



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

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MEMORANDUM NO:
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Memorandum

TO: Stanley Gimont, Deputy Assistant Secretary for Grant Programs, DG
Nelson R. Bregón, Associate Assistant Deputy Secretary, Office of Field Policy and Management, M

//Signed//

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

SUBJECT: Interim Memorandum Special Review, Office for the Socioeconomic and Community Development, San Juan, PR, State Block Grant Disaster Recovery Program

INTRODUCTION

The purpose of this memorandum is to provide time-sensitive information regarding the Office for the Socioeconomic and Community Development's (ODSEC) proposed framework for the administration of the Community Development Block Grant Disaster Recovery program.¹ Based on Congressional concerns regarding the Commonwealth of Puerto Rico's ability to administer disaster funds, we reviewed ODSEC because it was identified as a potential State grantee to administer disaster funds. The objective of this review was to identify the plan Puerto Rico has developed as of mid-October 2017 for administering disaster funds and obtain an understanding of established or proposed mechanisms to ensure compliance with U.S. Department of Housing and Urban Development (HUD) requirements.

METHODOLOGY AND SCOPE

To accomplish our review objective, we performed the following associated with the ODSEC's proposed framework:

¹ This program provides flexible grants to help cities, counties, and States recover from Presidentially declared disasters, especially in low-income areas, subject to availability of supplemental appropriations. The special appropriation provides funds to the most impacted and distressed areas for disaster relief, long term recovery, restoration of infrastructure, housing and economic revitalization.

- interviewed HUD and ODSEC officials;
- reviewed ODSEC’s disaster recovery delivery framework;
- reviewed HUD monitoring risk assessments and monitoring reports, applicable laws, regulations, relevant HUD program requirements, and agreements; and
- obtained background information on governmental entities to which ODSEC would delegate performance of the grant activities.

The review generally covered the period September 20, 2017, through October 30, 2017. We performed our onsite fieldwork from October 16 through October 30, 2017, at the HUD office and our office in San Juan, PR.

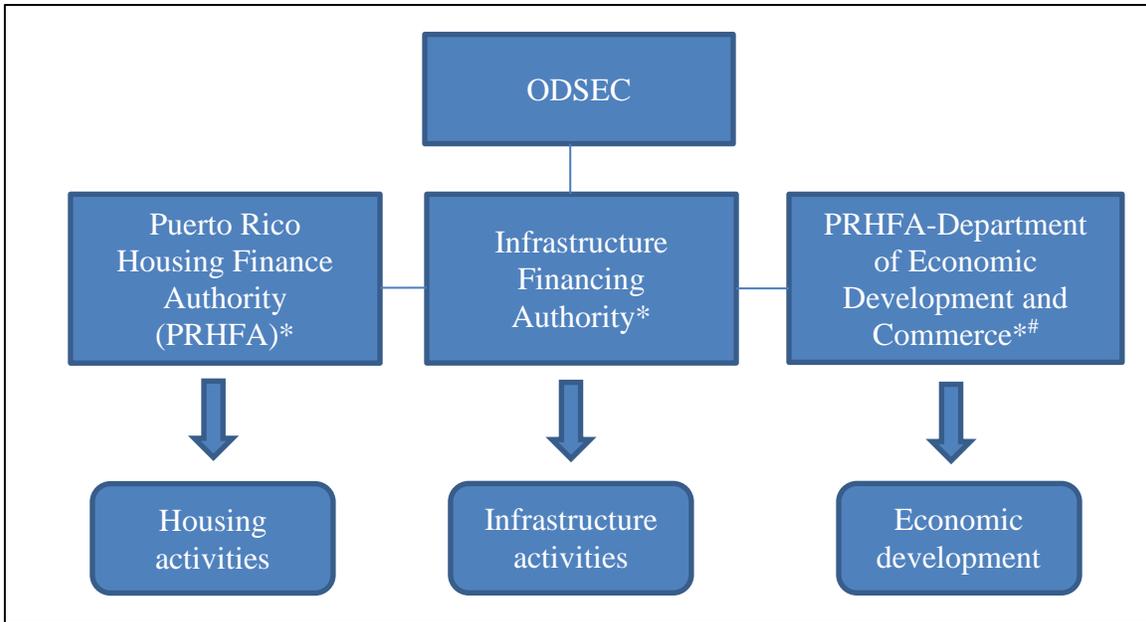
BACKGROUND

The Commonwealth of Puerto Rico has proposed ODSEC as the State grantee for the Block Grant disaster funds. ODSEC, a State entity newly reconstituted in February 2017, is the agency in Puerto Rico responsible for overseeing the administration of the State Block Grant program. Effective July 1, 2017, the governor transferred the administration of the State Block Grant program to ODSEC. The Office of the Commissioner for Municipal Affairs (OCMA) was the former lead agency overseeing the administration of the State allocation of Block Grant funds, as well as nearly \$30 million in 2008 disaster funds.

