



U. S. Department of Housing and Urban Development
San Juan Field Office
Community Planning and Development
Region IV

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September 18, 2012

Mr. Harry Torres Collazo
Acting Executive Director
P.R. Housing Finance Authority
Att: Javier Trogolo
P.O. BOX 71361
San Juan, PR 00936-8461

Dear Mr. Torres:

SUBJECT: HOME Investment Partnerships Program (HOME)
FY 2012 On-site Monitoring Review Report

This is to inform you of the results of HUD's on-site monitoring review of subject program conducted by Mr. Elinson Acosta, Senior CPD Representative.

On August 17, 2012, the Puerto Rico Housing Finance Authority (PRHFA) was informed that starting September 4, 2012 HUD would initiate an on-site monitoring review of the HOME program primarily focusing on the Authority's qualification and reexamination process of new nonprofits and existing organizations to be certified as Community Housing Development Organizations (CHDOs) through the review of program files and interview with program staff.

The results of HUD's on-site monitoring conclusions are detailed in the attached monitoring report. One (1) finding was identified which was discussed during the exit conference with Mr. Javier Trogolo, HOME Program Director, and Mr. Jose Lozada, Multifamily Project Manager on September 14, 2012. During the monitoring visit technical assistance was provided to the program staff to assist them in the efficient management of the program and to enhance their knowledge in the area reviewed. I also met with the Director of the Authority's Internal Audit Office where discussion was held in relation to findings as result of onsite monitoring of the rental portfolio of projects that were transitioned from the Puerto Rico Department of Housing and that not all of the projects are in compliance with the HOME program requirements.

*HUD's mission is to create strong, sustainable,
inclusive communities and quality, affordable homes for all.*

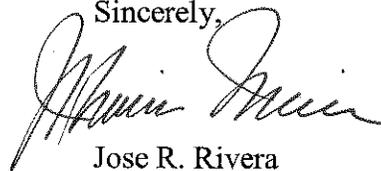
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HUD wants to recognize Mr. Javier Trogolo, HOME Program Director, Mr. Jose Lozada, Multifamily Project Manager, Mr. Cruz Manual Negrón, Funds, Yovina Irizarry, Administrative Assistant, and all the staff that some way contributed in facilitating the review process. HUD also wants commend your HOME program staff for their commitment and dedication in the management of the program.

HUD is providing the PRHFA with thirty 30 days from the date of this letter to reply and submit the corrective action in respond to the finding.

Should you have any questions please contact Mr. Elinson Acosta, Senior CPD Representative at (787) 766-5400, extension 2003.

Sincerely,

A handwritten signature in black ink, appearing to read "Jose R. Rivera". The signature is fluid and cursive, with the first and last names being the most prominent.

Jose R. Rivera
Director
Community Planning
and Development

**HOME INVESTMENT PARTNERSHIPS PROGRAM
MONITORING REVIEW REPORT**

Grantee: Commonwealth of Puerto Rico

State Designated Entity: Puerto Rico Housing Finance Authority (PRHFA)

Dates of Review: September 4-7, 2012

Entrance Conference: The entrance conference was held on September 4, 2012. The following attendees were present:

1. Mr. Javier Trogolo, HOME Program Director
2. Mr. Jose Lozada, Multifamily Project Manager

HUD Reviewer: Elinson Acosta, Senior Community Planning and Development Representative/HOME Coordinator

Program Areas Monitored: As discussed during the entrance conference, the State HOME program resulted as a high risk grantee. The HOME program until July 1, 2010 was formerly managed by the PR Department of Housing (PRDH). Effective July 1, 2010 as determined by the Governor of Puerto Rico, the administration of the State HOME program was transitioned to the Puerto Rico Housing Finance Authority (PRHFA). The State HOME program was last monitored onsite in 2007 while the program was under the PRDH. The State HOME program is a complex program since the State implement most of the eligible activities permitted under the program. In addition, the PRHFA inherited two OIG audit reports with a substantial number of recommendations where the resolution is in process. Several recommendations in the OIG report were related to predevelopment loans and projects by Community Housing Development Organizations (CHDOs). Based on the Appropriation Act of 2012, participating jurisdictions now need to assess and document that CHDOs have key staff with development capacity, HUD determined to review the State HOME program policies and procedures in the certification and /or recertification of new nonprofit organizations or exiting CHDOs. The following checklists were used and CHDO qualification files reviewed.

