
	(Agave)	5,600		
	Kennedy Implementation	14,900		
	Marmolejo Plan	<u>60,000</u>		
		<u>\$84,500</u>		
Housing Development Partners (HDP)	Kennedy Plan	\$ 425,000		X
	Kennedy Implementation	1,412,000		
	Marmolejo Plan	<u>120,000</u>		
		<u>\$1,957,000</u>		
The Communications Group ¹¹ (TCG)	Kennedy Implementation		X	X
	Small Business	\$150,000		
	Computer	<u>100,000</u>		
		<u>\$250,000</u>		
El Paso Community College (EPCC)	Kennedy Implementation	<u>\$32,000</u>		
Alvidrez & Associates	Kennedy Plan	\$ 51,400		X
	Kennedy Implementation			
	Demolition	554,000		
	Community Center	227,500		
	Housing	<u>376,092</u>		
		<u>\$1,208,992</u>		
Jones and Neuse	Kennedy Implementation	\$14,999	X	X
	change order	<u>4,207</u>		
	TOTAL	<u>\$19,206</u>		

The overall pattern leads to the conclusion that the Authority needs to take measures to promote a more competitive procurement environment, and to avoid real or apparent conflicts of interest. This type of procurement environment can be realized only if top Authority management sets an example by: (1) avoiding conflicts of interest and questionable relationships, whether in fact or appearance; (2) ensuring that the Authority strictly adheres to federal procurement requirements and Authority policies and procedures; and (3) actively and aggressively seeking procurement sources.

¹⁰ Including subcontracts under HOPE VI contracts.

¹¹ Also known as Technology and Communications Gateway, Inc.

Poor contract documentation

As previously stated, Authority contract files did not contain price/cost analyses or written justification for sole-source and non-competitive contracts, nor did it document efforts to attract additional providers. As a result, the Authority did not provide other vendors with an opportunity to obtain contracts, nor can the Authority be sure it obtained the best services at the lowest price. In the case of the sole-source award to Creative Decisions, this appears to have also resulted in unnecessary services and excessive costs. In addition, Authority procurement files in general were not in order, and OIG staff had difficulty obtaining documents.

Creative Decisions' contract illustrates poor contract documentation. The sole-source contract that the Authority awarded to Creative Decisions to develop requests for proposals was a fixed price contract based on an estimated 149 hours of work at \$100 per hour. The Authority could not provide any documentation as to the reasonableness of the compensation paid to Creative Decisions. Therefore, the Authority and HUD cannot be sure that the price paid for the services was fair and reasonable. Also, the files did not document why the Authority needed the services and why staff could not prepare the requests for proposals as it does for other services.

The need for a consultant to prepare the requests for proposals becomes even more questionable, given that: (1) the objectives and goals of the community and supportive services components were already developed under the planning grant; (2) the requests for proposals elicited few responses and resulted in only three contracts; and (3) the Authority paid Creative Decisions the full contract amount even though not all the work had been performed. As a result, the Authority appears to have contracted for unnecessary services and paid excessive costs.

Creative Decisions appears to have performed some work twice. Part of the work the contract required Creative Decisions to perform appeared to have already been done under the planning grant. Housing Development Partners developed the objectives and goals of the community and supportive services components under the Kennedy planning grant. Creative Decisions, as a subcontractor to Housing Development Partners under the Kennedy planning grant, developed draft requests for proposals for the eight components. The draft requests for proposals, submitted to HUD in March 1995 as part of the Community Service Implementation Plan, included public notices which the Authority later used to advertise the components. However, under Task #1 of the August 3, 1995 contract with Creative Decisions, the format calls for "8 RFP Components with a Service Plan each ready for Public Notice." As such, it appears the Authority paid Creative Decisions for work that was, at least in part, already performed and paid for under the planning grant.

The eight requests for proposals elicited few responses; only three contracts awarded. The end result of the Creative Decisions contract further draws into question the Authority's need for the services. As noted in the following table, the

Authority received a total of five responses to six requests for proposals issued, and has awarded only three contracts to vendors.

