



**Puerto Rico Housing Finance Authority
San Juan, PR**

HOME Investment Partnerships Program



Issue Date: July 23, 2013

Audit Report Number: 2013-AT-1006

TO: María Ortíz, Director, Community Planning and Development, San Juan Field Office, 4ND

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Puerto Rico Housing Finance Authority Did Not Always Comply With HOME Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Puerto Rico Housing Finance Authority's HOME Investment Partnerships Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



July 23, 2013

The Puerto Rico Housing Finance Authority Did Not Always Comply With HOME Requirements

Highlights

Audit Report 2013-AT-1006

What We Audited and Why

We audited the Puerto Rico Housing Finance Authority's HOME Investment Partnerships Program as part of our strategic plan based on the large amount of HOME funds approved. The objectives of the audit were to determine whether the Authority reported accurate and supported information in the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System and disbursed HOME funds within HUD-established timeframes.

What We Recommend

We recommend that HUD require the Authority to (1) demonstrate that \$18.4 million in HOME commitments are properly supported or deobligate, reprogram, and put to better use the unexpended commitments with expired grant agreements; (2) put to better use \$153,377 in unexpended funds maintained in its local bank account; (3) remit to its treasury account \$130,915 in repayment funds; (4) support \$89,331 in unaccounted program income and recaptured funds; and (5) develop and implement an internal control plan to ensure that only supported and accurate information is reported to HUD.

What We Found

The Authority did not support \$18.4 million in HOME commitments with a valid grant agreement, did not disburse \$284,292 in HOME funds within HUD-established timeframes, and could not account for \$89,331 in program funds. In addition, it did not report to HUD program income and recaptured funds in a timely manner and reported other inaccurate information concerning HOME-funded activities. As a result of these deficiencies, HUD had no assurance that the Authority met HOME program commitment and disbursement requirements.

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BACKGROUND AND OBJECTIVES

The HOME Investment Partnerships Program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act as amended. The U.S. Department of Housing and Urban Development (HUD) allocates funds by formula to eligible State and local governments for the purpose of increasing the supply of decent, safe, sanitary, and affordable housing to low- and very low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, new housing construction, and tenant-based rental assistance.

Participating jurisdictions are required to commit HOME funds within 24 months and expend them within 5 years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement.¹ In addition to the HOME program's regulatory 5-year disbursement requirement, the National Defense Authorization Act of 1991 (Public Law 101-510, dated November 5, 1990) requires that on September 30 of the fifth year after the period of availability for obligation of a fixed-appropriation account ends, the account be canceled and thereafter not be available for obligation or expenditure for any purpose.² Participating jurisdictions are required to expend, for eligible costs, HOME funds drawn down from the treasury account within 15 days. Any unexpended drawdowns must be returned to the treasury account. HUD also requires that HOME funds in the participating jurisdiction's local bank account, including program income and recaptured funds,³ be disbursed before additional grant funds are requested.

Participating jurisdictions draw down HOME funds through HUD's Integrated Disbursement and Information System. HUD's information system is also used to monitor and track HOME commitments, program income, repayments, and recaptured funds, among other things. In addition, HUD uses the data that the participating jurisdiction provides in HUD's information system to report on the performance of the HOME program to Congress and other program stakeholders.

Effective July 1, 2010, HUD designated the Puerto Rico Housing Finance Authority, a subsidiary of the Government Development Bank for Puerto Rico, as a participating jurisdiction to manage the State HOME program. The Authority replaced the Puerto Rico Department of Housing in this function.

The Authority is the largest participating jurisdiction in Puerto Rico, for which HUD has approved more than \$43 million in HOME funds during the last 3 fiscal years. HUD's information system reflected expenditures exceeding \$29 million during the 18-month period

¹ For purposes of determining compliance with commitment and disbursement requirements, HUD will consider the sum of commitments and expenditures from the fiscal year allocation being examined and later allocations.

² Fiscal year 2005 HOME funds that were not spent by September 30, 2012, would be subject to recapture by the United States Treasury.

³ Program income and recaptured funds may result from the resale and recapture requirements imposed by HUD and the participating jurisdiction on the participants to ensure affordability during predetermined periods, depending on the assistance amount provided.

ending December 31, 2012. The Authority's HOME program office is responsible for administering HOME funds. Its books and records are maintained in the offices located at 606 Barbosa Avenue, San Juan, PR. We audited the Authority's HOME program as part of the HUD Office of Inspector General's (OIG) strategic plan. The Authority was selected for review based on the amount of HUD funding provided.

