



Issue Date August 13, 2010
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Audit Report Number 2010-AT-1009
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TO: Olga I Sáez, Director, Public and Indian Housing, San Juan Field Office, 4NPH

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Puerto Rico Public Housing Administration, San Juan, PR, Needs  
To Improve Its Procurement Procedures

## **HIGHLIGHTS**

### **What We Audited and Why**

We completed an audit of the Puerto Rico Public Housing Administration (authority) central office procurement system. This was an Office of Inspector General (OIG)-initiated assignment. We selected the authority for review as part of our strategic plan. The objectives of the audit were to determine (1) whether the authority's procurement policies and procedures were in compliance with the U.S. Department of Housing and Urban Development's (HUD) requirements, (2) whether it followed its policies and procedures and HUD procurement requirements, (3) whether it adequately supported the reasonableness of the cost of goods and services acquired, and (4) whether an electronic surveillance system installed at several of its public housing projects generated the intended benefits.

### **What We Found**

Generally, the authority complied with requirements for planning, soliciting, and awarding contracts and purchase orders. However, our review identified procurement deficiencies in two contracts and three purchase orders, which resulted in monetarily significant deficiencies. The authority used an improper procurement procedure, failed to perform required cost analyses, and paid for

equipment that was not used or missing. It also awarded purchase orders for other than the lowest quoted price without justification and paid more than the contract price. In addition, the electronic surveillance system installed at several of its public housing projects did not generate the intended benefits. As a result, the authority did not support the reasonableness of more than \$9.7 million in contracts, paid more than \$3.57 million for equipment that did not provide the intended benefits, and paid more than \$28,000 for excessive expenditures.

### **What We Recommend**

We recommend that the Director of the Office of Public and Indian Housing require the authority to provide support showing the eligibility and reasonableness of more than \$9.7 million spent on contracts that were not awarded in accordance with HUD requirements or reimburse its programs from non-Federal funds. We also recommend that the Director require the authority to reimburse its public housing program more than \$3.6 million paid for excessive costs and unused/missing equipment. In addition, we recommend that the Director evaluate the surveillance system installed throughout the authority's public housing projects and determine whether it was implemented in an effective and efficient manner.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We discussed the findings with HUD and the authority during the audit. We provided a copy of the draft report to the authority on June 2, 2010, for its comments and discussed the report with Department officials at the exit conference on June 18, 2010. The authority provided its written comments to our draft report on June 23, 2010. In its response, the Department generally disagreed with the findings and recommendations.

The complete text of the authority's response, along with our evaluation of that response, can be found in appendix B of this report. Attachments to the authority's comments were not included in the report but are available for review upon request.

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## **BACKGROUND AND OBJECTIVES**

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The Puerto Rico Public Housing Administration (authority) is a governmental entity created by Commonwealth Law No. 66, dated August 17, 1989. The authority implements governmental policy for the administration of public housing projects. It is the second largest public housing agency in the Nation, administering around 55,700 units with a combined authorized budget of more than \$406 million in operating funds and more than \$273 million in capital funds for fiscal years 2008 and 2009. The authority's records are maintained at 606 Barbosa Avenue, San Juan, PR.

Housing agencies are required to administer procurement activities in accordance with 24 CFR (Code of Federal Regulations) 85.36 and U.S. Department of Housing and Urban Development (HUD) Handbook 7460.8. Agencies must make purchases from and award contracts to the lowest responsible bidder after properly advertising for proposals. The dollar thresholds at which agencies are required to follow procurement procedures depend on the amount of goods and services procured and Federal, State, and local laws as well as the agency's own procurement policy.

Our audit objectives were to determine whether the authority complied with HUD regulations, procedures, and instructions related to the administration of its public housing programs. Specifically, we evaluated (1) whether the authority's procurement policies and procedures were in compliance with HUD requirements, (2) whether it followed its policies and procedures and HUD procurement requirements, (3) whether it adequately supported the reasonableness of the cost of goods and services acquired, and (4) whether an electronic surveillance system installed at several of its public housing projects generated the intended benefits.

