

Audit Report

Department of Housing and Community Development

November 2015



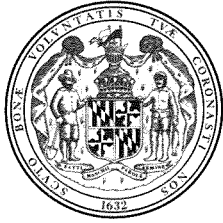
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

November 16, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

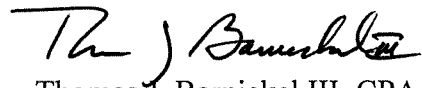
We have conducted a fiscal compliance audit of the Department of Housing and Community Development (DHCD) for the period beginning March 30, 2011 and ending June 30, 2014. DHCD provides services to strengthen communities and provides affordable housing for people of limited income. DHCD works with partners to finance housing opportunities and revitalize places for Maryland citizens to live, work, and prosper.

Our audit disclosed that DHCD did not timely monitor certain multifamily housing projects to ensure that the proper number of rental units was reserved for low income tenants. DHCD also lacked adequate documentation of proposal evaluations for certain neighborhood revitalization grant awards. For example, for all 39 grants awarded under one grant program in fiscal year 2013, which totaled \$12 million, DHCD could not provide documentation of its evaluation process. DHCD also lacked written procedures for monitoring program compliance for certain grants and on-site monitoring was inconsistently performed and documented.

DHCD's procedures for reconciling State accounting records with its loan servicer records for State-funded housing loans did not ensure that the reconciliations were properly performed and that the reconciling items were resolved in a timely manner. Finally, employee access to the single family loan accounting system was not disabled upon termination of employment and was not regularly reviewed to ensure access was appropriate, and DHCD did not comply with certain procurement regulations with respect to bidding requirements and publishing awards.

An executive summary of our findings can be found on page 5. DHCD's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by DHCD.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Th J Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on the Department of Housing and Community Development (DHCD) November 2015

- **DHCD did not timely monitor State-funded multifamily housing projects to ensure that the required number of rental units was reserved for low-income households. Specifically, the annual certification process was not completed in a timely manner (Finding 1).**

DHCD should complete the annual certification process in a timely manner.

- **Documentation of the proposal evaluations for certain neighborhood revitalization grant awards, which totaled \$29 million in fiscal year 2013, was not maintained. For example, for all 39 grants awarded under one grant program in fiscal year 2013, DHCD could not provide documentation of its evaluation process. In addition, DHCD lacked written procedures for performing on-site monitoring reviews of certain grants to ensure grantees complied with program requirements (Findings 2 and 3).**

DHCD should maintain documentation supporting the grant award process and should establish and document ongoing grant monitoring procedures.

- **DHCD's procedures for reconciling its State-funded housing loans receivable balances as recorded on the State's records with its loan servicer records did not ensure that reconciliations were properly performed and that reconciling items were resolved in a timely manner. Numerous reconciling items identified by DHCD remained unresolved for periods of seven months to eight years (Finding 4).**

Supervisory review of the monthly reconciliations should include a verification of reconciling items and a review of the related supporting documentation. In addition, all reconciling items should be promptly investigated and resolved during the reconciliation process.

- **Employee access to the single family loan accounting system was not reviewed on a regular basis to ensure access was appropriate and was not disabled upon termination of employment. Finally, DHCD did not always comply with certain procurement regulations with respect to**

bidding requirements and publishing service contract awards (Findings 5 and 6).

DHCD should establish appropriate controls over access to the loan accounting system and should consistently comply with State procurement regulations.

Background Information

Agency Responsibilities

The Department of Housing and Community Development (DHCD) provides services to strengthen communities and provides affordable housing for people of limited income. The mission of DHCD is to work with partners to finance housing opportunities and revitalize places for Maryland citizens to live, work, and prosper. This audit report includes the operations of all six DHCD divisions:

- Office of the Secretary

- Division of Finance and Administration

- Division of Information Technology

- Division of Development Finance (including Community Development Administration)

- Division of Credit Assurance

- Division of Neighborhood Revitalization

DHCD's three operating divisions (Development Finance, Credit Assurance, and Neighborhood Revitalization) administer various housing and neighborhood revitalization programs which assist families with affordable homeownership, foreclosure prevention counseling, affordable rental housing, and housing rehabilitation needs. Through these housing programs, DHCD provides loans for the purchase and/or rehabilitation of single-family homes and for the acquisition, construction, renovation, and/or rehabilitation of multifamily rental housing. DHCD's remaining divisions provide administrative support to assist in achieving its goals. Previously, we audited and reported upon the operating divisions and the administrative support divisions separately.