In November 2012, HUD restricted the Authority's ability to setup new activities and commit additional funds in HUD's information system until activities that have been in final draw for more than 120 days are completed, cancelled, or otherwise taken out of final draw status. These restrictions to HUD's information system were still in effect as of June 25, 2013.

The objectives of the audit were to determine whether the Authority reported accurate and supported information in HUD's information system and disbursed HOME funds within HUD-established timeframes.

RESULTS OF AUDIT

Finding: The Authority Did Not Always Comply With HOME Requirements

The Authority did not support \$18.4 million in HOME commitments with a valid grant agreement, did not disburse \$284,292 in HOME funds within HUD-established timeframes, and could not account for \$89,331 in program funds. In addition, it did not report to HUD program income and recaptured funds in a timely manner and reported other inaccurate information concerning HOME-funded activities. These deficiencies occurred because the Authority believed that the grant agreements were still valid, did not receive all of the financial data when the administration of the HOME program was transferred to the Authority, disregarded HUD's requirements, and was not fully familiar with HOME requirements. As a result of the deficiencies, HUD had no assurance that the Authority met HOME program commitment and disbursement requirements.

Unsupported Commitments

HUD's information system reflected that the Authority committed more than \$54.7 million in HOME funds (119 activities) between July 1, 2011, and December 31, 2012. We examined seven commitments totaling more than \$49.9 million (91 percent) that the Authority entered into HUD's information system.

The Authority reported in HUD's information system that it had committed \$18.4 million in HOME funds associated with two activities, but the grant agreements expired on January 10, 2013.

Activity number	Reported commitment amount in HUD's information system	Agreement date	Expired grant agreement date	Days elapsed since expired dates as of April 30, 2013
14751	\$9,875,000	July 11, 2012	January 10, 2013	110 days
14739	\$8,525,000	July 11, 2012	January 10, 2013	110 days

The grant agreements were in effect for 6 months subject to, among other things, the satisfactory approval of the environmental review and HUD's release of HOME funds. However, the environmental review was not completed before the grant agreement expired.

At the conclusion of our fieldwork on April 30, 2013, the Authority had not renewed or executed a new grant agreement. Therefore, HUD's information system showed \$18.4 million in commitments that was not supported with valid agreements contrary to 24 CFR (Code of Federal Regulations) 92.2 and 92.504,

which define commitment and participating jurisdiction responsibilities. The Authority believed that the grant agreements had not expired and were still valid.

HOME Funds Not Disbursed in a Timely Manner

The Authority withdrew from its treasury account more than \$28 million in HOME funds between July 1, 2011, and December 31, 2012. We reviewed 10 withdrawals totaling more than \$5 million. Our review disclosed that the Authority had expended funds within the HUD-required 15 days and for the requested activities and amounts. However, the Authority failed to disburse \$284,292 in HOME funds before additional grant funds were requested from HUD as required by 24 CFR 92.502(c)(3).

Contrary to HUD requirements, the Authority did not disburse \$140,747 in HOME funds transferred in 2010 from the former State participating jurisdiction and \$12,630 associated with program income and recaptured funds received on January 23, 2013. In addition, it did not return to the treasury \$130,915 in repayments associated with two terminated activities (numbers 7908 and 13110) despite HUD's instructions in February 2011.⁴

The Authority informed us that the transferred HOME funds remained in the local bank account because it had not received the appropriate financial information necessary to determine the source of the funds. In addition, it explained that HUD's information system had blocked the Authority from committing new HOME funds. Authority officials also acknowledged that they were aware that funds maintained in the local account must be expended before additional drawdowns are made from HUD. Therefore, the Authority disregarded HOME requirements.