## RESULTS OF AUDIT

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### Finding 1: The Authority's Procurement Procedures Had Weaknesses

Generally, the authority complied with requirements for planning, soliciting, and awarding contracts and purchase orders. However, it used an improper procedure, failed to perform required cost analyses in two contracts, and paid for equipment that was not used or missing. In addition, the authority awarded three purchase orders for other than the lowest quoted price without justification and paid more than the contract price. These conditions occurred because the authority did not develop and implement adequate internal controls and procedures to ensure compliance with HUD requirements. As a result, it did not support the reasonableness of more than \$9.7 million in contracts, paid more than \$3.57 million for equipment that did not provide the intended benefits, and paid more than \$28,000 for excessive expenditures.

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We analyzed 14 contracts and 40 purchase orders awarded between May 1, 2008, and September 30, 2009, totaling more than \$84.5 million. There were procurement deficiencies in two contracts and three purchase orders reviewed.

#### **Improper Procedure and Cost Analysis Not Performed**

The authority awarded two contracts totaling more than \$20 million for the acquisition and installation of a surveillance system and multifunction printers for its public housing projects. It acquired the goods and services using contractors from the Commonwealth of Puerto Rico General Services Administration (PRGSA) schedule.

HUD Handbook 7460.8, REV-2, states that a housing agency may enter into intergovernmental or interagency purchasing agreements without competitive procurement only if the agreement provides for greater economy and efficiency and results in cost savings to the housing agency and the agreement is used for common supplies and services that are of a routine nature only.

Contrary to HUD Handbook 7460.8, REV 2, the authority used an improper procedure and failed to ensure that the procurement resulted in greater economy, efficiency, and cost savings. The procurements were not for common supplies and services, and the files did not contain documentation showing that proper cost analyses were performed to demonstrate that the PRGSA intergovernmental agreements resulted in cost savings to the authority. Therefore, HUD had no assurance of the reasonableness of the contracted amounts.

Further, the authority’s records showed that the surveillance system contract price was higher than the price of other vendors included in the PRGSA listing. For example, the contract prices of some of the surveillance system items were between \$810 and \$28,285 higher than the lowest price of other potential vendors.

Item	Lowest price	Contract price	Difference
Room preparation	\$1,715	\$30,000	\$28,285
Video encoder	\$1,300	\$9,116	\$7,816
Managed video services software	\$150	\$6,200	\$6,050
Server rack device	\$3,995	\$8,586	\$4,591
Labor & setup cost for fixed camera installation	\$25	\$2,600	\$2,575
Labor and setup cost for pan/tilt/zoom camera installation	\$143	\$2,600	\$2,457
Pan/tilt/zoom camera	\$1,650	\$4,059	\$2,409
Work station	\$4,860	\$7,067	\$2,207
Fixed camera	\$440	\$1,250	\$810

The authority did not provide support demonstrating that the services were obtained at the most advantageous terms or their reasonableness. This noncompliance occurred because the authority’s written procurement procedures did not contain guidelines concerning the purchase of goods and services through intergovernmental agreements. Therefore, disbursements totaling more than \$9.7 million for the surveillance system and printers are unsupported pending a HUD eligibility determination.

### Unused and Missing Equipment

The surveillance system contract provided for the installation of 710 cameras at 30 public housing projects. According to the authority’s records, only 195 cameras were installed. On December 22, 2009, the authority cancelled the contract because of the unsatisfactory performance of the system and problems with vandalism.<sup>1</sup> The surveillance system installation was completed at only 9 of the 30 proposed public housing projects. As a result, the contract did not generate the intended benefits to its public housing projects. An authority official informed us that a consultant was assessing the work performed under the surveillance system contract. Once the consultant submits the results of the assessment, the authority will decide what to do with the system.

<sup>1</sup> According to the authority’s records, 40 (20 percent) of the 195 cameras installed were damaged due to vandalism or technical problems.

On March 8, 2010, we visited the contractor's facilities and found a significant amount of unused surveillance equipment stored at its warehouse.



The unused surveillance equipment stored at the contractor's warehouse.

The authority disbursed more than \$3.5 million for unused equipment that was not installed at the public housing projects and stored at a warehouse for more than 12 months. Contrary to regulations at 2 CFR Part 225 (appendix C), the authority allowed the disbursement of funds for goods that did not provide the intended benefits for the administration of its public housing programs. Therefore, the more than \$3.5 million in disbursements was not an allocable expense.