RESULTS

Grant Administration

On October 16, 2017, State officials informed us that ODSEC would be the State grantee for administering the disaster funds. ODSEC’s executive director explained the proposed framework for administering the funds. Under the proposed framework, ODSEC would be in charge of planning, administration, and oversight of the program. It would also be responsible for, among other things, preparing the action plan, developing policies and procedures, financial management, environmental reviews, monitoring efforts, and reporting. The grant activities expected to be funded would be those related to housing, infrastructure, and economic development. ODSEC would delegate performance of the grant activities to three other State entities as illustrated below.



* Municipalities could also undertake activities.

The Puerto Rico Trade and Export Company would also participate in economic development efforts.

Grant Activities

The disaster grant activities expected to be funded would be those related to housing, infrastructure, and economic development.

- Housing – The performance of housing activities would be delegated to the Puerto Rico Housing Finance Authority (PRHFA). The housing activities could involve new construction, home-buyer and rental assistance, and housing rehabilitation efforts. According to HUD officials, it is estimated that around 300,000 housing units in Puerto Rico were significantly affected by Hurricane Maria.
- Infrastructure – The performance of infrastructure activities would be delegated to the Puerto Rico Infrastructure Financing Authority (AFI). The infrastructure activities could involve improvements to public facilities, streets and bridges, utility systems, and other facilities.
- Economic development – The performance of economic development activities would be delegated to PRHFA and the Department of Economic Development and Commerce (DDEC). The economic development activities could involve business loans and grants to small and medium-size businesses and reconstruction of commercial areas.

Key Entities

The State grantee for the disaster funds would be ODSEC, and it would delegate performance of the grant activities to three other State entities.

Office for the Socioeconomic and Community Development

ODSEC was created February 15, 2017. Its mission is advancing the development of disadvantaged communities and the nonprofit sector. It is the lead agency in Puerto Rico

responsible for overseeing the administration of the State Block Grant funds and the 2008 disaster funds.

- ODSEC has 103 employees, 32 of whom were transferred from the former OCMA.
- HUD awards to Puerto Rico

Program	2017	2016
State Block Grant	\$23,078,405	\$23,621,984

- HUD risk assessment score:
58 – high risk, as of December 2016 (Disaster Recovery program).² HUD classified four areas as high risk: staff capacity and program design, program capacity, cross-cutting requirement compliance, and financial staff capacity.

75 – high risk, as of December 2016 (Block Grant).³ HUD classified eight areas as high risk: staff capacity and program design, open or stalled activities, findings and sanctions (HUD monitoring and Office of Inspector General (OIG) reports), management of subrecipients, financial staff capacity, grant amount risk, Office of Management and Budget Circular A-133 audits, and citizen complaints or negative media exposure.

Puerto Rico Housing Finance Authority

PRHFA is a subsidiary of the Government Development Bank established under Act 103 of August 2001. PRHFA’s principal mission is to promote the development of low-income housing and provide financing, subsidies, and incentives so that people may acquire or lease a home.

- PRHFA has 200 employees and 77 contractors.
- PRHFA is the performance-based contract administrator for HUD’s subsidy contracts for Section 8⁴ projects in Puerto Rico. It has been the State administrator of the HOME Investment Partnerships⁵ program since 2010.
- PRHFA is Puerto Rico’s State credit agency for the Low-Income Housing Tax Credit program under Section 42 of the U.S. Internal Revenue Code as amended.
- PRHFA is responsible for the Puerto Rico Community Development Fund, a community development entity participating in the New Markets Tax Credits Program of the U.S. Department of the Treasury.

² The score pertains to OCMA, the former lead agency overseeing the administration of the State allocation of Block Grant funds. HUD has not performed a risk assessment of ODSEC.

³ Ibid.

⁴ The housing choice voucher Section 8 program is the Federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.

⁵ The HOME Investment Partnerships program provides formula grants to States and localities that communities use to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

- HUD awards:

Program	2017	2016
HOME	\$9,619,282	\$8,911,175
Housing Trust Fund	883,160	326,054
Total	10,502,442	9,237,229

- HUD’s risk assessment score: 36 – medium risk, as of December 2016 (HOME program). Although the overall rating was medium risk, HUD classified two areas as high risk: new program-large projects and physical condition of projects.

No risk assessment was provided for the Housing Trust Fund.

- Observations: We have no information indicating that PRHFA has experience in administering economic development activities.

Puerto Rico Infrastructure Financing Authority

AFI is an affiliate of the Government Development Bank created in June 1988 to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other public corporations, governmental instrumentalities, political subdivisions, and municipalities authorized to develop infrastructure facilities, and to establish alternate means for financing infrastructure facilities.

- AFI has 21 employees and 21 contractors.
- AFI has provided assistance to various entities with regard to the design and construction of water and sewer projects, sports complex projects, and the modernization of public schools, among other things.
- HUD awards: None
- Observations: We have no information on AFI’s current or past performance.

Puerto Rico Department of Economic Development and Commerce

DDEC is responsible for the implementation and oversight of Puerto Rico’s public policy on economic development in the various entrepreneurial sectors of manufacturing, commerce, tourism, services, and others, with the objective of promoting a stable and sustainable private sector. DDEC is composed of 11 government instrumentalities, which include agencies and public corporations focused on different economic sectors and initiatives.