DHCD's programs are funded primarily by revenue bonds it issues, federal funds, and State appropriations. According to the State's records, DHCD's expenditures totaled approximately \$348.5 million during fiscal year 2014.

The following chart presents certain financial data pertaining to DHCD's outstanding loans as of June 30, 2014:

Loans Outstanding as of June 30, 2014 (in millions) (net of allowances for loan losses)				
	Single Family	Multifamily	Other	Total
From State Funds	\$86.0	\$455.8	\$75.4	\$617.2
From Revenue Bonds	1,435.0	504.9	123.6	2,063.5
Total Loans Receivable	\$1,521.0	\$960.7	\$199.0	\$2,680.7

Source: Audited Financial Statements

Financial Statement Audits

DHCD engaged independent accounting firms to perform audits of certain of its financial activities. Based on significance and risk, we reviewed the following financial statements for the fiscal year ended June 30, 2014:

- Community Development Administration (CDA) Single Family Housing Revenue Bonds
- CDA Revenue Obligation Funds
- CDA Multifamily Mortgage Revenue Bonds
- State-Funded Loan Programs

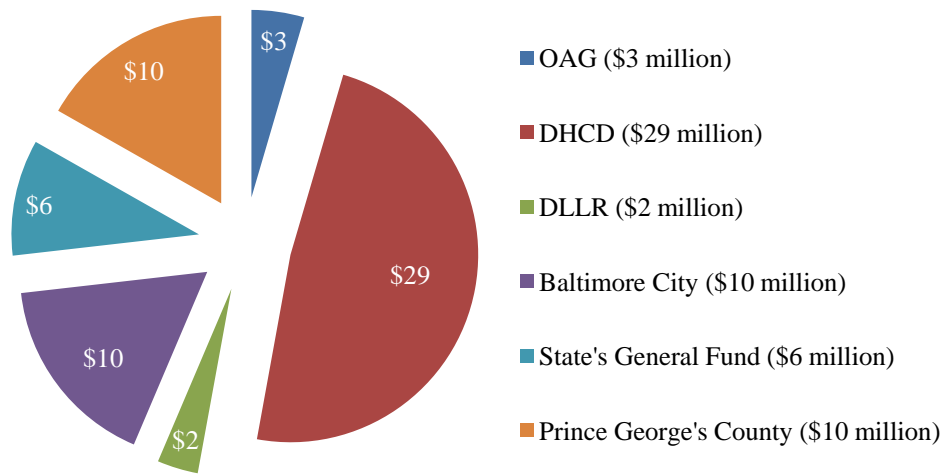
In the related audit reports, the firms stated that the financial statements presented fairly, in all material respects, the related financial positions as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

National Mortgage Loan Servicing Practices Settlement

In February 2012, the nation's five largest mortgage servicers agreed to a significant national settlement over questionable mortgage loan servicing and foreclosure practices. Through the Maryland Office of the Attorney General (OAG), Maryland received approximately \$60 million in settlement funds for foreclosure prevention programs, including foreclosure fraud prevention, housing counseling, and neighborhood revitalization. In May 2012, a workgroup which included representatives from OAG; DHCD; the Department of Labor, Licensing and Regulation (DLLR); Baltimore City; and Prince George's County, completed a three-year spending plan for these funds. Refer to the chart on page 9 for the allocation of the settlement funds.

Approximately \$29 million of the \$60 million was allocated to DHCD to enhance existing programs for housing counselor services, legal assistance organizations, and neighborhood revitalization. As of June 30, 2014, DHCD had spent approximately \$14.3 million of the funds. In addition, DHCD is responsible for monitoring \$10 million allocated to Baltimore City and \$10 million allocated to Prince George's County. As of June 30, 2014, approximately \$1.9 million of those funds had been spent.

