



Puerto Rico Department of Housing, San Juan, PR

Multifamily Special Escrow Funds

**Office of Audit, Region 4
Atlanta, GA**

**Audit Report Number: 2017-AT-1003
March 2, 2017**



To: Laurelei McKnight, Director, Asset Management Division, Jacksonville Satellite Office, 4GHMLM

From: //signed//
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The Puerto Rico Department of Housing, San Juan, PR, Did Not Properly Administer Its Multifamily Special Escrow Funds

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 Department of Housing's multifamily special escrow funds.

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 8M, 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.



Audit Report Number: 2017-AT-1003

Date: March 2, 2017

The Puerto Rico Department of Housing, San Juan, PR, Did Not Properly Administer Its Multifamily Special Escrow Funds

Highlights

What We Audited and Why

We audited the Puerto Rico Department of Housing's multifamily special escrow funds. This audit was the result of a referral from the San Juan Office of Multifamily Housing Programs. The objectives of the audit were to determine whether the Department administered and disbursed its escrow funds in accordance with its memorandum of understanding with the U.S. Department of Housing and Urban Development (HUD) and whether funded activities fully provided the intended benefits.

What We Found

Since September 2012, the Department had maintained a high balance in its escrow accounts without awarding funds for new projects. In addition, it did not ensure the completion of three escrow-funded activities that showed signs of slow progress and did not support the eligibility and propriety of five disbursements. As a result, HUD had no assurance that more than \$12 million in escrow funds was effectively used to meet program objectives and provide the intended benefits.

The Department did not ensure that escrow deposits were fully secured by the Federal Government and that program beneficiaries met income limit requirements. In addition, it failed to certify to HUD that funded activities met program requirements. As a result, HUD lacked assurance that funds were properly safeguarded and used for authorized purposes.

What We Recommend

We recommend that HUD (1) determine the eligibility of more than \$4 million in unsupported escrow fund disbursements and activities that showed signs of slow progress, (2) use more than \$7 million in unspent escrow funds to meet program objectives and increase the supply of low- and moderate-income housing, and (3) require the transfer of unspent funds to a more sound financial institution to ensure that escrow account deposits are fully secured by the Federal Government.

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Background and Objectives

The Puerto Rico Department of Housing was created by Act No. 97 of June 10, 1972. Through a secretary appointed by the governor, the Department is engaged in implementing the government's policy related to public housing. This process includes, among other things, the acquisition, sale, lease, and operation of public housing projects and land development to provide housing for the benefit of low- and moderate-income families.

On October 24, 1997, the Department and the U.S. Department of Housing and Urban Development (HUD) signed a memorandum of understanding that authorized the sale of certain multifamily projects belonging to the former Puerto Rico Urban Development and Housing Corporation. According to the Department's records, it had plans to sell 10 multifamily projects with projected net sales proceeds of more than \$40 million. On June 27, 2001, HUD and the Department amended the memorandum to include the terms and conditions for the administration and disbursement of the sale proceeds. The proceeds were to be placed into an independent escrow account to be used to meet affordable housing needs of the citizens of Puerto Rico. The escrow funds were to be used for the Department's housing programs to increase the supply of low- and moderate-income housing. The Department approved more than \$12.6 million in escrow funds for 14 housing projects since the special escrow fund was established.

This audit was the result of a referral from the San Juan Office of Multifamily Housing Programs regarding concerns over the Department's use of escrow funds. The Department's Office of Acquisitions and Sales is responsible for administering the escrow funds. Its books and records are maintained at 606 Barbosa Avenue, San Juan, PR.

The objectives of the audit were to determine whether the Department administered and disbursed escrow funds in accordance with provisions of its memorandum of understanding and whether funded activities provided the intended benefits.