Unaccounted Program Income and Recaptured Funds

HUD's information system showed that the Authority had unused program income and recaptured funds totaling \$96,422;⁵ however, the Authority's records reflected \$7,091. Therefore, \$89,331 in program income and recaptured funds was unaccounted for and unsupported. Authority officials could not explain the final disposition of the unaccounted for funds and informed us that HUD's information system reflected the balances when the State HOME program was

⁴ Terminated activities are defined by 24 CFR 92.205(e) as HOME-assisted projects that are terminated before completion, either voluntarily or otherwise, and constitute ineligible activities. Any HOME funds invested in the projects must be repaid to the participating jurisdiction's HOME investment trust fund in accordance with 24 CFR 92.503(b). HOME regulations at 24 CFR 92.503(b) provide that, for terminated activities, funds must be repaid to the account from which funds were originally disbursed, the participating jurisdiction's treasury account or its local account, as applicable.

⁵ Balance amount as of March 20, 2013.

transferred to them from the former participating jurisdiction. As a result, HUD had no assurance that HOME funds were used in accordance with program requirements.

Program Income and Recaptured Funds Not Reported in a Timely Manner

Authority records showed that program income and recaptured funds totaling \$290,887 were not reported in a timely manner in HUD's information system. These HOME proceeds were reported to HUD between 44 and 231 days after they were received. An official informed us that the Authority's accounting and finance department did not inform the HOME program office in a timely manner of the receipt of such funds. The lack of written procedures also contributed to this deficiency. An Authority official explained that new program procedures had been developed to correct the situation.⁶ As a result of the deficiency, HUD had no assurance of the accuracy of the amount of program income and recaptured funds that the Authority received and whether the Authority disbursed these funds before additional withdrawals were made in compliance with 24 CFR 92.502(c)(3). Appendix C contains a list of the program income and recaptured funds reviewed.

Repayments Incorrectly Reported

The Authority did not properly report in HUD's information system \$136,454 in repayment proceeds received in December 2010 and May 2012 associated with terminated activities (numbers 7908 and 13110). It incorrectly reported to HUD that the proceeds were related to program income and recaptured funds. The incorrect classification resulted in an overstatement of the activities' expenditures in HUD's information system. Authority officials agreed that the proceeds were repayments but could not explain why these funds were improperly reported as program income and recaptured funds.

Other Inaccurate Reporting

HUD's information system contained additional inaccurate information concerning the Authority's HOME-funded activities. Of the seven activities reviewed, we found inaccurate information in four activities, including (1) incorrect activity address or description, (2) understated commitment amount, (3) inaccurate initial funding date, and (4) that the environmental review had been completed when it had not. Appendix D contains a list of the activities with inaccurate information reported in HUD's information system.

⁶ The Authority's executive director approved the new procedures on February 11, 2013.

Other Deficiencies

The Authority did not comply with additional HUD requirements when committing HOME funds.

Undated signatures and agreement - The Authority did not implement adequate controls by not requiring that the signatures of all parties be dated in the seven written agreements reviewed to show the execution date, as required by HUD at section VII of HOME Notice 07-06. An Authority official indicated that he was not familiar with the HUD requirement that parties date their signatures. Further, the Authority allowed a reservation of funds agreement in the amount of \$5.8 million to be signed without being dated. The Authority could not explain why the written agreement was not dated.

Missing agreement provisions - The Authority did not ensure that the seven grant agreements reviewed included the following provisions required by HUD at 24 CFR 92.504(c)(3) for rental projects:

- Describing in sufficient detail a schedule for completing the tasks to be performed by the developer to provide a sound basis for the participating jurisdiction to effectively monitor performance under the agreement,
- Establishing procedures for rent increases, and
- Specifying that the developer may not request disbursement of funds under the agreement until the funds are needed for payment of eligible costs and that the amount of each request must be limited to the amount needed.

Inaccurate agreement term - The Authority also did not always establish the duration of the grant agreements for rental activities in accordance with HOME requirements at 24 CFR 92.504(c)(3)(ix). In five agreements with HOME commitments totaling more than \$41 million, the duration of the grant agreement was for a period that ranged between 16 and 30 months instead of being based on the affordability period of 20 years.

Activity number	Amount	Agreement term	Affordability period
14065	\$12,127,741	30 months	20 years
14066	5,569,270	30 months	20 years
14751	9,875,000	18 months	20 years
14739	8,525,000	18 months	20 years
14750	<u>5,800,000</u>	16 months	20 years
Total	<u>\$41,897,011</u>		

Conclusion

The Authority did not always comply with HOME requirements. Reporting inaccurate data and not disbursing HOME funds within HUD-established timeframes undermined the integrity of HUD's information system and HUD's efforts to monitor the Authority's compliance with program requirements. The Authority must take prompt corrective actions to ensure the accuracy of data entered into HUD's information system, that HOME commitments are properly supported, and that all program funds are disbursed in accordance with HUD requirements.