The authority also disbursed \$63,708 for 24 cameras purchased for the Jardines de Selles public housing project, but it could not locate the equipment or show where it had been installed. Consequently, \$63,708 was an ineligible cost and must be reimbursed.

### Lowest Quote Not Selected

The authority awarded three purchase orders and paid \$46,608 for Internet services and kitchen appliances. Although an adequate number of price quotations were obtained, the authority did not procure goods and services at the lowest price. The files did not contain adequate support to justify the selection of



a higher priced purchase or its reasonableness. Therefore, the authority paid \$17,810 for excessive expenditures.

Purchase order	Purpose	Amount paid	Lowest quote	Excessive amount
09-108	Internet service	\$19,749	\$7,699	\$12,050
09-116	Internet service	10,749	7,699	3,050
09-086	Kitchen appliances	<u>16,110</u>	<u>13,400</u>	<u>2,710</u>
Total		<u>\$46,608</u>	<u>\$28,798</u>	<u>\$17,810</u>

**Excessive Expenditures**

The authority paid a higher price for electronic surveillance equipment than that established by the intergovernmental agreement. Records showed that the agreement established a price of \$8,167 for each server rack device. However, a review of invoices disclosed that the authority paid \$8,586—\$419 more than the established price. The authority purchased 26 racks and paid \$10,894 in excessive expenditures. The files did not contain support explaining the increase or its reasonableness. Therefore, the \$10,894 was an excessive expenditure. The authority’s internal auditor identified the same deficiency in June 1, 2009; however, no efforts were made to recover the excessive expenditures.

**Conclusion**

Generally, the authority complied with HUD procurement requirements when it awarded contracts and purchase orders. However, there were procurement deficiencies in two contracts and three purchase orders reviewed. The authority could improve its procurement process by using the correct procurement procedure, consistently performing required cost analyses, ensuring that goods and services acquired generate the intended benefits, and avoiding excessive expenditures.

**Recommendations**

We recommend that the Director of the San Juan Office of Public and Indian Housing



- 1A. Require the authority to provide support showing the eligibility and reasonableness of \$9,784,157<sup>2</sup> disbursed for the surveillance system and multifunction printers or reimburse this amount to its operational fund account or HUD, as appropriate, from non-Federal funds.
- 1B. Require the authority to reimburse its operational fund account or HUD, as appropriate, from non-Federal funds \$3,576,521 paid for equipment that did not provide the intended benefits and/or was unaccounted for.
- 1C. Require the authority to reimburse its operational fund account or HUD, as appropriate, from non-Federal funds \$28,704 paid for the excessive expenditures.
- 1D. Require the authority to develop and implement procurement policies and procedures to comply with HUD's intergovernmental purchasing agreement requirements, to ensure that goods and services are obtained at the most advantageous terms, and to ensure that it consistently complies with procurement requirements.
- 1E. Evaluate the surveillance system installed throughout the authority's public housing projects and determine whether it was implemented in an effective and efficient manner.

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<sup>2</sup> Total disbursements of \$13,371,572 were adjusted to consider \$3,576,521 questioned in recommendation 1B and \$10,894 questioned in recommendation 1C.

## SCOPE AND METHODOLOGY

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To accomplish our audit objectives, we

- Reviewed applicable laws, regulations, and other HUD program requirements.
- Reviewed procurement policies and procedures to determine whether they were in compliance with HUD requirements.
- Obtained an understanding of the authority's management controls and procedures as they related to our objectives.
- Analyzed the authority's disbursement records.
- Interviewed HUD staff and the authority's management and staff.
- Performed a site inspection of the surveillance system project contractor facilities.
- Reviewed the authority's records, including contract register, purchase order register, procurement records, and purchase orders.
- Reviewed monitoring reports and the authority's latest independent public accountant report.

According to its records the authority awarded 111 contracts totaling more than \$266 million between July 1, 2008, and September 30, 2009. We reviewed a sample of 11 contracts totaling more than \$81.5 million, based on the amount of the contracts, and reviewed three additional contracts totaling more than \$1.4 million, based on the type of procurement the authority used.<sup>3</sup> We selected contracts related to the Capital Fund Program for \$41.3 million, to the Public Housing Operational Fund Program for \$25 million, and to the Public Housing Capital Fund Stimulus [Formula] Recovery Act for \$16.5 million. We selected this approach since testing 100 percent of the population was not feasible. Therefore, the sampling results apply only to the items tested and cannot be projected to the universe or population.