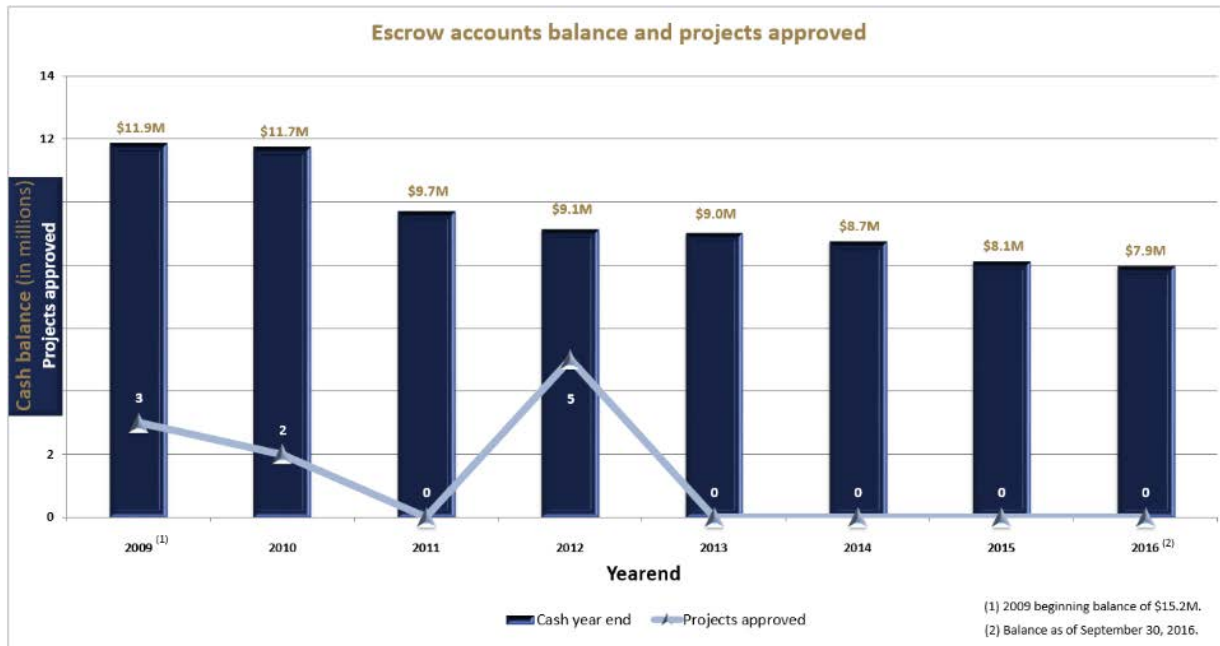
Results of Audit

Finding 1: Escrow Funds Did Not Meet Program Objectives

Since September 2012, the Department had maintained a high balance in its escrow accounts without awarding funds for new projects. In addition, it did not ensure the completion of three escrow-funded activities that showed signs of slow progress and did not support the eligibility and propriety of five disbursements. These deficiencies occurred because the Department did not follow HUD requirements and did not develop policies and procedures to properly administer and monitor its use of escrow funds. As a result, HUD had no assurance that more than \$12 million in escrow funds was effectively used to meet program objectives and provide the intended benefits.

High Escrow Accounts Fund Balance

By allowing a significant amount of cash to accumulate in its bank accounts, the Department did not use escrow funds in a timely manner, thereby limiting program accomplishments. Between January 2009 and April 2016, the Department approved 10 grants. However, the balance in the escrow fund accounts remained consistently high during that period, with more than \$7.9 million in unspent funds.



The Department's program director stated that the approved grants were for projects referred by HUD and that there were no pending referrals. In August 2016, the Department requested HUD approval for the use of more than \$3 million in escrow funds for existing housing projects. The request was being reviewed by HUD. According to the Department's records, it had not

awarded new grants since September 2012. As a result, more that \$7.9 million in escrow funds were not used to meet program objectives and increase the supply of low- and moderate-income housing. In addition, the related benefits to low- and moderate-income persons were unduly delayed or not realized for 4 years when no funds were awarded.

Slow Progress Activities

The Department approved escrow funds for three activities that showed signs of slow progress without assurance that the activities would provide the intended benefits. Therefore, more than \$2.4 million in escrow funds disbursed for the projects were unsupported.

Yabucoa housing project - On September 30, 2009, the Department approved \$2 million in escrow funds for the construction of a 3-story building with 38 1-bedroom units for low-income elderly persons. According to the grant agreement, the expected completion date of the project was December 9, 2010.

The Department's attorney stated that the construction of the housing project was suspended because the construction company filed for bankruptcy and there was pending litigation in state court. On June 6, 2016, we performed a site visit to the housing project and confirmed that the project had not been completed. At the time of our inspection, the project site looked abandoned.



The picture above shows that the housing project site was abandoned and construction was substantially deteriorated.