<i>RFP Component</i>	<i>No. of Responses</i>	<i>End Result</i>
Substance abuse	2	Contract ¹²
Economic Development	1	Contract
Arts	0	Performed in-house
Education	2	Contract
Recreation	0	Performed in-house
Security	0	MOU with El Paso Police
Day Care	n/a	Not yet implemented
Health Care	n/a	Not yet implemented

The Authority paid the full contract amount even though not all work was performed. Accounting records provided by the Authority show Creative Decisions had been paid the full contract amount in December 1995. However, in a February 27, 1997 letter to the Authority, Creative Decisions stated that the contract work for the Health Care component had not been completed and would finalize the project as soon as the Authority was ready. In addition, the contract required Creative Decisions to "...organize the pre-proposal conference and review the proposals..." (Task #2), and "...consolidate the RFP's process based on the organizational tasks and 8 Program Service Plans..." (Task #3). However, as shown in the table above, the Authority did not issue requests for proposals for two components, nor receive any responses to requests for proposals for three other components. Given this, Creative Decisions could not have performed all the tasks for these five components. However, the Authority has not reduced its compensation to Creative Decisions commensurate with the reduction in services provided.

The Authority did not maintain good procurement files. The Authority's procurement files with respect to HOPE VI contracts in general were not in order. The Authority had a difficult time providing various documents such as advertisements, specifications, bids, bid envelopes, and other documents. In some instances, Authority employees had to fill in details from memory. In other instances, information had to be obtained from either Housing Development Partners or other contractors. The Authority's files should contain all of the documentation regarding procurements.

Authority response to draft audit report and OIG evaluation

Authority officials responded in writing to the draft report in a December 11, 1997 letter (Appendix A), and verbally at an exit conference held January 13, 1998. The Authority partially agreed with the findings and recommendations, and generally indicated it was or has taken corrective action, or its actions were justified.

¹² The Authority later canceled this contract after having paid about 10 percent of the contract amount and is performing the services in-house.

However, although we have made some revisions to the report, in our opinion the Authority's response, still does not satisfactorily address the concerns raised in the report.

Authority response: procurement policies and practices

In its written response, the Authority stated it:

- Would hire a firm to prepare a strategic plan which includes a review of procurement policies and procedures;
- Received a legal opinion regarding federal and state procurement requirements, and that the legal opinion would guide their revised policies and procedures;
- Was changing and improving its procurement organization;
- Issued instructions requiring cost or price analyses; and
- Scheduled procurement training for staff.

The Authority also indicated it awarded only one social services contract non-competitively, rather than two as stated in the draft report, and made significant efforts to attract providers for the contract that was awarded non-competitively.

At the exit conference and in documentation subsequently provided, the Authority said that, in addition to the contract for a strategic plan, it was having a certified public accountant review internal controls, including procurement, and prepare a manual. In addition, the Authority's legal counsel maintained that the Authority was following state law in procuring professional services without competition. In his verbal and written statements, the legal counsel indicated:

- The Authority must follow either state or federal procurement law, but not both. As an entity created by the State of Texas and as a division of the City of El Paso, the Authority is subject to state laws applicable to municipalities, not federal procurement regulations. State law is more stringent than federal requirements.
- For professional services, state law requires municipalities to determine a firm's demonstrated competence and qualifications, and then negotiate a fair and reasonable price.
- State law does not provide details on how a housing authority must determine demonstrated competence and qualifications. An authority could use oral testimony and prior experience.
- State law explicitly prohibits the Authority from entering into a professional services contract on the basis of competitive bidding. The Authority would violate state law were it to follow some of the HUD procurement regulations.

Appendix B contains the legal counsel's opinion. Attached to the opinion were copies of the Texas Professional Services Procurement Act, federal procurement

regulations, and Texas Attorney General Opinions (cited in the legal opinion and not included in Appendix B).

OIG evaluation: procurement policies and procedures

The Authority appears to be making substantial efforts to improve its procurement process. However, the Authority not only needs to ensure that it *establishes* proper procurement policies and procedures, but that it *follows* these policies and procedures. For example, the Authority had adequate written policies and procedures to address ethics and conflicts of interest but did not always follow its written policies and procedures. The OIG revised the report to indicate that the Authority awarded one, rather than two, social services contracts non-competitively. Regarding the social services contract that was awarded to The Communications Group non-competitively, it is not enough for the Authority to state after the fact that it “did extraordinary efforts to attract additional providers” and made a “good faith review of available providers.” The Authority needs to *document* its efforts to attract competition, and provide *written* justification why contracts are awarded on a non-competitive basis.