Checklist:

Exhibit 7-11: Guide for Review of Community Housing Development Organizations (CHDO) Qualifications and Activities

Exhibit 7-12: Guide for Review of Community Housing and Development Organizations (CHDO) Procedures

CHDO Qualification Files Reviewed:

1. Iniciativa Comunitaria de Investigaciones, Inc
2. Corporacion Para el Desarrollo Economico, Vivienda y Salud
3. Grace English Evangelical Lutheran Congregation, Inc,
4. Ponce Neighborhood Services (PNHS)
5. Prebisterianos en Servicios a la Comunidad, Inc.
6. Yurabo Community Housing Development Corporation (YCOHDECO)
7. Home Village Corporation, Inc.

Technical Assistance:

During the entrance conference the methodology used by HUD for conducting the risk assessment was discussed using the HOME program formula risk analysis worksheet. The most important Factors were discussed so that the State PJ understood the critical areas reviewed and the value of the points rating system set for each sub-factor. It was important to convey besides the HOME web based management tools other tools available such as the risk analysis to measure performance under the program.

Discussion was also held concerning the status of funded activities that appear in the HOME Expiring Report. The report shows FY 2005 funds to commit and disburse no later than September 26, 2012 otherwise they will be recaptured by the Treasury under the National Defense Authorization Act (NDAA). The funds at risk are CHDO set aside funds including undisbursed funds for predevelopment and CHDO operating. Although some of the FY 2005 funds will not be disbursed by the prescribed timeframe, there are invoices for two CHDO projects that are in process for payment. The State PJ was advised to review the status of projects funded with FY 2006 funds to prevent the recapture of HOME funds by the U.S. Treasury if FY 2006 projects are stalled and will not be moving forward. Principally, HOME funds committed to CHDO projects.

I briefly met with the independent auditors conducting the single audit to explain the differences between program income and funds recaptured when the affordability requirements are not met, and the fifteen day (15) HOME requirement to disburse program funds that are once drawn from the line of credit.

A meeting was held with the program's internal auditors with the purpose to discuss how the Authority should address findings as a result of onsite audits of their rental housing project portfolio inherited from the PR Department of Housing. There are issues pertaining to compliance with affordability requirements, potentially exploring restructuring the number of actual HOME assisted units in many projects to ensure long term financial soundness sustainability, and bringing projects to comply with the HOME rent requirements without

affecting the financial structure of the projects. Given the complexity of the issues, the PRHFA was advised to put in writing the concerning matters to further discuss with HUD HQs for guidance. The internal auditors were also advised to refer those cases to their legal division where the property owners are unwilling to comply with program requirements, and to provide requested project/tenant documentation and information. To identify the restrictive covenants and enforceable documents to ensure project owners comply. Nonetheless, it is most probable the issue concerning each of the projects identified in non compliance or with long term financial un-sustainability will need to be addressed on a case by case basis.

The State PJ is using CHDO checklist with modifications to comply with the qualification criteria under Section 92.2 of the HOME program requirements. Discussion was held concerning documenting staff capacity and experience in working the community. Qualification documents did not include information on the key staff of the organization and description of their housing experience and development. This particular situation pertains to one specific CHDO. The qualification documents contained information on individual or consultants firms but it was uncertain if the mentioned firms and individuals were contracted. The CHDO qualification files randomly selected for new certified CHDOs had no set aside funds committed or CHDO operating or predevelopment loan funds. The CHDOs were randomly selected were either nonprofit organization certified as new CHDOs, or existing CHDOs that were recertified since the transitioned of the program to the Housing Authority on July 1, 2010. A few of the recertified CHDOs according to IDIS report PR 25 had only received predevelopment or CHDO operating funds.

Exit Conference: The exit conference was held on September 14, 2012.

1. Mr. Javier Trogolo, HOME Program Director
2. Mr. Jose Lozada, Multifamily Project Manager
3. Elinson Acosta, Senior Community Planning and Development Representative/HOME Coordinator

Overview: As of July 1, 2010, the implementation and management of the HOME program was transferred to the Puerto Rico Housing Finance Authority (PRHFA). Since the inception of the program in 1992, the government of the Commonwealth of Puerto Rico designated the Puerto Rico Department of Housing (PRDH) as the State agency responsible for the effective and efficient management of the HOME Program. While the program was being transitioned in July 2010 two OIG audits reports were completed with serious findings in the management of the HOME by the PRDH. The resolution of the OIG findings is now under the responsibility of the PRHFA for their resolution. After the transition of the program PRHFA had to restructure and identify and hire new capable staff that would be responsible for the management of the program. This involved the assignment of HUD HOME technical assistance providers to assess and assist in the organizational restructuring, staffing, developing the outline and path for establishing program policies and procedures, and provide ongoing technical assistance as needed. Also, known the need for building CHDO staff capacity, through the effort of former Assistant Secretary to HUD's Office of Community Planning and Development, additional resources were identified for ongoing CHDO capacity building. Since the OIG audit reviewed disclosed deficiencies in overdue CHDO projects that were provided with CHDO loans and

projects did not start or CHDO projects that were funded with set aside funds but projects are stalled, it was determined as part of the onsite monitoring visit to review the State's CHDO qualification and reexamination process through the review of randomly selected CHDO qualification files since July 1, 2010 date of the transition of the program from the PRDH to the PRHFA.