More than 7 years had passed since the Department signed the grant agreement for the housing project, and the intended benefits to expand the supply of low- and moderate-income housing had not been achieved. Based on the project's condition, HUD had no assurance that the housing project would meet program objectives and provide the intended benefits. Therefore, more than \$1.8 million in escrow funds disbursed for the project was unsupported.

Juncos housing project - On May 17, 2012, the Department approved \$500,000 in escrow funds for the rehabilitation of a 3-story building to make available 16 residential units for low-income elderly persons. On November 23, 2015, the Department approved an increase of \$272,000 in escrow funds for the rehabilitation and extended the project completion date to June 30, 2016.¹

The Department's program director stated that the delays were attributed to the project owner's inability to award a professional services contract for project design, environmental assessments, construction permits, and other work. On June 29, 2016, we performed a site visit to the housing project and confirmed that the rehabilitation had not started and that part of the building was closed and vacant.²



The picture above shows that the housing project was vacant and rehabilitation work had not started.

More than 4 years had passed since the Department signed the grant agreement for the housing project, and the intended benefits to expand the supply of low- and moderate-income housing had not been achieved. Although the Department approved \$772,000 in escrow funds, no funds had been disbursed for the rehabilitation work. Based on the project's condition, HUD had no assurance that the project would meet program objectives and provide the intended benefits.

Barceloneta housing project - On August 9, 2006, the Department approved more than \$4.68 million in escrow funds for the construction of a 117-unit 3-bedroom apartment complex for low- and moderate-income persons (home-buyer activity). The grant agreement between the Department and the developer established a \$40,000 subsidy per unit. As a result, in 2006 the developer received \$4.68 million in escrow funds for the construction of the 117 units. The project's consultant stated that the construction of the

¹ The Department granted a second extension to complete the project by June 30, 2017.

² A portion of the first floor was occupied by a government entity.

117 units had been completed but only 103 units had been sold and occupied. He also stated that due to poor housing market conditions, 14 units had not been sold and remained vacant.

More than 10 years had passed since the Department disbursed the escrow funds for the housing project, and the intended benefits had not been fully achieved because 14 units remain vacant without providing any benefits. Based on this condition, HUD had no assurance that the vacant housing units would meet program objectives and provide the intended benefits to low- and moderate-income persons. Therefore, \$560,000 in escrow funds disbursed for the 14 vacant units was unsupported.

Program Expenditure Eligibility Not Substantiated

The Department did not properly support the reasonableness and allowability of five disbursements. Therefore, more than \$2.1 million in escrow funds disbursed were unsupported. In general, adequate documentation includes an invoice or receipt that identifies who authorized the expense, what it was for, the amount, and when it was spent; which award gets charged; and a determination that it is allowable, reasonable, and allocable according to the regulation standards. Regulations at 2 CFR (Code of Federal Regulations) Part 200, subpart E, provide that to be allowable under Federal awards, costs must be necessary, reasonable, and adequately documented. Since the Department did not provide proper supporting documentation, HUD lacked assurance that escrow funds were used for authorized purposes and in accordance with HUD requirements. Appendix C provides details of the unsupported disbursements.

Memorandum Provisions Were Not Followed and Policies and Procedures Not Developed

The Department did not develop written policies detailing procedures and responsibilities related to program monitoring and administration. Section 4G of the amendment to the memorandum of understanding required the Department to develop regulations covering its housing efforts under the escrow program. The Department's program director stated that she was familiar with the memorandum provisions and its requirements. However, these were not followed and program policies and procedures were not developed. As a result, HUD and the Department had no assurance that the escrow fund was administered in accordance with applicable requirements.

Conclusion

The deficiencies discussed above occurred because the Department did not follow HUD's requirements and did not develop policies and procedures to properly administer and monitor the use of escrow funds. As a result, HUD had no assurance that more than \$12 million in escrow funds was effectively used to meet program objectives and provide the intended benefits. This includes the funds that remained unexpended and were not used to increase the supply of low- and moderate-income housing for the residents of Puerto Rico.