The OIG disagrees with the Authority’s legal counsel’s opinion regarding the procurement of professional services, and is concerned that the Authority intends to use the opinion as a guide for the preparation of its procurement policies and procedures. The OIG maintains:

- The Authority must comply with federal procurement regulations as stated in 24 CFR §85.36.
- Federal and Texas procurement requirements for professional services are consistent with each other. The Authority can comply with both federal and state laws without violating either.

Federal procurement regulations allow a State to follow the same policies and procedures it uses for procurements from its non-federal funds. Other grantees must follow federal procurement regulations (24 CFR §85.36 (a)). Although the Authority may have been created by State law, federal regulations do not consider housing authorities to be states. In its definition of a “State,” the Code of Federal Regulations states: “The term does not include any public or Indian Housing agency under the United States Housing Act of 1937.” Rather, the regulations consider housing authorities to be local government entities (24 CFR §85.3). As such, the Authority must follow federal procurement requirements as stated in 24 CFR §85.36.

The Authority’s legal counsel indicates the Authority would violate state law if it followed HUD procurement regulations for obtaining professional services. We disagree. Texas law does not allow the Authority to enter into a professional service contract (professional services include accounting, architecture, land surveying, medicine, optometry, professional engineering, and real estate appraising) on the basis of competitive bids. However, federal procurement

regulations make a distinction between competition by sealed bids (where awards are made primarily on the basis of price), and competitive proposals (where awards are made based on qualifications and other factors, which may include price). Regarding architect and engineering professional services, the regulations specifically allow for competitive proposals where the most qualified competitor is selected, and then a fair and reasonable price is negotiated. This method does not use price as a selection factor. The Texas law prohibits competitive bidding for professional services where the selection is price based. Even one of the attorney general opinions (JM-1189) cited by the legal counsel makes it clear that the competitive bidding prohibition refers to awarding professional service contracts on the basis of price:

“The courts . . . have recognized that when the acquisition of professional services is involved; competitive bidding may actually be detrimental to the public interest . . . ‘To hold that the [competitive bidding] act would require that the services . . . belonging to a profession such as that of the law, of medicine, of teaching, civil engineering, or architecture should be obtained . . . only through competitive bidding would give a ridiculous meaning to the act . . . Such a construction would require the selection of attorneys, physicians, school teachers, and civil engineers by competitive bids, the only test being the lowest bid for the services . . .’ The legislature has incorporated this thinking into competitive bidding statutes by enacting exemptions for professional services.”

There is nothing in the Texas law cited by the legal counsel to indicate any prohibition of a selection process for professional services that includes a competitive evaluation of qualifications and other factors. In reference to architect, engineer, and survey services, the State law states that the procuring entity shall “. . . first select the *most highly qualified provider* of services . . .” (emphasis added). This appears more to encourage, rather than prohibit, a comparison of providers, but certainly does not conflict with federal requirements.

Authority response: conflicts of interest

Regarding the official who accepted a trip to France from a contractor, the Authority stated that, although it erred in allowing the official to participate in the ranking of proposals, “. . . extenuating events lessen the validity of the allegation to a point that it is not strong enough to justify disciplinary action.” The extenuating events include the participation of two Commissioners of the Board (on a five-member committee) which “removed the possibility of conflict,” and verbal disclosure by the Director of Housing Management to the former Deputy Executive Director. The response further stated that recently adopted provisions of the Personnel Policy Handbook were designed to prevent future problems of a similar nature.

OIG evaluation: conflicts of interest

The Authority's response ignores the issue of the trip to France which in our opinion justifies disciplinary action. Also, the Authority's reluctance to take action raises doubts as to how serious it is about addressing the issues of conflicts of interest, contractor influence, and favoritism discussed in this report.

Authority response: sole-source contracts and cost analyses

As a justification for its sole-source award to Creative Decisions, the Authority attached to its response a memorandum from Housing Development Partners. The Authority indicated it awarded the sole-source award to Jones and Neuse because HUD officials from Washington had scheduled a visit to Kennedy to kick-off the demolition. Further, at the exit conference the Authority stated Texas state law does not require competition for professional services (discussed above). The Authority agreed that cost analyses should have been performed for these two contracts.

OIG evaluation: sole-source contracts and cost analyses

The memorandum from Housing Development Partners praises Creative Decisions. However, this does not constitute a sole-source justification, which would document that the services were only available from a single source. The memorandum does, however, support the OIG's contention that the Authority is unduly influenced by contractors. Also, the OIG fails to see how a visit from HUD officials justifies a sole-source award. Federal procurement regulations allow for sole-source purchases in the event of an emergency, but a visit from HUD officials does not constitute an emergency. As discussed above, the OIG disagrees with the Authority's contention that it does not have to use a competitive process for professional services contracts.