Recommendations

We recommend that the Director of the San Juan Office of Community Planning and Development require the Authority to

- 1A. Demonstrate that \$18,400,000 in HOME commitments is supported with complete and valid grant agreements or deobligate, reprogram, and put to better use the unexpended commitments with expired grant agreements.
- 1B. Put to better use \$153,377 associated with unexpended funds maintained in its local account.
- 1C. Remit to its treasury account and put to better use repayment funds totaling \$130,915 in accordance with HUD requirements.
- 1D. Submit all supporting documentation showing the eligibility and propriety of \$89,331 in unaccounted for program income and recaptured funds or reimburse the HOME program from non-Federal funds.
- 1E. Correct any inaccurate information in HUD's information system, including the repayments improperly reported as program income and recaptured funds and other inaccurate reporting.
- 1F. Develop and implement controls and procedures to ensure that (1) only commitments with valid agreements are reported to HUD; (2) HOME funds are disbursed within HUD-required timeframes; (3) program income, repayments, and recaptured funds are properly reported; (4) accurate information on HOME-funded activities is reported in HUD's information system, and (5) grant agreements are properly signed and dated and contain the HUD-required provisions and term.

SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether the Authority reported accurate and supported information in HUD's information system and disbursed HOME funds within HUD-established timeframes.

To accomplish our objectives, we

- Reviewed applicable HUD laws, regulations, and other HUD program requirements;
- Interviewed HUD and Authority officials;
- Obtained an understanding of and reviewed the Authority's controls and procedures⁷ as they related to our objectives;
- Reviewed monitoring, independent public accountant, and HUD's information system reports;
- Reviewed the Authority's files and records, including grant agreements and bank statements; and
- Traced information reported in HUD's information system to the Authority's records, including grant agreements, program income and recaptured funds receipts, and disbursements records.

HUD's information system reflected that the Authority committed more than \$54.7 million in HOME funds between July 1, 2011, and December 31, 2012, associated with 119 activities. We selected for review activities with a commitment amount greater than \$1 million. The sample resulted in seven activities with commitments totaling more than \$49.9 million (91 percent). We reviewed these activities to determine whether the information that the Authority reported to HUD, including commitments, was accurate and supported.

The Authority's records showed that between July 1, 2011, and February 28, 2013, it received program income, repayments, and recaptured funds in the amount of \$377,341 (12 receipts). We reviewed all of the receipts to determine whether funds were properly reported in HUD's information system. An additional repayment totaling \$50,000, received by the Authority on December 14, 2010, was reviewed based on the nature of the transaction.⁸

⁷ Our review of the Authority's controls and procedures was limited to information obtained by Authority personnel through interviews conducted. At the conclusion of our fieldwork on April 30, 2013, the Authority had not provided us with written procedures for the administration of its HOME program.

⁸ This was recorded as an account payable to HUD in the Authority's accounting records.

HUD's information system reflected that the Authority drew down from its treasury account more than \$28.5 million (594 withdrawals) in HOME funds between July 1, 2011, and December 31, 2012. We selected for review three withdrawals greater than \$1 million, totaling more than \$3.58 million. We also selected four withdrawals of 2005 HOME funds totaling \$328,170 made in September 2012 and greater than \$50,000. We selected for review withdrawals greater than \$350,000 made in July 2012, which resulted in three additional disbursements totaling more than \$1.75 million. A total of 10 withdrawals totaling more than \$5.6 million (nearly 20 percent) were reviewed to determine whether the Authority expended HOME funds within HUD-established timeframes. We also reviewed unused HOME funds maintained in the Authority's local account to determine whether the Authority expended funds before additional grant funds were requested.

To achieve our audit objectives, we relied in part on computer-processed data contained in the Authority's database and HUD's information system. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data adequate for our purposes. The results of the audit apply only to the items selected and cannot be projected to the universe or population.

The audit generally covered the period July 1, 2011, through December 31, 2012, and we extended the period as needed to accomplish our objectives.

We conducted our fieldwork from February through April 2013 at the Authority's offices in San Juan, PR.