Recommendations

We recommend that the Director of the Jacksonville Office of Asset Management require the Department to

- 1A. Submit a plan showing how it will use the \$7,984,429 in unspent escrow funds to meet program objectives and increase the supply of low- and moderate-income housing for the residents of Puerto Rico, including a schedule HUD can track to ensure the expenditure.
- 1B. Submit supporting documentation so HUD can reevaluate the feasibility of the three activities and determine the eligibility of the \$2,432,271 in escrow funds already disbursed. If HUD determines that an activity has been canceled or is not feasible, the Department must reimburse the escrow account from non-Federal funds.
- 1C. Submit a plan showing how it will proceed regarding the Yabucoa, Juncos, and Barceloneta housing projects, including a schedule that HUD can track to ensure their completion.
- 1D. Submit supporting documentation showing the reasonableness and allowability of \$2,176,733 disbursed or reimburse its escrow account from non-Federal funds.
- 1E. Develop and implement written policies detailing procedures and responsibilities related to program administration and monitoring of the escrow program.

Finding 2: Memorandum Provisions Were Not Followed

The Department did not ensure that escrow deposits were fully secured by the Federal Government and that program beneficiaries met income limit requirements. In addition, it failed to certify to HUD that funded activities met program requirements. These deficiencies occurred because Department officials disregarded memorandum provisions and its requirements. As a result, HUD lacked assurance that funds were properly safeguarded and used for authorized purposes.

Deposits Not Secured With Federal Government Obligations

The Department maintained deposits of more than \$7.9 million in escrow funds at a government institution without ensuring that they were fully secured with Federal Government obligations. Section 5 of the amendment to the memorandum required the Department to invest escrow funds in U.S. Treasury securities or securities issued by a Federal agency or to deposit the funds at financial institutions insured by an agency of the Federal Government. However, the Department did not provide evidence showing that escrow funds were secured by the Federal Government.

On April 29, 2005, the Department requested HUD's approval to transfer the escrow funds from a commercial bank to the Government Development Bank,³ a government entity of the Commonwealth of Puerto Rico that is not a member of the Federal Deposit Insurance Corporation. The Department informed HUD that the reason for the fund transfer was to maximize the return on investment and that all deposits would be insured. In a letter, dated June 14, 2005, HUD authorized the transfer of escrow funds to the Development Bank. HUD also advised the Department that the funds needed to be fully secured by the Federal Government. Contrary to HUD's requirements, the escrow deposits were not secured by the Federal Government. The Department's 2014 and 2015 independent public accountant reports showed that cash deposits at the Development Bank represented a custodial credit risk since the deposits were exempt from collateral requirements established by the Commonwealth of Puerto Rico.⁴

HUD advised the Department that deposits with the Development Bank were not secured by the Federal Government in violation of HUD requirements. In a letter, dated March 30, 2015, HUD's General Deputy Assistant Secretary for Public Housing notified the Department that it violated its consolidated annual contributions contract with HUD by maintaining deposits at the Development Bank that were not federally insured, related to the Housing Choice Voucher program. HUD instructed the Department to take corrective action. In April 2015, HUD's Departmental Enforcement Center issued a report recommending that the Department close the bank accounts with the Development Bank within a 6- to 7-month period because of the custodial credit risk. Although the Department took corrective actions regarding its Housing

³ The Development Bank is the fiscal agent and financial advisor to the Commonwealth and its agencies, public corporations, and municipalities and coordinates the management of public finances.

⁴ Under Puerto Rico statutes, public funds deposited with commercial banks must be fully collateralized for the amount in excess of the amounts insured by the Federal Deposit Insurance Corporation.

Choice Voucher program deposits, it maintained the escrow deposits of more than \$7.9 million with the Development Bank, placing Federal funds at risk.

The Development Bank became insolvent, creating a significant risk to the escrow deposits. The Puerto Rico Department of Treasury issued circular letter 1300-08-17, dated October 18, 2016, instructing all public corporations and municipalities to take action and record in their books the possible loss of the deposits kept in the Development Bank because of its insolvency. In addition, the circular stated that management believed that there was substantial doubt concerning the Development Bank's ability to continue as a going concern. As a result, more than \$7.9 million in Federal funds was at risk of loss because it was deposited with an institution that was not financially sound and deposits were not secured by the Federal Government.

The Development Bank's insolvency had been publicly known since at least 2014. In addition, the independent public accountant and HUD reports advised the Department that cash deposits at the Development Bank represented a custodial credit risk because the funds were not secured. However, the Department did not transfer the escrow funds to a secured financial institution. Therefore, the Department disregarded HUD's requirements and instructions.