Authority response: adjust the Creative Decisions contract for decrease in work

Creative Decisions completed seven of eight Requests for Proposals and drafted and revised an eighth Request for Proposal for the Health Care component. Creative Decisions agreed to complete the task at the Authority's convenience.

OIG evaluation: adjust the Creative Decisions contract for decrease in work

Revisions to the draft report, discussed in the "Poor Contract Documentation" section above, address the Authority's response. The OIG maintains the contract should be adjusted for work already performed in the planning phase and for work not performed.

Recommendations

We recommend you require the Authority to:

- 1A. Provide steps it intends to take to ensure the Authority will follow its procurement policy in all cases, and avoid future recurrences of problems discussed in this finding, especially in regards to: (1) full and open competition; (2) ethics and conflicts of interest; and (3) full documentation of all procurement transactions, including determining price reasonableness.
- 1B. Ensure its procurement policies and procedures fully comply with federal requirements as stated in 24 CFR §85.36, especially as it pertains to competitive requirements for the procurement of professional services.
- 1C. Take appropriate action against employees who violate the Authority's procurement policy, including the Housing Director who accepted a gift from a subcontractor.
- 1D. Provide written justification for the sole-source contracts awarded to Creative Decisions and Jones and Neuse, and provide cost analyses for these contracts and the non-competitive award to The Communications Group to determine price reasonableness. Require the Authority to repay the HOPE VI Program any amounts in excess of fair value.
- 1E. Adjust the Creative Decisions contract for the decrease in work.

Finding 2

Authority May Not Be Able to Sustain Its Community and Supportive Services Programs

The Authority did not have documentation or other evidence to show how it will continue to fund its community and supportive services throughout and beyond the term of the revitalization of the project. The Authority has significantly exceeded its budget for two service providers. Less than halfway through the contract periods, the Authority has expended 60 percent and 94 percent of funds for the Small Business Center and Computer Literacy Program, respectively. Further, based on the current budget, the Authority would need approximately \$687,500 annually in order to continue providing community and supportive services after HOPE VI funds are spent. The Authority cannot provide information showing how it will fund these programs. In addition, the Authority may not be able to obtain the required 15 percent supportive services match from the City. As a result, the Authority may not be able to achieve its goal of providing residents with the opportunity to attain economic and social self-sufficiency. This occurred because the Authority did not adequately plan for maintaining and sustaining its community and supportive services programs.

The Community Service Plan

The Grant Agreement requires the Authority to have a community service program throughout the term of the revitalization project. Also, HUD encourages grantees to continue the community service plan beyond the term of the revitalization project. The Grant Agreement states that one of the overall HOPE VI objectives is to ". . . address the condition of people in public housing, and not merely of the bricks and mortar themselves. The parties will emphasize community and supportive services, as well as other means appropriate to each community, so as to have the broadest possible effect in meeting the social and economic needs of the residents and the surrounding community."

According to the Authority's Community Service Plan:

"The HOPE VI concept is a true Community Development Concept. It recognizes the importance of linking and integrating local services, social services, private sector efforts, and community efforts to maximize the impact of existing programs and resources . . . The goal is to provide opportunities for residents to be integrated into the larger community through training, employment opportunities, and volunteer service opportunities to achieve economic and social self-sufficiency."

" The El Paso Community Service Implementation Plan was specifically designed toward the goal of sustainability. The eight service providers are funded through other resources or, in the case of economic development, will be funded by self-generated funds for its continued operation. The community center will be available for many years to provide space for program activities . . . It is anticipated that funding for the AmeriCorps VISTA program will continue.

It is anticipated that each of the eight program areas will generate funds to sustain their operations or will maintain their current funding resources. It is also anticipated over the 5-year period of time that certain activities such as community services may be needed to a lesser extent. Other activities such as the resident-owned businesses are anticipated to grow and perpetuate themselves which will enhance the community outcomes."