Allocation of Maryland's Portion of the National Mortgage Loan Settlement (in millions)



Source: Maryland Attorney General's Office Publication

Status of Findings From Preceding Audit Reports

Based on our assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of two of the three findings contained in our preceding audit report of the DHCD – Office of the Secretary, Division of Finance and Administration, and Division of Information Technology dated April 18, 2012. We determined DHCD satisfactorily addressed those

findings. We did not follow up on the remaining finding which pertained to equipment inventory procedures.

Our audit also included a review to determine the status of the three findings contained in our preceding audit report of the DHCD – Division of Development Finance, Division of Credit Assurance, and Division of Neighborhood Revitalization dated July 19, 2012. We determined that DHCD satisfactorily addressed those findings.

Findings and Recommendations

Multifamily Housing Program

Finding 1

The Department of Housing and Community Development (DHCD) did not timely monitor State-funded multifamily housing projects to ensure that rental units were reserved for low-income households, as required.

Analysis

DHCD did not timely monitor State-funded multifamily housing projects to ensure that the required number of rental units was reserved for low-income households, in accordance with State law and the financing agreements. DHCD had established a self-certification process requiring project owners to report on a calendar year basis, tenant information, including income levels, for multifamily housing units reserved for low-income households to demonstrate that the project served the required number of low-income households. However, DHCD did not require these certifications in calendar year 2012. In addition, the certification process for 2013 did not begin until November 2014 and was not completed as of May 2015. Without this information, DHCD could not readily verify that the housing projects were in compliance with financing terms and State law during its site visits. We were advised by DHCD management that the delay in certifying the multifamily projects was the result of staff turnover.

State law and the financing agreements require that a portion of the rental units in each multifamily housing project that receives financing from DHCD be reserved for low-income households for the greater of 15 years or the number of years required by federal law (if the project also receives federal assistance). The number of units reserved for each project is based on the ratio of funds received from DHCD to the financing for the entire project.

According to DHCD records as of October 2014, there were 221 multifamily housing projects with 12,807 units financed, in part, by DHCD. During fiscal year 2014, DHCD approved 20 State-funded multifamily projects totaling approximately \$45.8 million.

Recommendation 1

We recommend that DHCD complete the annual certification process timely to ensure that rental units are reserved for low-income households, as required by State law and the related financing agreements.

Neighborhood Revitalization Grants

Background

The Division of Neighborhood Revitalization provides funding and technical assistance to local governments, nonprofit organizations, community groups, and businesses to help revitalize communities, improve basic infrastructure, and create housing opportunities. Neighborhood Revitalization grants are generally financed by State appropriations and federal funds. In 2012, DHCD was allocated approximately \$29 million of the \$60 million awarded to the State as part of a national mortgage settlement over questionable mortgage loan servicing and foreclosure practices. Following this allocation, the State entered into a second settlement agreement with a different loan servicer that resulted in an additional \$3 million allocated to DHCD. DHCD's settlement funds were used to expand the funding for two existing programs – the Home Owners Preserving Equity (HOPE) program and the Neighborhood Conservation Initiative (NCI) program.

The HOPE program provides three-year grants to nonprofit organizations for legal services (such as for foreclosure prevention) and housing counseling (such as for mediation and credit counseling). DHCD awards the HOPE grants through a competitive process and distributes funding in quarterly installments. Grantees are required to submit annual performance data to DHCD to continue to receive funding for the remainder of the award period.

The NCI program provides grants to communities, generally for a two-year period, to address abandoned and foreclosed homes in neighborhoods which have been impacted by foreclosure and sub-prime lending. Funds are awarded through a competitive process to local governments, public housing authorities, and nonprofit organizations. Grant recipients are responsible for providing down payment and closing cost assistance to eligible home buyers, and are responsible for the acquisition and rehabilitation of housing and abandoned property for resale or rental purposes. Grant funds are paid in advance or on a reimbursement basis, depending on the individual grants.

According to its records, during fiscal year 2013, DHCD awarded 39 HOPE housing counseling grants totaling approximately \$12 million and 9 HOPE legal services grants totaling approximately \$9 million. DHCD also awarded 17 NCI grants totaling \$17 million during fiscal year 2013. These grants included the aforementioned \$32 million in mortgage settlement funds. As of December 2014, the most recent grants were awarded during fiscal year 2013.