Program Beneficiaries' Income Not Verified

The Department did not provide evidence showing that residents of the subsidized housing projects met the established income limit requirements. We examined the Department's files for seven housing projects that were approved. The files did not contain documentation showing whether program beneficiaries met income limit requirements. Section 4E of the amendment to the memorandum of understanding provides that beneficiaries must comply with income limit requirements for rental housing projects as well as for home-ownership projects. As a result, HUD had no assurance of the eligibility of program beneficiaries and whether program objectives were met.

Funded Activities Not Certified

The Department did not send certifications to HUD before disbursing escrow funds. Section 10D of the amendment to the memorandum of understanding provides that before any disbursement of funds, the Department must certify to HUD in writing that the work was completed in accordance with plans and specifications. However, the project files did not contain evidence showing that the Department sent the certifications to HUD before disbursing escrow funds. As a result, HUD had no assurance that funded activities met memorandum and program requirements.

Disregard of Memorandum Provisions and Its Requirements

The Department's program director stated that she was familiar with the provisions of the memorandum of understanding and its requirements. However, program policies and procedures were not developed, program funds were not properly safeguarded, participants' income eligibility was not verified, and required certifications were not submitted. Therefore, the Department disregarded HUD's requirements and instructions.

Conclusion

The deficiencies discussed above occurred because the Department disregarded memorandum provisions and its requirements. As a result, HUD had no assurance that escrow funds were properly safeguarded and used for authorized purposes in accordance with the memorandum.

Recommendations

We recommend that the Director of the Jacksonville Office of Asset Management require the Department to

- 2A. Transfer all escrow funds to a financial institution that is supervised by the Federal Deposit Insurance Corporation or the National Credit Union Administration and ensure that all deposits are secured by the Federal Government. Any amount not recovered from the Development Bank must be reimbursed to the escrow account from non-Federal funds.
- 2B. Submit required certifications and supporting documentation showing that residents of escrow-funded activities met the established income limit requirements. Any amounts determined ineligible must be reimbursed to the escrow account from non-Federal funds.

Scope and Methodology

The objectives of the audit were to determine whether the Department administered and used escrow funds in accordance with provisions of its memorandum of understanding with HUD and whether funded activities provided the intended benefits.

To accomplish our audit objectives, we

- Interviewed HUD and Department officials;
- Reviewed applicable memorandum provisions and relevant HUD requirements, including contracts with grant recipients;
- Reviewed the Department's project files and records; and
- Conducted site inspections of projects.

The Department's records showed that it awarded more than \$6.9 million in escrow funds for 10 housing projects between January 1, 2009, and April 30, 2016. We selected for review seven⁵ activities with approved funding totaling more than \$6.1 million. Based on HUD's concerns that housing projects did not provide the intended benefits, we reviewed two additional activities, which were approved in August 2006 and February 2008 that received more than \$5 million in escrow funds. We reviewed nine activities to verify the status and determine whether the activity provided the intended benefits.

The Department's disbursement register showed that it made 60 disbursements totaling more than \$8 million⁶ between January 1, 2009, and April 30, 2016. We selected for review 19 disbursements greater than \$100,000 and selected an additional disbursement based on the nature of the payment and the payee. We examined 20 transactions totaling more than \$6 million, about 75 percent of the disbursements made during the period.

To achieve our audit objectives, we relied in part on computer-processed data provided by the Department. 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 to be adequate for our purposes. We did not select 100 percent of the transactions for testing as the selection made provided sufficient evidence for the findings presented. The results of the audit apply only to the items selected for review and cannot be projected to the universe or population.

⁵ We selected for review six activities with approved funding of \$500,000 or more and selected an additional activity that received \$180,000 in escrow funds because of indications of slow progress.

⁶ The register included transactions of activities that were approved before the survey period start date of January 1, 2009.

The audit generally covered the period August 9, 2006, through April 30, 2016. We performed our onsite fieldwork from June through September 2016 at the Department's office 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 objective(s). 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:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial information - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable 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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Department did not develop and implement policies and procedures to ensure that it complied with HUD's requirements, and that funds were used to meet program objectives and provide the intended benefits (findings 1 and 2).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A		\$7,984,429
1B	\$2,432,271	
1D	2,176,733	
Totals	4,609,004	7,984,429

- 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 Office of Inspector General's (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 Department implements our recommendation, it will ensure the timely use of unspent escrow funds and help meet program objectives to increase the supply of low- and moderate-income housing for the residents of Puerto Rico.