The authority issued 803 purchase orders totaling more than \$4 million between July 1, 2008, and September 30, 2009. We reviewed 40 purchase orders totaling more than \$1.6 million. We selected 22 purchase orders with amounts that were greater than \$30,000. We selected eight additional purchase orders, dated between May and August 2008, based on the vendor name or type of goods and services acquired. In addition, we selected 10 purchase orders lower than \$30,000 to replace purchase orders paid out of the authority's central office service fees. We selected this approach as it allowed us to review purchase orders with higher inherent risk and

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<sup>3</sup> Contracts related to management agents and the Drug Elimination Grant program were excluded from the review. Additionally, the audit did not cover procurements made by management agents, or procurements funded with fees paid to the authority for central office services.

materiality. The results apply only to the items tested and cannot be projected to the universe or population.

To achieve our audit objectives, we relied in part on computer-processed data contained in the authority's database. In addition, we relied on an inventory taken by the authority of its unused surveillance equipment. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing, including testing the integrity of the data using Audit Command Language software, and found the data to be adequate for our purposes.

We conducted our fieldwork from November 2009 through April 2010 at the authority's offices in San Juan, PR. Our audit generally covered the period of July 1, 2008, through September 30, 2009, and we expanded our audit period as needed to accomplish our objectives.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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Internal control is a process adopted by those charged with governance and management designed to provide reasonable assurance about the achievement of the organization's mission, goals and objectives with regard to:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Effectiveness and efficiency of operations- Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The authority did not develop and implement controls and procedures to ensure that all procurement actions were conducted in accordance with HUD requirements (see finding 1).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Unreasonable or unnecessary 3/</u>
1A		\$9,784,157	
1B	\$3,576,521		
1C			\$28,704
Total	<u>\$3,576,521</u>	<u>\$9,784,157</u>	<u>\$28,704</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 those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a 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.
- 3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

# Appendix B


## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

### Comment 1

  
HOUSING DEPARTMENT  
**VIVIENDA**  
COMMONWEALTH OF PUERTO RICO

PUBLIC HOUSING ADMINISTRATION

June 23, 2010

**Via Electronic Mail and U.S. Mail**

Mr. James D. McKay  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General, Region 4  
75 Spring Street, SW , Room 330  
Atlanta, Georgia 30303-3388


Re: Preliminary Response to Draft Audit Report for the Puerto Rico Public Housing Administration dated June 2, 2010

Dear Mr. McKay

Attached please find our preliminary response to the proposed findings contained in the draft Audit Report dated June 2, 2010. We appreciate the opportunity granted to our agency to review the proposed findings and be able to provide additional information that we expect should put the OIG in a position to remove the proposed findings.

Should you have any questions or need any further information, please do not hesitate to contact us at your convenience.

Sincerely,

  
Rafael H. Vázquez Muñiz  
Deputy Administrator

606 Barbosa Avenue, Juan C. Cordero Building, Río Piedras, PO Box 363188 San Juan, Puerto Rico 00936-3188  
Phone: (787) 759-9407



**PUERTO RICO PUBLIC HOUSING AUTHORITY'S RESPONSE  
TO JUNE 2, 2010, DRAFT AUDIT REPORT**

The Puerto Rico Public Housing Administration ("PRPHA"), the nation's second largest public housing authority, has been actively engaged in the rehabilitation and modernization of projects to bring thousands of housing units up to 21<sup>st</sup> century standards. One of the biggest challenges the housing agencies are facing is criminal activity and vandalism.

In order to improve the quality of life of the public housing residents and assist local and federal agencies with their fight against crime, the PRPHA decided back in 2007, to acquire and install a surveillance system on several public housing projects, being said acquisition and installation divided in two (2) phases.