Methodology: A monitoring strategy was developed following the CPD's Management Plan, and analysis for monitoring CPD grant programs for FY 2012. The monitoring strategy outlined the program and scope of the review. An in-house review of files was conducted in preparation for the onsite visit. The HOME State PJ was informed in writing of the onsite monitoring visit, scheduled dates, and the program area that would be monitored. In preparation for the onsite visit, in addition to the results of the risk assessment, other documents and reports were reviewed such as IDIS generated reports, and reports obtained through the HOME webpage that showed grantee's progress in meeting program objectives. The program area monitored is described above including technical assistance. The monitoring checklists mentioned above were discussed with program staff during the monitoring process. Key program staff and program Director was interviewed when necessary during the review process in order provide and receive input and have a better understanding of the State's CHDO qualification process.

Results: The review disclosed that the State PJ is currently operating under policies and procedures that are under final review for submission to HUD in response to the OIG audit. Meanwhile, the State PJ has adopted preliminary guidelines for CHDO management, guidelines for CHDO operating and predevelopment loan processing, and CHDO application process for funding. Seven CHDO qualification files were reviewed to determine the State PJ's overall qualification process. Among the CHDO reviewed some were new nonprofit organizations seeking to be certified as CHDOs and while a few others were existing CHDOs being reexamined. The organizations seeking reexamination were required to submit documentation as being qualified for the first time. Therefore, the qualification review process for both new nonprofit organization and exiting CHDO is consistently the same.

The review of the files disclosed that the State PJ is using HUD's CHDO monitoring guide check list with some modification incorporating local requirements to operate as a nonprofit organization under State laws. Also, information was requested in addition to the minimum required under the HOME regulation. The CHDO qualification files contained sufficient supporting documentation and were very well organized with respect to contents and information.

A sample of seven randomly selected CHDO qualification files was reviewed. With respect CHDO legal status there was consistent evidence in the files that the CHDO organizations were organized under State laws as nonprofit organizations. Except for one organization all had the IRS tax ruling under 501(c)(3). For the one exception, the organization had the Puerto Rico Internal Revenue tax ruling as result that the IRS tax ruling was waived by HUD if the nonprofit had a local tax ruling. The local ruling was in file however, the organization was seeking the IRS tax ruling. HUD suggests that for those organizations that only have the PR tax ruling to incorporate in the file a copy of HUD's waiver. The organizations through amendments to their

article of incorporation or By-laws contained language that no part of its net earnings would inure to the benefit of any member, founder, contributor, etc.

As discussed during the exit conference in the area of determining and documenting CHDO capacity may need some improvements. The review disclosed that the files contained the certification from a Certified Public Accountant (CPA) that the organization conforms to the financial accountability standards of 24 CFR 84.21. In the area of the organization demonstrated capacity and history of serving the community the State PJ needs to request from the organization resumes and/or statements that describe the experience of key staff members who have successfully completed projects similar to those assisted with HOME funds. The PJ should have information on the key staff to validate their experience in development. Key staff members do not include volunteers, board members or consultants. The other acceptable form to meet this requirement is by the nonprofit contracting with consultant firm(s) or individuals who have housing experience and will train the organization's key staff. Another area that may need improvement is documenting if the organization has a history of serving the community especially newly created organizations. The review disclosed that Yurabo Community Housing Development Corporation did not meet this requirement however; it was certified as CHDO organization. Based on the documents reviewed the aforementioned organization did not meet the CHDO qualification requirements. For the other organizations, either there were existing CHDO with past development experience as certified CHDOs by local participating jurisdictions, CHDOs that were created by other organization such as CODEVYS and Grace English Evangelical Lutheran Congregations, Inc. HOME Village Corporation although it was certified as a CHDO, the organization partnered with a private developer and was not funded with set aside funds.

Under organizational structure the review disclosed that the nonprofit organizations maintain at least one-third of its governing board's membership for residents of low-income neighborhoods, or low income residents. The qualification file contained a list of the board members and the different sectors each board member represented. In case of low income representation, the file contained a self certification from each member certifying if the board member was a low income resident, or represented a community where at least 51% of its neighborhood or community residents are low income. The file contained income information, household size, and the Section 8 income limits for validation or Census Maps with low mod census tract information. The review disclosed that the governing board met the 1/3 low-income representation.