The Puerto Rico Trade and Export Company (CCE) is one of DDEC’s instrumentalities. CCE’s mission is to promote the development of commerce with a special emphasis on small and medium-size businesses and the exportation of Puerto Rican products and services. CCE provides guidance, technical assistance, and advice on funding sources, applicable laws on trading, orientation on export plans, business education, and incentives.

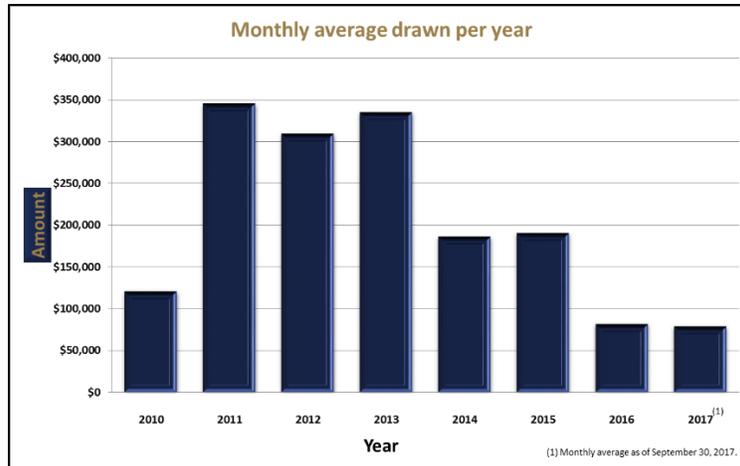
- CCE has 131 employees.
- HUD awards: None
- Observations: We have no information on DDEC's and CCE's current or past performance.

Areas of Concern

We reviewed ODSEC's proposed framework for the administration of the disaster funds. Based on the information provided, there are certain issues that raise concern and that HUD should consider when allocating the disaster funds to Puerto Rico.

1. ODSEC is a new government entity established in February 2017.
 - No historical data are available showing grant performance administration.
 - Disaster funding to be awarded to Puerto Rico is expected to be significantly larger than the annual Block Grant allocation. Governor Ricardo Rosselló-Neveas has requested \$3.2 billion in Block Grant disaster funds for Puerto Rico. The allocation in Block Grant funds that HUD awarded Puerto Rico in fiscal years 2016 and 2017 was about \$23 million per year. In 2009, HUD awarded nearly \$30 million in disaster funds pertaining to Hurricane Ike.
2. ODSEC's Block Grant program is staffed with former OCMA employees.⁶
 - OIG's reports on OCMA identified HUD-funded activities with signs of slow progress that were not providing intended benefits and funds used for ineligible purposes. In addition, there was inadequate monitoring of recipients.
 - ODSEC's Block Grant program financial management system is the one used and established by the former agency OCMA. OIG reviews have identified deficiencies in the accounting system that OCMA used.
3. Puerto Rico's inability to spend 2008 disaster funds in a timely manner.
 - Puerto Rico's grantee spending status is "slow spender."

⁶ ODSEC has 103 employees, 32 of whom were transferred from OCMA.



- More than \$10.47 million in disaster funds remained unspent as of September 30, 2017.
 - According to a HUD official, the slow progress is due to
 - Staff turnover after every election period, requiring technical assistance and training of the new staff.
 - Excessive time to obtain building and construction permits and environmental reviews.
4. ODSEC’s proposed framework does not include an internal audit function.
 5. ODSEC’s proposed framework includes government entities (AFI, DDEC, and CCE) with no historical data available showing performance regarding HUD grants or programs.

General Comments

1. The recovery activities in Puerto Rico will take many years to complete. The disaster funds should be administered by an entity that has experience in managing large-scale recovery projects (at a minimum, in the areas of housing, infrastructure, and economic development).
2. The entity managing disaster funds has to be independent and unaffected to changes in administration (elections) and be able to ensure the continuity of the plans and projects.
3. The framework to be established should include an internal audit division that reports to a board of directors to ensure independence and accountability.
4. A robust financial management system that properly traces the receipt and expenditure of disaster funds is essential. The financial management system, at a minimum, must permit

the tracing of disbursements by grant, activity, and funding type and properly account for accounts payable and receivable.

NEW GRANTEE

On October 28, 2017, Governor Ricardo Rosselló-Nevares announced that on October 23, 2017, he created, through an executive order, the Central Recovery and Reconstruction Office of Puerto Rico (CRRO). The newly created entity will be responsible for planning, administering, processing, and overseeing all of the work of reconstruction paid for with private, State, or Federal funds after the catastrophe caused by Hurricane Maria in Puerto Rico. It will also have the ability to approve or repeal regulations, audit policies, and establish its own government ethics process.

ODSEC officials could not explain or provide any additional information on how CRRO will affect the proposed framework for administering disaster funding or what ODSEC's role will be. As our work continues, we will obtain a general understanding of CRRO's strategies for administering disaster funds and evaluate established or proposed mechanisms to ensure compliance with HUD requirements.

We will monitor and report on the proposed framework as Puerto Rico's plan evolves and changes. This will be a continuous ongoing effort. As we complete our analyses, we will communicate our results to your offices.