Finding 2

DHCD did not maintain complete documentation of the proposal evaluation process for certain HOPE and NCI grants.

Analysis

Documentation of the grant proposal evaluation process for certain HOPE and NCI programs was not maintained. Specifically, DHCD could not provide documentation of the proposal evaluation process, including the selection committee scores and proposal rankings, for all 39 HOPE housing counseling grants awarded in fiscal year 2013. In addition, DHCD could not provide documentation of certain committee member scores for the 17 NCI grants awarded in fiscal year 2013. Specifically, committee member scores were not recorded for 18 of the 32 grant applicants, including 8 of the 17 applicants that were ultimately awarded funds. Furthermore, an overall rating score was not tabulated for any of the applicants. Without evidence of the proposal evaluation process, there is no assurance that grants were awarded in appropriate amounts to entities that were most able to effectively meet program goals.

For both of these grant programs, a five-member selection committee was responsible for evaluating each proposal and scoring each proposal based on the established criteria. These criteria included the entity's experience and expertise, the proposed programs and related goals, and the locations and number of people to be served. The proposals also included a requested amount for the grant. According to the Requests for Proposals, the committee was supposed to rank the proposals based on the scores and, based on this ranking, determine the amounts awarded to each applicant.

Recommendation 2

We recommend that, in the future, DHCD maintain documentation supporting the grant proposal evaluation process for the HOPE and NCI programs.

Finding 3

DHCD lacked written procedures for performing and documenting program compliance monitoring of NCI grants.

Analysis

DHCD had not established formal procedures for performing on-site monitoring reviews of NCI grants to ensure grantees had complied with program requirements. Consequently, our test of five judgmentally selected NCI grants awarded in fiscal year 2013, totaling \$8 million, disclosed that the on-site

monitoring of these grants was inconsistently performed and documented by the project managers. For one grant tested, the applicable project manager did not perform any on-site performance monitoring reviews, whereas the two project managers assigned to the remaining four grants tested had conducted on-site reviews but only partially completed a monitoring checklist in each case to document the monitoring procedures they performed. For example, in one instance where grant funds were used to rehabilitate a property, there was no indication on the checklist that the project manager had evaluated certain critical information, such as the appraised and fair market values of the property, to ensure that the subsequent sale of the property complied with program guidelines. While DHCD had established formal monitoring guidelines and checklists for similar grant programs, we were advised that the project managers performing the monitoring of NCI grantees were given flexibility in performing their monitoring efforts.

Recommendation 3

We recommend that DHCD

- a. establish written procedures for performing on-site program compliance monitoring of NCI grants to ensure that services were performed in accordance with the grant agreements, and**
- b. document all grant monitoring efforts consistent with these procedures.**

State-Funded Loans

Finding 4

DHCD's procedures for reconciling the receivable balances for State-funded loans did not ensure that reconciliations were properly performed and that reconciling items were resolved in a timely manner.

Analysis

DHCD's procedures for reconciling its receivable balances for State-funded housing loans as recorded on the State's records with its loan servicer records did not ensure that reconciliations were properly performed and that reconciling items were resolved in a timely manner. Specifically, although supervisory personnel reviewed and approved these reconciliations, this review did not include a verification of reconciling items for propriety and a review of related supporting documentation, such as loan documents. Under these conditions, errors or misappropriations could occur without timely detection.

We judgmentally selected and reviewed the June 30, 2014 reconciliations for five loan programs with significant outstanding loan balances totaling \$463 million.

Our testing disclosed that the reconciliations for one loan program with outstanding loan balances totaling \$15.5 million included 273 identified reconciling items totaling approximately \$327,000 that had been unresolved for periods of seven months to eight years. For example, the reconciliation for this program disclosed approximately \$83,000 in principal adjustments processed for 13 mortgage loans by the mortgage servicer in March 2012 that were not updated by DHCD in the State's accounting records as of December 2014.