The Community Service Plan identified eight supportive service components:

- Day care services
- Education, computer literacy, and tutoring services
- Substance abuse
- Primary health care services
- Economic development; small business center
- Community security services
- Arts; multicultural academy of arts
- Recreational services

For the community services aspect of its plan, the Authority's "...program design is to engage resident volunteers in the delivery of services in each of the eight program areas." As a vehicle to implement the resident volunteer concept, the Authority entered into an agreement with the Corporation for National Service to use AmeriCorps VISTA leaders and resident volunteers.¹³ The Community Service Plan projected the use of 30 VISTA workers per year in the program.

Current community and supportive services

As of June 1997 the Authority: (1) had contracts with firms to operate a Small Business Center and Computer Literacy Program; (2) was itself running the substance abuse, security, arts, and recreation components; and (3) had not established the day care or health care components. The Authority used VISTA

¹³ The Corporation for National Service is a congressionally-established organization that administers national service programs that provide community services. CNS administers the AmeriCorps VISTA (Volunteers in Service to America) program, which recruits volunteers to serve in poverty related projects. VISTA workers receive nominal stipends for their services.

workers extensively to assist in the six active components.¹⁴ Also, the Authority had a Memorandum of Understanding with the El Paso Police Department as part of the security component.

The Authority contracted with The Communications Group to provide services for 4 years in the Small Business Center and Computer Literacy Program for \$150,000 and \$100,000, respectively. However, after 1½ years the Authority has paid The Communications Group \$90,348 (60 percent) of the Small Business Center contract and \$94,353 (94 percent) of the Computer Literacy Program contract. The Authority could not satisfactorily explain the high budget overruns. According to an Authority official, the purchase of capital items (computers, furniture, and equipment) in the first year accounted for the funds depletion. However, the Authority's budget for the community and supportive services program allocates \$75,000 for capital expenditures *apart from* the \$150,000 and \$100,000 budgeted for the Small Business Center and Computer Literacy Program.¹⁵

The total budgets for the Small Business Center and Computer Literacy Group amount to \$328,887 and \$267,711, respectively. The budget amounts include HOPE VI and non-HOPE VI funding sources. Authority officials said the difference between the budgets and the contract amounts will be funded by other grants and donations. However, the Authority could not provide specific information on the source of the grants and donations. Also, after the first 1½ years of the 4-year contracts, all payments for the two programs had been made with HOPE VI funds. Without significant outside resources it is difficult to understand how The Communications Group will continue to provide services for the remaining 2½ years with the remaining funds, especially the Computer Literacy Program, with a contract balance of less than \$6,000.

Future community and supportive services

The Authority budgeted \$1,225,000 for the eight components of its Community Service Plan, including a \$150,000 match from the City for 4 years. The budget also allocated \$2 million, principally for the cost of the program coordinator, the VISTA workers, and administration. Based on this budget the Authority would need \$687,500 per year¹⁶ for community and supportive services. The Housing Director said local businesses have approached the Authority indicating an interest

¹⁴ A September 1995 report by the Housing Research Foundation on the Authority's HOPE VI Program stated that the Authority's community and supportive services: (1) lacked performance outcomes and specific goals to measure program effectiveness and (2) did not make a distinction between community services and supportive services (i.e., the Authority developed a social service plan, and added a VISTA component to each of the supportive services programs). We substantially agree with this assessment and may include the issues in our nationwide report.

¹⁵ The Assistant Executive Director said the computer equipment had been inventoried and would remain the property of the Authority.

¹⁶ Equals \$1,225,000 + \$2,000,000 divided by 4 years. The Authority also budgeted \$1,000,000 to build a community center.

in participating in the program when the community center is completed. However, the Authority does not have any concrete evidence, such as firm commitments from local businesses, to show how the programs will be sustained after the grant term.

Fifteen percent supportive services match from the City

Article VIII of the Grant Agreement states: "The Grantee will use best efforts to cause the City in which the Grantee is located to provide contributions for supportive services in an amount equal to 15% . . . of the HOPE VI grant funds awarded to the Authority for supportive services under the Revitalization Plan." HUD awarded the Authority \$1 million for supportive services, and therefore, the City's match should be \$150,000.¹⁷ Article XVIII of the Grant Agreement states that failure of the City to provide contributions for supportive services, to the extent it constitutes a material breach or occurrence, will constitute a default by the grantee.