For the reasons discussed below, PRPHA strongly disagrees with the findings in the HUD Office of Inspector General ("OIG") Draft Audit dated June 2, 2010 ("Draft Audit"), which questions whether these acquisitions met applicable requirements for the use of public housing monies, or did not result in the intended benefit for the projects. The PRPHA understands that the Draft Audit's findings are inaccurate, unsupported, and inconsistent with the OIG's own auditing standards. The OIG's conclusions are based on a fundamental misunderstanding of the (i) characteristics of the projects wherein the camera systems were installed, (ii) special circumstances surrounding the acquisition and installation of the surveillance system; and (iii) applicable rules and regulations.

The acquisition and installation of the surveillance system would help the PRPHA and the law enforcement agencies in their fight against crime and to prevent or reduce future crimes.

In many places, the Draft Audit does not cite any legal requirements or misapplies existing standards to support its conclusions. In other areas, the PRPHA has not received sufficient information from the OIG to determine how they drew their conclusions, thus, this response identifies only some of the critical areas discussed by the OIG in the Draft Audit.

As such, PRPHA requests that the OIG meet with PRPHA and its team to obtain the necessary explanations and clarifications regarding the above-mentioned transaction and review the same in detail, as well as the legal support for the use of public housing funds, redraft the report to ensure it is complete and accurate, then provide PRPHA with an opportunity to comment on a new, redrafted version. PRPHA further requests that PRPHA modify the Draft Audit to ensure that its findings are both supported and accurate, prior to requiring PRPHA to provide a final written response for publication.

In the meantime, PRPHA provides the following responses to the OIG's findings, to the extent PRPHA understands how they were derived.

606 Barbosa Avenue, Juan C. Cordero Building, Rio Piedras, PO Box 363188 San Juan, Puerto Rico 00936-3188

Phone: (787) 759-9407

**Comment 2**

**Comment 3  
Comment 4**

**Comment 4**

**RESPONSE TO SPECIFIC FINDINGS**

**Finding: Improper Procedure and Cost Analysis Not Performed; Unused and Missing Equipment; Excessive Expenditures.**

**PRPHA's Position: The OIG's Findings are inaccurate, since the PRPHA acted in compliance with the applicable rules and regulations.**

(a) **OIG Finding:** The OIG alleges that PRPHA used more than \$20 million for the acquisition and installation of a surveillance system and multifunction printers for its public housing projects, and that such acquisition was made using contractors from the Commonwealth of Puerto Rico General Services Administration ("PRGSA") schedule in violation of federal procurement requirements.

The OIG cites HUD Handbook 7460.8, REV-2 in support of its finding and states that "a housing agency may enter into intergovernmental or interagency purchasing agreements without competitive procurement only if the agreement provides for greater economy and efficiency and results in cost savings to the housing agency and the agreement is used for common supplies and services that are of a routine nature only". The OIG further establishes that "contrary to HUD Handbook 7460.8, REV-2, the Authority used an improper procedure and failed to ensure that the procurement resulted in greater economy, efficiency, and cost savings. The procurements were not for common supplies and services, and the files did not contain documentation showing that proper cost analyses were performed to demonstrate that the PRGSA intergovernmental agreements resulted in cost savings to the Authority. Therefore, HUD had no assurance of the reasonableness of the contracted amounts. Further, the Authority's records showed that the surveillance system contract price was higher than the price of other vendors included in the PRGSA listing".

The OIG further states that the "authority did not provide support demonstrating that the services were obtained at the most advantageous terms or their reasonableness. Therefore, disbursements totaling more than \$9.7 million for the surveillance system and printers are unsupported, pending a HUD eligibility determination. The authority paid a higher price for electronic surveillance equipment than that established by the intergovernmental agreement. Records showed that the agreement established a price of \$8,167 for each server rack device. However, a review of invoices disclosed that the authority paid \$8,586 -- \$410 more than the established price. The authority purchased 26 racks and paid \$10,894 in excessive expenditures. The files did not contain support explaining the increase or its reasonableness. Therefore, the \$10,894 was an excessive expenditure. The authority's internal auditor identified the same deficiency in June 1, 2009; however, no efforts were made to recover the excessive expenditures."

(b) Correct Legal Standard: HUD Handbook 7460.8, REV-2 (Chapter 8. Noncompetitive Proposals); and 24 CFR 85.36(d)(4), both of which authorize PRPHA's actions.