Appendix B

Auditee Comments and OIG's Evaluation

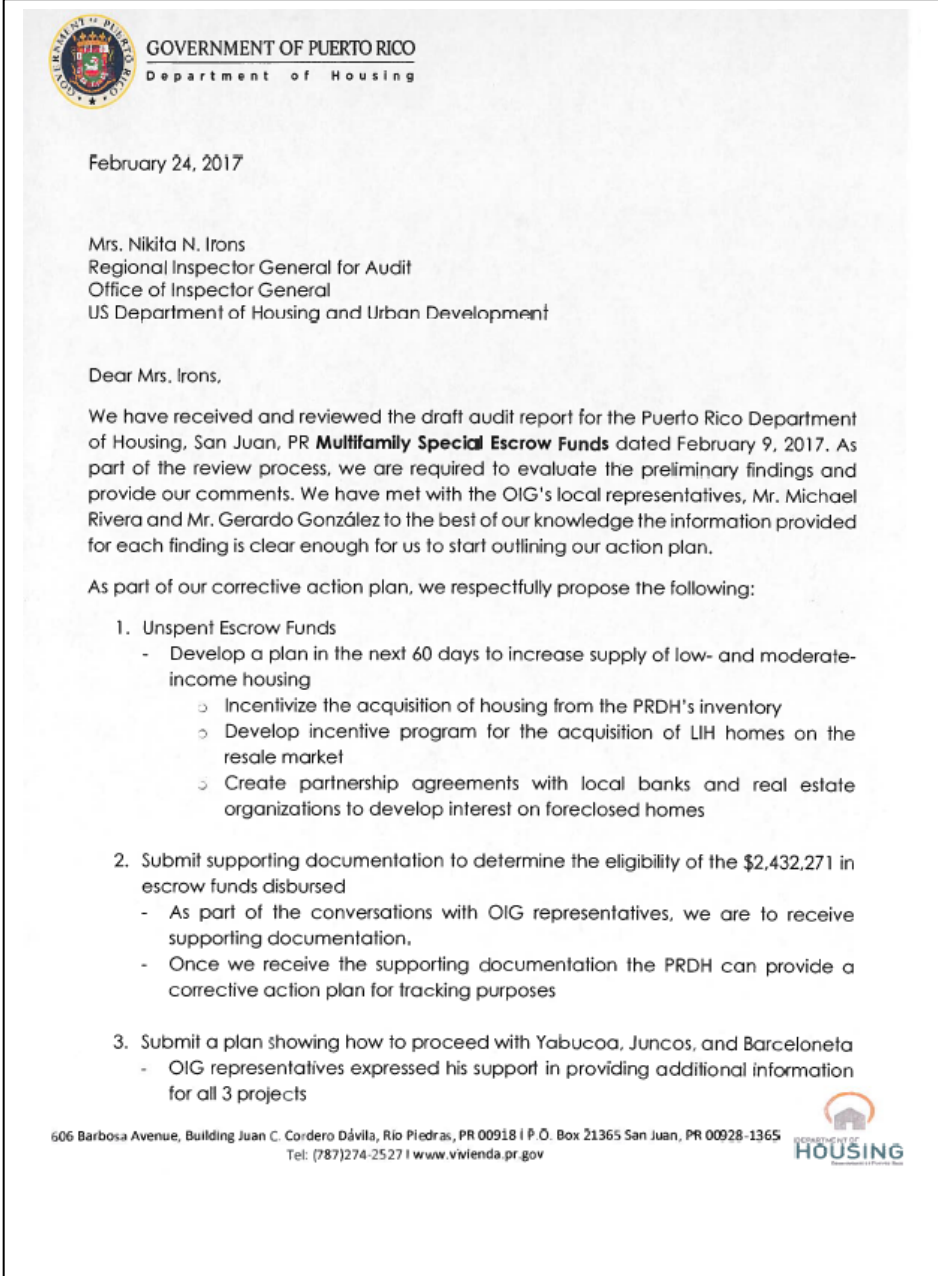
Ref to OIG Evaluation


Auditee Comments

Comment 1

Comment 2

Comment 2



 **GOVERNMENT OF PUERTO RICO**
Department of Housing

February 24, 2017

Mrs. Nikita N. Irons
Regional Inspector General for Audit
Office of Inspector General
US Department of Housing and Urban Development


Dear Mrs. Irons,

We have received and reviewed the draft audit report for the Puerto Rico Department of Housing, San Juan, PR **Multifamily Special Escrow Funds** dated February 9, 2017. As part of the review process, we are required to evaluate the preliminary findings and provide our comments. We have met with the OIG's local representatives, Mr. Michael Rivera and Mr. Gerardo González to the best of our knowledge the information provided for each finding is clear enough for us to start outlining our action plan.