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

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.

Relevant Internal Controls

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

- Relevance and reliability of information - Policies and procedures that officials of the audited entity have implemented to provide themselves with reasonable assurance that operational and financial information that they use for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with applicable laws, regulations, contracts, and grant agreements - Policies and procedures that the audited entity has implemented to provide reasonable assurance that program implementation complies with provisions of laws, regulations, contracts, and grant agreements.
- Safeguarding of assets and resources - Policies and procedures that the audited entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

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 (1) only commitments with valid agreements were reported to HUD; (2) HOME funds were disbursed within HUD-required timeframes; (3) program income, repayments, and recaptured funds were properly reported to HUD; (4) accurate information of HOME-funded activities was reported in HUD's information system; and (5) grant agreements were properly signed and dated and contained the HUD-required provisions and term (see finding).

FOLLOW-UP ON PRIOR AUDITS

**Puerto Rico Department of
Housing State HOME
Investment Partnerships
Program - Audit Report
2010-AT-1006**

HUD OIG issued an audit report on June 11, 2010, on the Puerto Rico Department of Housing's administration of the State HOME program. The objectives included determining whether the Department (1) reimbursed HOME funds on terminated activities; (2) expended HOME funds within HUD-established timeframes; (3) administered program income, repayments, and recaptured funds in accordance with HOME requirements; and (4) reported accurate and supported HOME commitments in HUD's information system.

Among the deficiencies found, the Department did not (1) reimburse the HOME program more than \$2 million for three activities that were terminated, (2) reprogram and put to better use more than \$1.84 million in unexpended HOME funds assigned to one of the terminated activities, (3) disburse more than \$1.43 million in 2002 HOME funds within HUD-required deadlines, (4) return to HUD more than \$275,000 in repayments, (5) monitor the accuracy of commitments and other information entered into HUD's information system by reporting to HUD more than \$6.4 million in HOME commitments without executing written agreements, and (6) deposit into its bank account more than \$137,000 in HOME receipts.

OIG recommended, among other things, that HUD

- Require the Department to reimburse its HOME treasury account from non-Federal funds \$3,435,679 for disbursements associated with terminated activities that did not meet HOME objectives (\$2,003,356) and unexpended 2002 HOME funds (\$1,432,323).
- Require the Department to put to better use \$2,356,095 associated with (1) unexpended funds for a terminated activity (\$1,843,682), (2) an activity reported as committed but for which no agreement was executed (\$292,434), (3) receipts collected but not deposited into its local account (\$137,684), and (4) repayment funds not remitted to HUD (\$82,295).
- Require the Department to correct in HUD's information system any inaccurate information, including funding amount, activity status, and fund type classification.
- Require the Department to establish and implement adequate controls and procedures for its HOME program to ensure that (1) accurate commitment and activity information is reported in HUD's information system; (2) ineligible funds

are reimbursed to the HOME program in a timely manner; (3) terminated activities are canceled in HUD's information system in a timely manner, including the timely deobligation of funds; (4) HOME funds are disbursed for eligible activities within HUD's established timeframes; (5) program income and repayments are properly tracked and administered to a level that ensures compliance with HUD regulations; and (6) funds in the local account are used before additional grant funds are requested.

Twenty of the twenty-one recommendations included in the report were open as of May 31, 2013. The final action date of each recommendation was overdue by more than 580 days. Effective July 1, 2010, HUD designated the Authority as a participating jurisdiction to manage the State HOME program. The Authority replaced the Puerto Rico Department of Housing in this function and is working with HUD on the resolution of the outstanding recommendations.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation number</u>	<u>Unsupported 1/</u>	<u>Funds to be put to better use 2/</u>
1A		\$18,400,000
1B		153,377
1C		130,915
1D	<u>\$89,331</u>	
Total	<u>\$89,331</u>	<u>\$18,684,292</u>

- 1/ 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.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements recommendations 1A, 1B, and 1C, funds will be available for eligible activities consistent with HOME requirements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



COMMONWEALTH OF
PUERTO RICO
Puerto Rico Housing Finance
Authority
SUBSIDIARY OF THE GOVERNMENT DEVELOPMENT BANK
FOR PUERTO RICO