(c) PRPHA Response

**The OIG incorrectly applied both the facts and the law in this case, thus there is no justification for findings made by the OIG. The Draft Audit ignores relevant legal requirements and misapplies those requirements that are cited to the set of facts surrounding the acquisition process.**

As mentioned before, to improve the quality of life of the public housing residents and assist local and federal agencies with their fight against crime for the benefit of the public housing projects, the PRPHA decided to acquire and install a surveillance system on several public housing projects, being said acquisition and installation divided in two (2) phases. Phase I was effectuated during year 2007, and the acquisition and installation was made pursuant to a bid process resulting in the execution of Contract Number 2007-000392S, awarded in favor Avant Technologies of Puerto Rico ("Avant"). Phase II was set to follow the same bid procedures, and accordingly, PRPHA issued a Request for Proposal under Number "AVP-RFP-07-08-01", advertising the same on "El Nuevo Día", a Puerto Rico newspaper of general circulation.

Comment 5

However, by that time the PRPHA (i) was facing a high rate of crimes in several public housing projects, (ii) confirmed this situation with the statistics maintained with the Police Department and the Department of Justice, (iii) received letters from the Federal Bureau of Investigations (FBI), endorsing the steps taken by the PRPHA regarding the installation of surveillance systems on the public housing projects; (iv) received letters from the U.S. Department of Justice, endorsing and requesting the installation of the surveillance system on the public housing projects "as soon as possible"; and (v) received calls from several municipalities making clear the urgency of the system installation. For your convenience, enclosed please find copy of the letters sent by the FBI and the Justice Department.

Comment 5

As a result of the above and based on the exemption provided by 24 CFR 85.36(d)(4), the PRPHA opted to cancel the request for proposal previously issued and use the alternative competitive procedure completed by the PRGSA.

After reviewing the list provided by the PRGSA, the PRPHA requested a proposal from Avant, which already had the experience and equipment needed by the PRPHA since such entity installed the surveillance systems of Phase I. Thereafter, the PRPHA carefully revised such proposal and started to negotiate the terms and conditions of the acquisition and installation of the surveillance system. During the whole negotiation process, the PRPHA made it clear to Avant that for the Phase II, the PRPHA will require identical terms to those agreed upon under the Phase I, including but not limited to, a strict cost assessment, which the PRPHA is available to discuss in detail with the OIG.

**Comment 6**

For instance, PRPHA completed a regular cost analysis in compliance with all applicable regulations. Specifically, the PRPHA considered Avant's Phase II proposal and compared it with the proposals submitted by Avant and the other bidders for Phase I. Back then, Avant had been selected as the best bidder, given that its proposal was far more cost effective and economic than the other bidders. Avant's Phase II proposal only incremented costs in 4% than its proposal for Phase I. As part of the negotiation for Phase II, the PRPHA required a three (3) years warranty in its security cameras. PRPHA's cost analysis not only considered that the proposal presented a good and reasonable price, including a three (3) years warranty, but also considered that these systems were already known by the PRPHA personnel, its software was already handled and new programming or installment logistics would not have to be implemented, resulting in additional savings to the PRPHA.

**Comment 6**

All these considerations were part of the cost analysis process handled by PRPHA during 2008, and the reason for which using the PRGSA contracts was permissible. In synthesis, the decision was based on efficiency, cost, security, economy, need (speed), and effectiveness. The decision benefited not only the PRPHA, but most importantly, it benefited the residents (providing security), facilitate the police department work (assistance in surveillance), and the government administration (decrease in criminal activities), in general.

By using the PRGSA contracts and installing the surveillance systems without unnecessary delays, the PRPHA proudly helped thousand of public housing residents and their families, providing them a higher quality of life.

**Comment 7**

Regarding the findings related to the Unused and Missing Equipment, the PRPHA sustains that a portion of the surveillance systems have been vandalized in several projects. Therefore, the PRPHA stopped the installation of such systems and stored the same until it determines new places to safely install the surveillance equipment. As stated hereinbelow, such stored equipment will be installed after a new RFP for a comprehensive security surveillance system has been conducted.

**Comment 8**

Regarding the findings related to the payment of \$410 in excess for the acquisition of certain server rack devices, the PRPHA hereby informs to the OIG that the additional amounts were due to the fact that the racks were modified to include additional components which were necessary to make the surveillance system more suitable to the intended use by the PRPHA.

