

# Department of Housing and Community Development

## Awards of Housing Bond Funds Have Been Timely and Complied With the Law, but Monitoring of the Use of Funds Has Been Inconsistent

REPORT NUMBER 2007-037, SEPTEMBER 2007

### *Department of Housing and Community Development's response as of November 2007*

In November 2002 and 2006, California voters passed the Housing and Emergency Shelter Trust Fund acts to provide bonds (housing bonds) for use in financing affordable housing for low- to moderate-income Californians. The Department of Housing and Community Development (department) and the California Housing Finance Agency (Finance Agency) manage the programs funded by the housing bonds.

The California Health and Safety Code, sections 53533 and 53545, requires the Bureau of State Audits to conduct periodic audits of housing bonds activities to ensure that housing bond proceeds are awarded in a manner that is timely and consistent with legal requirements and that awardees use the funds in compliance with the law.

#### **Finding #1: Awards of housing bond funds were timely.**

The department and Finance Agency have generally met and sometimes exceeded the goals specified in awards schedules they established in 2002 and 2003 for the 2002 housing bonds. For all complete fiscal years we audited, except fiscal year 2002–03, actual awards exceeded estimated awards.

#### **Finding #2: The department and the Finance Agency generally complied with legal requirements when awarding housing bond funds.**

The department and the Finance Agency generally allocated and awarded housing bond funds for the intended programs, to the correct types of sponsors, and for the proper activities. We noted that the Finance Agency's California Homebuyer's Downpayment Assistance Program (Downpayment Assistance Program) and the department's CalHome, Joe Serna Jr. Farmworker Housing (Farmworker Housing Program), and Multifamily Housing programs complied with legal requirements. However, poor file management in the department's Emergency Housing and Assistance Program (Emergency Housing Program) made it impossible for us to verify if the department always assessed applicants' submissions according to criteria for their capability as set forth in program notices. These criteria include minimum standards.

We recommended that the department implement record-keeping procedures for the Emergency Housing Program to ensure that applicants who receive awards have been properly evaluated.

#### **Audit Highlights . . .**

*Our review revealed that for the Housing and Emergency Shelter Trust Fund Act of 2002:*

- » *Both the Department of Housing and Community Development (department) and California Housing Finance Agency (Finance Agency) generally awarded funds in a timely manner.*
- » *Both the department and Finance Agency generally complied with legal requirements for making awards; however, the department could not provide its rating and ranking tools in some cases for its Emergency Housing and Assistance Program (Emergency Housing Program).*
- » *Both the department and Finance Agency generally used appropriate monitoring procedures during the expenditure phase, but the department sometimes overrode controls concerning advance payments for the CalHome Program.*
- » *The department does not exert adequate monitoring over the completion phase for two of its programs—Emergency Housing and CalHome.*

*Department's Action: Pending.*

The department reports that it drafted standardized record filing and maintenance procedures for the Emergency Housing Program and expects to finalize the procedures by the end of October 2007. In addition, by February 2008 the department anticipates the file review and organization effort will be completed.

**Finding #3: The department and the Finance Agency generally undertake appropriate monitoring procedures during the expenditure phase.**

For the expenditure phase (the period from award commitment to final state payment to an awardee), the department and the Finance Agency have processes in place to ensure that awardees exhibit reasonable progress in meeting their goals and are only reimbursed for allowed costs. However, we found that for three of the 18 CalHome awards tested, 17 percent of our sample, sponsors received advances exceeding the 25 percent limit established in their standard agreements. For example, the department approved a 100 percent advance on the last day funds were available for disbursement to one awardee based only on a list of potential home buyers. In these cases, the department overrode what appears to be a reasonable policy to ensure the delivery of services close to the time of payment and to maximize the State's interest earnings. Had the department retained the funds advanced over the 25 percent threshold for the three awards, we estimate it could have earned \$42,000 in interest through July 2007 based on the effective yield of the State Treasurer's Office pooled money account.

We recommended that the department consider eliminating its process of overriding restrictions on advances for the CalHome Program.

*Department's Action: Pending.*

The department stated that it is establishing clear procedures to guide staff in evaluating circumstances in which an advance above the 25 percent limitation may be appropriate and documenting the justification received from the awardees. The department indicated that these procedures will ensure that exceptions are allowed only after there is clear documentation that the awardee has a proven history of making loans on a timely basis and that the amount requested is reasonable in consideration of the anticipated loan closing schedule.

**Finding #4: For two programs, the department does not have adequate monitoring processes for the completion phase.**

Of the five programs we reviewed, only Downpayment Assistance, Farmworker Housing, and Multifamily Housing had processes in place to adequately ensure compliance during the completion phase. This phase extends from the final state payment to fulfillment of all contract requirements. However, the CalHome and Emergency Housing programs administered by the department had weak or nonexistent monitoring during the completion phase. Consequently, the department cannot always be certain that sponsors are using bond funds to help intended beneficiaries, such as low- to moderate-income home buyers or homeless individuals.

We found that for 17 of the 18 CalHome Program awards we tested, the department had not verified any of the information provided whether through site visits or by reviewing original documentation, even though the sponsors had received all funds. For the remaining award, the sponsor had not yet received any funds. As a result, the department cannot be certain that sponsors complied with housing bond requirements related to occupants' income limits or their status as first-time home buyers.

Similarly, for the Emergency Housing Program, we found that the department had not performed site visits to verify sponsor activities for any of the awards we tested that were in the completion phase. Moreover, the program manager said that the program has not performed any site visits since 2005 and even then, it did not have formal policies and procedures governing the purpose and documentation

requirements for site visits. Without monitoring processes for verifying compliance, the department cannot ensure that sponsors use funds in accordance with housing bond requirements or that the program benefits the intended populations.

We recommended that the department give high priority to finalizing and implementing monitoring procedures for the CalHome and Emergency Housing programs, which do not currently have such procedures in place. In addition, we recommended that the department review its other housing bond programs that were not specifically evaluated in this initial audit to ensure that monitoring procedures are in place and operating.

***Department's Action: Partial corrective action taken.***

The department stated that it completed monitoring of eight CalHome awards. The department anticipates it will finalize and implement its new risk assessment procedure and monitoring program design in January 2008. In regards to the Emergency Housing Program, the department says it has developed draft criteria for selection of projects to be monitored and anticipates finalizing monitoring procedures no later than January 2008.

The department indicates it completed its review of the bond programs not included in the audit to determine whether appropriate in-progress and post-completion monitoring processes are in place. The department stated that for all but two housing bond programs now operating, monitoring processes were appropriate. For the two identified programs, the department's Audit Division is revising its audit plan to assure that awardees are carrying out their responsibilities. For new housing bond programs, the department stated that development of the monitoring processes will be a second step of the program design procedures that are currently underway.