As part of the exit conference a discussion was held on chartered organizations by State or local government. None of the CHDO files reviewed were organizations chartered by State or local government. There was a misinterpretation that the purpose to respond to this question in the checklist implied documenting that no more than one-third of the board members represented the public sector. None of the CHDO reviewed were either sponsored or created by for nonprofit entities. This issue was discussed and clarified.

In overall for except for one organization, based on the documents reviewed, the PJ is consistent in the CHDO qualification and in maintaining supporting documentation. None of the CHDOs reviewed received CHDO operating or predevelopment loan funds, nor did CHDO set aside

funds. Two organizations Prebisterianos en Servicios a la Comunidad, Inc., and Ponce Neighborhood Service received CHDO operating and/or predevelopment funds. Although the funds were committed while the program the PRDH, it is now PRHFA responsibility to determine and document if the predevelopment loans awarded to these organizations is forgivable or not. In the case of Ponce Neighborhood Housing Services this organization was identified in the OIG audit 2010-AT-1006 under overdue CHDO loans. Likewise, the organizations that CHDO operating funds committed and the projects were not developed within 24 months and there is no indication that the project will move forwards, the CHDO set aside funds will need to be reclassified under program administration. Again, these are issues that were inherited in the transition some are addressed in the OIG audit while others the Authority will need to resolve.

Except for the following finding, the PRHFA in the short time has made progress in managing the HOME program since July 1, 2010:

Finding 2012-01: The State PJ certified one nonprofit entity as a Community Housing Development Organization (CHDO) that is not in compliance with the HOME program requirements.

Condition: The review disclosed that Yurabo Community Housing Development Corporation (YCOHDECO) did not meet the CHDO qualification criteria. The newly created organization based on the documents reviewed could not demonstrate capacity for carrying out activities assisted with HOME funds, and since its creation that the organization had a history of serving the community for a least one year where the housing to be assisted with HOME funds is to be located. To demonstrate capacity (YCOHDECO) presented information on relationships with former State and local government officials, and individuals from the private sector from different professional disciplines, and collaboration agreement with past CHDO.

Criteria: 24 CFR 92.2

Cause: The CHDO Yurabo Community Housing Development Corporation (YCOHDECO) was created by a former chief elected official. The new CHDO organization did not demonstrate through the experience of their key staff except for one staff person who was former President of the Board of Director of Community Action Social Affairs and Housing Development Organization of PR, Inc. This organization was certified by the PRDH and funded with HOME funds and did not complete the project. This project is identified in the OIG audit report. Secondly, (YCOHDECO) also executed a memorandum of agreement with Organizacion Benefica Restuaracion y Accion Social (OBRAS). This nonprofit organization has also been certified as a CHDO by the PRHD. It received HOME funds but did not deliver its HOME assisted CHDO project. This organization also appears in the OIG audit report.

Effect: Based on the supporting documentation of the other organizations reviewed the non compliance with the HOME program requirement is not systemic. However, the State PJ would have created precedence in funding a nonprofit organization that does not meet the CHDO

criteria to be qualified as a certified CHDO to receive set aside funds. Secondly, the fact that (YCOHDECO) has partnered with two organizations that have failed as past certified CHDOs in the delivery of their HOME assisted projects and their activities are questioned in the OIG audit report, it is concerning and questionable what experience these organizations can bring to (YCOHDECO) to be a successful CHDO. Although there is no prohibition that a former public elected official may not create a nonprofit organization and later seeks to be certified as a CHDO organization, the fact that the organization did not meet the qualification criteria but was qualified may be seem as given preference to certain organizations and unfair treatment in the qualification process as there has been complaints from other CHDOs in the past.

Corrective Action:

- The State PJ needs to reevaluate (YCOHDECO's) capacity for carrying out activities assisted with HOME funds using the criteria and documentation acceptable in the CHDO checklist, and also ever since it was created evidence with documentation that supports the organization's history serving the community for at least one year if it is the State PJ's intends to fund this organization. (YCOHDECO's)
- The organization (YCOHDECO's) was initially designated on April 28, 2011 and it would have to be reexamined to ensure that it meets the CHDO qualification criteria. Furthermore, if the organization seeks funding in the next funding round and if the funds are from the FY 2012, the State PJ will be required to evaluate the CHDO capacity of its key staff before the reservation and committing HOME funds following the CPD Notice guidance on the FY 2012 Appropriations Act. The State PJ will need to certify it comply with this requirement in IDIS.
- Please provide to HUD's satisfaction of the corrective measures taken to ensure that this is not a recurrent finding. For example, strengthening your final policies and procedures.