(d) Prospective Cases. Although it is the PRPHA's position that the actions taken in connection with the installation of the surveillance system are in compliance with all local and federal rules and regulations, the PRPHA has decided to cancel Avant's contract for the Phase II and issue a new request for proposal for a more comprehensive system that will help the PRPHA to reduce the vandalism to the cameras and associated equipment. For your convenience, we

hereby enclose a draft of such new RFP. In addition, the PRPHA will continue using all the equipment previously acquired from Avant.

(e) Suggested Resolution: The finding should be removed as the transaction complied with the cited HUD and legal requirements.

Conclusion

The acquisition and installation of the surveillance system was made in accordance with the applicable rules and regulations. Such transaction is helping local and federal agencies to fight crime in general, including but not limited to drug dealings, robbery and murders, for the benefit of the Puerto Rico public housing residents. Therefore, such a transaction provides the public housing residents a higher quality of life.

As a result, the OIG's findings are without merit and should be removed. Given the serious misunderstandings and inaccuracies throughout the Draft Audit, PRPHA reiterates its request for the OIG to redraft this report before PRPHA is required to submit a final response to the audit. In anticipation of a redraft of the report, we would be happy to meet with the OIG to review in detail the internal considerations used to acquire and install the surveillance system and provide additional documentation to illustrate that all funds connected with said transaction were used to promote the quality of living of the public housing residents, and that such funds are monitored in accordance with applicable requirements.

**Finding**: Lowest Quote Not Selected (Internet Services and Kitchen Appliances).

**PRPHA's Position**: The OIG's Findings are Inaccurate since the PRPHA acted in Compliance with the Applicable Rules and Regulations.

(a) OIG Finding: The OIG alleges that PRPHA ordered and paid \$46,608 for Internet Services and Kitchen Appliances. Although an adequate number of price quotations were obtained, the PRPHA did not procure goods and services at the lowest price. The files did not contain adequate support to justify the selection of a higher priced purchase or its reasonableness. Therefore, the PRPHA paid \$17,810 for excessive expenditure.

(b) PRPHA Response

The OIG incorrectly applied both the facts and the law in this case, thus there is no justification for findings made by the OIG.

Comment 3

Comment 9

**Comment 10**

The PRPHA selected the best reasonable price for the acquisition of the goods and services required, since the other supposedly lower bids were not able to provide the necessary services and equipments.

## OIG Evaluation of Auditee Comments

**Comment 1** The authority stated that it provided additional information that should put OIG in a position to remove the proposed findings.

The additional information provides insight as to why management decided to acquire and install a surveillance system on several of its public housing projects. However, the authority failed to include documentation to demonstrate the reasonableness of the cost incurred in relation to the surveillance system and whether it was purchased at the most advantageous terms. In addition, the authority did not provide evidence that would justify not selecting the lowest vendors during the small purchase procurement actions in question. Finally, the authority did not provide evidence that over \$3 million spent in surveillance equipment that was warehoused and idled, provided the intended benefits to its public housing residents. Accordingly, we did not remove or modify the report findings, conclusions, and recommendations.

**Comment 2** The authority asserted that the findings were inaccurate, unsupported, and inconsistent with OIG's own auditing standards. It also stated that "the OIG's conclusions are based on a fundamental misunderstanding of the (i) characteristics of the projects wherein the camera systems were installed, (ii) special circumstances surrounding the acquisition and installation of the surveillance system; and (iii) applicable rules and regulations."

Our findings are supported by source documents provided by the authority during the review. The authority did not provide documentation showing that the findings were inaccurate, unsupported, and inconsistent with the OIG's audit standards. Circumstances surrounding the acquisition and installation of surveillance systems through several of its public housing projects were evaluated and discussed with authority officials during the audit. These circumstances did not justify the authority's failure in ensuring that all procurement actions were made in accordance to HUD regulations. Applicable rules and regulations were also carefully analyzed and properly applied.

**Comment 3** The authority stated that the report does not cite any legal requirements or misapplies existing standards to support its conclusions.

Our report cites applicable legal requirements that support the conclusions (see appendix C of the report).

**Comment 4** The authority alleged it did not receive sufficient information from the OIG to determine how we drew our conclusions. For this reason its response identifies only some of the critical areas discussed in the draft report. It also requested a meeting to obtain necessary explanations and clarifications in relation to our findings.