To further complicate matters, the City never provided a written commitment for the funds, which the Authority should have included in its application. Instead, the application stated the Authority had submitted a funding request to the City for \$150,000 in Community Development Block Grant (CDBG) funds. The application stated: "The request has been reviewed by staff of the Department of Community and Human Development and their recommendation for approval has been presented to the CDBG Community Advisory Committee . . . Final approval by the City Council will be granted by mid-May. The Housing Authority of the City of El Paso will forward evidence of approval to the Office of Distressed and Troubled Housing Recovery immediately upon approval."

The City did not grant the Authority the \$150,000 requested. In April 1996 the City signed a contract granting the Authority \$26,000 for alcohol and substance abuse therapy services. However, in August 1996 the City reduced the contract to \$16,000 and reallocated the funds for HOPE VI recreational activities. As of April 30, 1997, the Authority has only billed and received \$10,013 from the City.

The Authority has received in-kind contributions that it could, but did not, use to meet part of the 15 percent matching requirement. Authority records showed in-kind contributions from the El Paso Police Department of \$4,192 from October through December 1996. In addition, the Small Business Center and Computer Literacy Program made in-kind contributions of office furniture and equipment valued at \$9,000 and \$1,209, respectively in 1996.¹⁸

¹⁷ The Authority subsequently allocated an additional \$75,000 from community services to supportive services for a total budget of \$1,225,000 (\$1,000,000 + \$150,000 + \$75,000).

¹⁸ The Authority also provided documentation showing additional in-kind contributions of \$6,785 for the Small Business Center. The additional contributions represented payroll costs of the administrative officer. However, the contract budget for the Small Business Center already included the administrative officer's payroll costs.

Authority's response to draft report

Sustainability of community and supportive services. The Authority stated that, per HUD's instructions, it recently submitted a 6-month plan that alters the emphasis from supportive services to economic development. Also, the Authority entered into a contract with the University of Texas at El Paso to establish a community development corporation. According to the services agreement with UTEP, the Authority will pay the University \$39,620 to establish the community development corporation and a revolving loan fund.

Funding for the Small Business Center and Computer Literacy Program. The Authority indicated these programs had expenditures that were overstated as a result of capital expenditures that subsequently were transferred to a different account. The Small Business Center contract has not been amended; nor have the HOPE VI budgets been increased. The Authority agrees that The Communications Group needs to intensify efforts to leverage funds. By the end of the program, the community based businesses will pay a fee to the Small Business Center and the Center will be self sustaining.

City match. The Authority states it intends to take every step possible to acquire the funding. It is preparing a justification to substitute in-kind services provided by the El Paso Police Department for cash in-kind contributions from CDBG funds.

OIG evaluation of Authority's response

Sustainability of community and supportive services and funding for the Small Business Center and Computer Literacy Program.¹⁹ The ability of the Authority to sustain these services remains highly questionable. In addition to funds already used, the Authority will spend another \$39,620 to establish a community development corporation and a revolving loan fund. However, the Authority's contract with The Communications Group for the Small Business Center already included in its budget a revolving loan fund. Further, the HOPE VI budget for the Small Business Center and Computer Literacy Program includes \$123,654 in projected sources of income from non-HOPE VI funds for years 1 and 2 (not including the revolving loan fund and in-kind donations). However, after 1½ years, all funds spent for these programs have been HOPE VI funds. The transfer of capital expenditures amounted to about \$31,000 for both programs and does little to resolve the issue of sustainability.

City match. The OIG agrees the Authority should continue to make every effort to obtain the matching funds or in-kind contributions.

¹⁹ The two recommendations in the draft report for these issues (2A and 2B) have been combined into one recommendation in the final report; the primary concern being the future sustainability of these programs.

Recommendations

We recommend you require the Authority to:

- 2A. Explain how it will sustain its community and supportive service programs throughout the grant term and beyond, and take measures, such as obtaining commitments from businesses and leveraging private and public support, to obtain funding for these programs.

- 2B. Make every effort to obtain from the City contributions for supportive services in an amount equal to 15 percent of the HOPE VI grant funds awarded to the Authority for supportive services under the Revitalization Plan.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant controls

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

Administrative controls:	Selection and award of contracts
	Eligibility of grant activities
	Monitoring of programs
	Measurement of program results
	Sustainability of community and supportive services

We assessed all of the relevant controls identified above.

Significant weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses:

- The Authority lacks internal administrative controls to ensure major procurements are: (1) awarded using full and open competition; (2) free of appearances of conflict of interest; and (3) adequately reviewed for price reasonableness (Finding 1).
- The Authority lacks internal administrative controls to ensure adequate planning for community and supportive services under its HOPE VI Program so that these services can be sustained after the grant term (Finding 2).