Jose A. Sierra Morales
Executive Director

June 24, 2013

Ms. Nikita N. Irons
Regional Inspector General for Audits
U.S. Department of Housing and Urban Development
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Ms. Irons:

In response to your office's draft audit report provided to this agency on June 10, 2013, the Puerto Rico Housing Finance Authority (PRHFA) offers the following comments:

Finding 1: The PRHFA did not always comply with HOME requirements

A. Unsupported Commitments

Activity number	Reported commitment amount in HUD's information system	Agreement date	Expired grant agreement date	Days elapsed since expired dated as of April 30, 2013
14751	\$9,875,000	July 11, 2012	January 10, 2013	110 days
14739	\$8,525,000	July 11, 2012	January 10, 2013	110 days

The commitments reported in HUD's information system were initially supported by two agreements dated July 11, 2012. At the time of the OIG review the PRHFA was in the process of obtaining the Release of the Authority to Use Grant Funds (HUD Form 7015.16) for these projects.

At which time the PRHFA gets back the ability to commit these funds in the IDIS system, the PRHFA will follow OIG recommendations and will disoblige, reprogram, and put to better use the unexpended commitments of \$18.4 million. HOME funds will be properly reprogrammed between the selected 2012 cycle participants in compliance with the HOME program guidelines.

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PUERTO RICO HOUSING FINANCE
AUTHORITY
SUBSIDIARY OF THE
GOVERNMENT DEVELOPMENT BANK
FOR PUERTO RICO

Comment 1

B. Home Funds not disbursed in a timely manner

The PRHFA will put to better use \$153,377 associated with unexpended funds maintained in its local account as soon as we regain access (currently locked) to IDIS System. The PRHFA also will remit to HUD's treasury account the amount of \$130,915 once HUD's Local Office provides us with the specific instructions.

Comment 2

C. Unaccounted Program Income and Recaptured Funds

The OIG Draft Report does not indicate the date in which the balance of \$ 96,422.00 was reported. However, the un-reconciled balance of \$ 89,331.00 is carried over from the time of transfer to the PRHFA Program. The PRHFA has made arrangements with the Department of Housing (DV) to provide us the evidence of this amount. At present management has continued to pursue DV for the supporting documentation.

Comment 3

D. Program Income and Recaptured Funds Not Reported in a Timely Manner

The PRHFA has been working to establish internal controls & procedures to record in a timely manner recaptured funds. PRHFA has considered every steps in the process of the recapture of funds (and/or any other transactions that require recapture of HOME funds) starting from the participant's notification to the HOME program of his intention to sell/refinance the property throughout the moment in which PRHFA and the HOME Program recaptured the funds and deposited these monies in the Program Income's bank account. In that moment, HOME program will register program income in the IDIS system in order to comply with the requirements by HUD.

Comment 3

E. Repayments Incorrectly Reported

Once the IDIS system is unlocked, the PRHFA will make the appropriate corrections in HUD's Information & Disbursement Integrated System (IDIS), including repayments proceeds incorrectly classified as program income. PRHFA will correct those items in IDIS to reflect the correct balance of Program Income account. PRHFA will also develop and implement controls to ensure that future receipts of funds related to program income (recaptures and repayments) will be properly and correctly reported in the IDIS system.

F. Other Inaccurate Reporting

The PRHFA will correct any inaccurate information entered in HUD's Information System once the IDIS System is unlocked and allows it.

G. Other Deficiencies

The PRHFA will pursue the development and implementation of control and procedures to ensure that;

Comment 3

1. Only commitments with valid agreements are reported to HUD; (2) HOME funds are disbursed within HUD-required timeframes; (3) program income, repayments, and recaptured funds are properly reported; (4) accurate information on HOME-funded activities is reported in HUD's information system, and (5) grant agreements are properly signed and dated and contain the HUD-required provisions and term.

The PRHFA will amend these agreements in order to include both ranges of signature and date. The date will be required next to the signature line in compliance with HOME Notice 07-06.

2. a. An attachment schedule named "Project Schedule" shall be added to every agreement to effectively monitor performance. This attachment shall describe with sufficient detail a schedule for completing the tasks to be performed by the developer in order to provide a sound basis to effectively monitor performance under the agreement.

b. The PRHFA will establish procedures for rent increases in accordance with HUD regulations.

c. Specific clauses shall be included in the agreement to ensure that payment of eligible costs is limited to the amount needed. The PRHFA will pursue the development and implementation of controls and procedures to ensure compliance with this requirement.
3. For the five project activities (14065, 14066, 14751, 14739, 14750) the Grant Agreements shall be amended to include the corresponding Affordability Period pursuant to HOME Requirements at 24 CFR 92.504.