As part of our corrective action plan, we respectfully propose the following:

1. Unspent Escrow Funds
 - Develop a plan in the next 60 days to increase supply of low- and moderate-income housing
 - o Incentivize the acquisition of housing from the PRDH's inventory
 - o Develop incentive program for the acquisition of LIH homes on the resale market
 - o Create partnership agreements with local banks and real estate organizations to develop interest on foreclosed homes
2. Submit supporting documentation to determine the eligibility of the \$2,432,271 in escrow funds disbursed
 - As part of the conversations with OIG representatives, we are to receive supporting documentation.
 - Once we receive the supporting documentation the PRDH can provide a corrective action plan for tracking purposes
3. Submit a plan showing how to proceed with Yabucoa, Juncos, and Barceloneta
 - OIG representatives expressed his support in providing additional information for all 3 projects

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**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

Comment 3

Comment 4

Comment 2

- Once we receive the supporting documentation the PRDH can provide a corrective action plan for tracking purposes
- 4. Submit supporting documentation showing the reasonableness and allow ability of \$2,176,733 in escrow funds disbursed
 - As part of the conversations with OIG representatives, we are to receive supporting documentation for all transactions
 - PRDH's accounting department is conducting an internal review to determine the purpose of these transactions
 - Corrective action plan will be prepared as soon as OIG representatives provide the supporting documentation
- 5. Develop and implement written policies detailing procedures and responsibilities related to program administration
 - This plan is going to be part of the efforts put on item 1 for the next 60 days
- 6. Transfer all escrow funds to a financial institution supervised by the FGIC
 - Solicit from the Governmental Development Bank (GDB) all funds currently withheld.
 - Draft letter with the current balances has been prepared
 - HUD field office's aid has been solicited
 - PRDH's accounting department has started communication with the GDB
- 7. Submit required certifications and supporting documentation showing that residents of escrow-funded activities met the established income limit requirements.
 - OIG representatives will provide the PRDH with their list of escrow-funded projects for our investigation
 - Corrective action plan will be completed once we receive the pertaining participant list

Sincerely,



Fernando A. Gil-Enseñat, Esq.
Secretary of Housing

OIG Evaluation of Auditee Comments

Comment 1 The Department stated that it will develop a plan within 60 days to use the unspent escrow funds to increase the supply of low- and moderate-income housing.

OIG acknowledges the Department's efforts to use the unspent escrow funds in a timely manner and help meet program objectives to increase the supply of low- and moderate-income housing for the residents of Puerto Rico. Any plans and efforts should be coordinated with HUD to ensure compliance with program requirements.

Comment 2 The Department requested OIG copies of documentation examined during the audit to assist them in the development of a corrective action plan regarding the issues and recommendations presented in the report.

On February 27, 2017, OIG provided the Department with the requested supporting documentation. Any plans and efforts should be coordinated with HUD to ensure compliance with program requirements.

Comment 3 The Department stated that it plans to develop and implement written policies detailing procedures and responsibilities related to administration of the program. This effort will be accomplished in conjunction the development on the action plan related to recommendation 1A.

OIG acknowledges the Department's efforts for developing program policies and procedures. The new policies and procedures should be provided to HUD for its evaluation and comments.

Comment 4 The Department stated that it had initiated communications with the Development Bank to recuperate the escrow funds and that it will transfer them to a financial institution that is supervised by the Federal Deposit Insurance Corporation. It also stated that it had requested HUD's assistance in the matter.

OIG acknowledges the Department's efforts to recuperate the funds from the Development Bank. Any plans and efforts should be coordinated with HUD to ensure compliance with program requirements. Further, the Department should also provide HUD with evidence showing that escrow funds were transferred to a bank insured by the Federal Deposit Insurance Corporation.

Appendix C

Schedule of Unsupported Disbursements

Check number	Date	Amount
96	March 31, 2010	\$1,283,574
81	September 9, 2009	691,217
3	October 20, 2014	112,904
5	January 27, 2015	80,328
73	June 23, 2009	8,710
Total		2,176,733