Issues Needing Further Consideration

In addition to the findings, the audit identified issues needing further consideration. Although important, we did not think these issues warranted being reported as audit findings. However, these issues could become significant if not timely addressed. Also, some of the issues may be raised in the nationwide report.

Authority has not resolved environmental noise issue

Federal regulations state that "It is HUD's general policy to provide minimum national standards applicable to HUD programs to protect citizens against noise in their communities and places of residence."²⁰ In an August 9, 1995 letter, the Assistant Secretary, Office of Public and Indian Housing informed the Authority:

"...the Environmental Assessment conducted by HUD staff from the Texas State Office has projected unacceptably high noise levels from the proposed Lee Trevino Highway and the widening of Zaragosa Road. [The Authority] will have to submit plans for noise attenuation measures which will bring the noise environment to a level acceptable to the criteria and standards required in 24 CFR §51.103. The attenuation measures will have to be approved by the Assistant Secretary for Community Planning and Development before [the Authority] proceeds with the demolition of the stone wall along Zaragosa Road or any new construction or modernization."

Despite this directive, the Authority proceeded to demolish the stone wall and begin modernization work without obtaining the Assistant Secretary's approval. As a result, Kennedy Brothers residents may not be protected from unacceptably high noise levels.

Authority improperly allocated administrative time

Article IV of the planning and implementation grant agreements for Kennedy Brothers and Marmolejo, Salazar, and Sherman state that the Authority will comply with the cost principles of Office of Management and Budget Circular A-87. OMB Circular A-87 requires that when employees work on several activities, the Authority should maintain documentation supporting the distribution of the employees' salaries. The distribution can be based upon either the actual time spent on the activity by the employee or on a statistical or other quantifiable measure of

²⁰ Code of Federal Regulations (24 CFR §51.101(a)).

employee effort. Further, budget estimates or other distribution percentages before the employee performs the services do not qualify as support for charges to federal awards and may be used only for interim accounting purposes under certain conditions.

The Authority charged administrative costs against the Marmolejo, Salazar, and Sherman planning grant by allocating a percentage of employee's salary, including 40 percent of the Executive Director's salary and 50 percent of the Assistant Executive Director's salary from July to November 1996. The Budget Officer allocated the salaries based on pre-established percentages. However, the Fiscal Year 1997 budget allocated only 10 percent of the Executive Director's and Assistant Executive Director's salaries to the Marmolejo, Salazar, and Sherman planning grant.

Authority officials agreed that the 40 and 50 percent allocations to the Marmolejo, Salazar, and Sherman planning grant did not reflect actual time during the period. They stated the Authority did not allocate any cost during 1995, and therefore increased the 1996 allocation so the time charges would be reflective of the time over the entire grant period. Authority officials claimed that they determined the pre-established percentages or allocations based on studies done of the actual work performed. However, the Authority could not produce those studies or the support for those studies. Further, if the Authority performed the studies, its Fiscal Year 1997 Operating Budget should be reflective of the allocations. Authority staff stated that it has always allocated employee's time in this manner and that the staff actually may have spent more time on the activity than the Authority charged. However, improper accounting for administration in the past is not a valid reason to continue the practice. The Authority should have an allocation method that supports and accurately reflects time charges.

Improved accountability needed for salvaged materials

To encourage the use of more water efficient fixtures, the El Paso water department pays \$73 for every water closet brought in if it can be shown that the closet will be replaced with a water efficient closet. Based on 364 units at Kennedy Brothers, this would amount to as much as \$26,572. The Authority allowed the resident council members to organize the removal of water closets from the Kennedy Brothers site. The resident council paid tenants minimum wage to remove the water closets, and other incurred expenses for the transportation of the commodes to the water department. The resident council kept the remaining money for its use. Authority officials explained that they wanted to involve the residents and provide some jobs. A project manager official stated that in theory, the amount of the scrap water closets would have off-set some of the cost of demolishing and rehabilitating the units. Although the Authority should encourage resident council initiatives, such activities should have the Board's prior approval. Further, the Authority should consider placing some restrictions on the resident council's use of funds received from such activities.

Appendices

Appendix A

Authority Written Response to Draft Audit Report

Appendix B

Opinion by Authority's Legal Counsel

Appendix C

Distribution

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