The above addresses the findings as per your Draft Report dated June 10, 2013. Should you have any other questions regarding the above, please contact us at 787-765-7577 ext. 4572.

Sincerely,



José A. Sierra Morales

OIG Evaluation of Auditee Comments

The Authority agreed with the recommendations included in the audit report.

Comment 1 The Authority stated that it will deobligate, reprogram, and put to better use the unexpended commitments with expired grant agreements when restrictions to setup new activities and commit additional funds in HUD's information system are lifted.

The Authority should be cognizant that the \$18.4 million in unsupported commitments could affect its compliance with the July 31, 2013, deadline to commit HOME funds. HUD's HOME Deadline Compliance Status Report dated May 31, 2013, showed a commitment shortfall of nearly \$10 million that are subject to a potential HUD recapture.⁹

Comment 2 The Authority stated that the report did not indicate to which period the unused program income and recaptured funds balance corresponded to. In addition, the Authority stated that the \$89,331 in unaccounted funds pertains to an un-reconciled balance carried forward from the Puerto Rico Department of Housing and that it is pursuing PRDH to get the supporting documentation.

The unused fund balance of \$96,422 pertains to the period ending March 20, 2013. This information was added to the report.

Comment 3 The Authority stated that it will develop and implement controls and procedures to ensure that (1) only commitments with valid agreements are reported to HUD; (2) HOME funds are disbursed within HUD-required timeframes; (3) program income, repayments, and recaptured funds are properly reported; (4) accurate information on HOME-funded activities is reported in HUD's information system; and (5) grant agreements are properly signed and dated and contain the HUD-required provisions and term.

The Authority will need to submit evidence to HUD that the controls and procedures are designed to provide reasonable assurance that the HOME program will be administered in accordance with HUD requirements.

⁹ The deadline compliance reports assist participating jurisdictions and HUD in monitoring compliance with the 24 months commitment and the 5 years expenditure requirements of the HOME program regulations. These monthly status reports, issued by HUD Headquarters, identify, among other things, the amount required to be committed by each participating jurisdiction as well as the progress made committing through the date of the report as reported in HUD's information system.

Appendix C

LIST OF PROGRAM INCOME AND RECAPTURED FUNDS REVIEWED

Receipt number	Amount	Receipt date	Reported date in HUD's information system	Days elapsed from receipt to reported dates
5098234	\$29,902	July 6, 2012	Feb. 22, 2013	231
5098236	36,642	July 6, 2012	Feb. 22, 2013	231
5098237	32,275	July 6, 2012	Feb. 22, 2013	231
5078820	7,660	Jan. 11, 2012	June 27, 2012	168
5098239	80,250	Sept. 21, 2012	Feb. 22, 2013	154
5078859	22,412	Mar. 28, 2012	June 27, 2012	91
5098245	26,938	Dec. 18, 2012	Feb. 22, 2013	66
5078878	27,939	May 4, 2012	June 27, 2012	54
5099345	<u>26,869</u>	Jan. 23, 2013	Mar. 8, 2013	44
Total	<u>\$290,887</u>			

Appendix D

LIST OF ACTIVITIES WITH INACCURATE INFORMATION

Activity number	Incorrect activity address or description	Understated commitment amount	Inaccurate initial funding date	Environmental assessment incorrectly reported as completed	Comments
14750	X	X	X		The number of HOME-assisted units was overstated by 56, activity address was incorrect, and committed amount was understated by \$2,320. In addition, the commitment of funds was entered into HUD's information system 361 days after the reservation of funds agreement was executed.
14739	X			X	HUD's information system showed inaccurate information related to the activity address and status of the environmental assessment. As of February 2013, HUD's information system showed that the environmental assessment had been completed when it had not.
14061	X				HUD's information system showed inaccurate information on the number of units assisted with HOME funds, resulting in an overstatement of 53 units.
14751				X	As of February 2013, HUD's information system showed that the environmental assessment had been completed when it had not.