We discussed the findings with authority officials during the audit. On May 20, 2010, we met with authority officials to provide preliminary finding details. Furthermore, on June 18, 2010 we held an exit conference with authority officials in relation to the findings and recommendations included in the draft report. During the conference, we specifically asked for any concerns the authority officials may have in relation to our findings. Authority officials did not request any specific documentation or clarifications pertaining to the audit findings.

**Comment 5** The authority stated that it was facing a high rate of crime in several public housing projects and that several law enforcements agencies endorsed the steps taken by the authority regarding the installation of a surveillance system on the public housing projects. As a result, and based on the exemption provided by 24 CFR 85.36 (d) (4), the authority opted to cancel a request for proposal previously issued and used an alternate procedure completed by the PRGSA.

The report questions the reasonableness of the cost incurred in relation to the surveillance system and whether it was purchased at the most advantageous terms. The authority failed to perform a proper cost analysis in relation to the surveillance system which resulted in a higher priced contract without proper justification. As a result, the authority did not provide the required documentation to substantiate that they followed applicable procedures when entering into the agreement.

**Comment 6** The authority argued that it completed a regular cost analysis in compliance with all applicable regulations and that its decision for using the PRGSA contract was permissible. They also stated that the decision was based on efficiency, cost, security, economy, need, and effectiveness.

The authority did not provide documentation showing that a proper cost analysis was performed. Therefore we do not have any assurance that the procurement resulted in greater economy, efficiency, and cost savings. The intergovernmental agreement provided for the contracting of other suppliers that offered similar services more economically. The authority did not provide evidence to support that they properly evaluated the proposal from the contractor, nor that they properly evaluated the other available suppliers. Consequently, the authority could not demonstrate the reasonableness of the cost incurred in relation to the contract or show that they followed HUD's applicable policies and procedures when entering into such agreement.

**Comment 7** The authority stated that stored equipment will be installed after a new Request for Proposal (RFP) for a comprehensive security surveillance system is conducted.

The authority has not provided evidence that equipment missing or in storage is in operational condition or that it has provided the intended benefits for which it was acquired. Regulations at 2 CFR Part 225, Appendix A, Part C, Number 3, state that a cost is allocable when the goods or services received are assignable to a cost objective "in accordance with relative benefits received." Because such equipment

has not been used for its intended purpose, the relative benefit on such unused equipment was not received. We contend that the funds paid for the unused equipment is unallowable until the authority can demonstrate that the intended benefit for the purchase of the equipment has been obtained.

**Comment 8** The authority stated in relation to the excessive payments for server rack devices that the additional amounts were due to the fact that the racks were modified to include additional components which were necessary to make the surveillance system more suitable for its intended use.

The authority did not provide any evidence in support of the excessive payments.

**Comment 9** The authority asserts that OIG incorrectly applied both the facts and the law and that there is no justification for the finding.

While regulations at 24 CFR 85.36(b)(5) provide for the use of intergovernmental agreements for the purchase of common goods and services, HUD guidance in Handbook 7460 requires that goods and services must be of a routine nature only and that the agreement provides for economy and cost savings to the government. The authority has failed to provide any justification for changing the finding.

**Comment 10** The authority alleged that it did not select the lowest quotations for the acquisition of goods and services since lower bidders were not able to provide the necessary services and equipment.

The authority did not provide any evidence that the lower bidders were not able to provide the necessary services and equipment.

## Appendix C

### CRITERIA

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#### **24 CFR 85.36 (b) (5)**

To foster greater economy and efficiency, grantees and subgrantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services.

#### **HUD Handbook 7460.8, REV 2, Paragraph 14.2A**

Housing agencies may enter into intergovernmental or interagency purchasing agreements without competitive procurement provided, among other things, that the following conditions are met:

- The agreement provides for greater economy and efficiency and results in cost savings to the housing agency.
- The agreement is used for common supplies and services that are of a routine nature only.
- Housing authorities take steps to ensure that any supplies or services obtained using another agency's contract are purchased in compliance with 24 CFR 85.36.
- The procurement files contain documentation showing that cost and availability were evaluated before the agreement was executed.

#### **2 CFR Part 225 (Appendix A)**

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.