DHCD has entered into contracts to obtain servicing of its loans, including maintenance of loan records. The loan servicer provides DHCD with monthly reports summarizing loan activity. DHCD is responsible for reconciling these reports with the State's records to ensure that all loan activity has been properly accounted for. According to State records, there were 15,228 State-funded housing loans with outstanding principal balances totaling \$708 million as of June 30, 2014.

Recommendation 4

We recommend

- a. that the supervisory review of the monthly State-funded loans receivable reconciliations include a verification of reconciling items and a review of related supporting documentation; and**
- b. that all reconciling items, including the aforementioned 273 items, be promptly investigated and resolved during the reconciliation process.**

Single Family Loan Accounting System

Finding 5

Controls over employee access to DHCD's single family loan accounting system were not sufficient.

Analysis

DHCD had not established sufficient controls over employee access to its single family loan accounting system, which is used for loan processing, debt service, foreclosures, loan monitoring and tracking, and cash management. According to audited financial statements, the single family loan receivables balance as of June 30, 2014 totaled approximately \$1.5 billion.

- Access was not disabled when individuals were no longer employed by DHCD, as required. As of December 12, 2014, there were 253 active userids, of which 105 were assigned to individuals who had been separated from DHCD employment for periods of 8 to 47 months. DHCD management

advised us that these userids were preserved so that they could be copied to readily establish userids for new employees. Consequently, unauthorized activity could be recorded and not detected. While DHCD management advised that there had not been activity on these accounts subsequent to the employees' separation, the system does not track transactions by user accounts and, accordingly, this could not be confirmed. Subsequent to our audit, the aforementioned 105 userids were disabled in March 2015.

- DHCD did not periodically review available system reports of user access capabilities, as required. As of December 18, 2014, DHCD had not performed such a review since August 2012. Consequently, DHCD lacked assurance that capabilities were assigned in a manner that only granted employees those capabilities needed to perform their job duties.

The Department of Information Technology's (DoIT) *Information Security Policy* requires each agency to immediately disable access upon a change in employment status, where appropriate. In addition, the *Policy* requires agencies to monitor the controls over their information systems at least annually.

Recommendation 5

We recommend that DHCD establish appropriate controls over employee access to its single family loan accounting system in accordance with the DoIT *Information Security Policy* requirements. Specifically, we recommend that DHCD

- a. disable user access capabilities upon termination of employment, and**
- b. periodically review system user capabilities to ensure that access granted is appropriate.**

Procurements

Finding 6

DHCD did not always comply with certain requirements of State procurement regulations for service contracts awarded through the competitive sealed bid process.

Analysis

DHCD did not always comply with State procurement regulations with respect to bidding requirements and publishing awards made through the competitive sealed bid process. DHCD did not secure vendor bids prior to opening. Rather, the bids were stored in an unlocked bin in the mailroom that was accessible to many

employees. In addition, bid openings were not witnessed by at least two State employees, as required. DHCD management advised us that only one employee opened all vendor bid proposals but documentation of who was present when the proposals were opened was not maintained. We judgmentally selected three significant service contracts totaling \$2.5 million that were competitively procured during our audit period and confirmed that DHCD did not document who was present when the proposals were opened. Our review of these three contracts also disclosed that the contract awards had not been published on *eMaryland Marketplace*, as required.

State procurement regulations generally specify that contracts exceeding \$25,000 shall be awarded by competitive sealed bidding and also require that competitive sealed bid proposals be opened in the presence of two State employees. Additionally, State procurement regulations require that contract awards greater than \$25,000 be published on *eMaryland Marketplace* within 30 days of the contract award. During fiscal year 2014, DHCD awarded 41 service contracts totaling approximately \$21.2 million that were individually greater than \$25,000.

Recommendation 6

We recommend that DHCD comply with State procurement regulations by

- a. securing all vendor bids prior to opening,**
- b. ensuring that two State employees witness the openings of competitive sealed proposals and maintaining documentation of the employees present, and**
- c. publishing contract awards on *eMaryland Marketplace* within the required time frame.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Housing and Community Development (DHCD) for the period beginning March 30, 2011 and ending June 30, 2014. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DHCD's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included payroll, cash receipts, procurements and disbursements, certain State-funded loan program transactions, and specific programs (such as multifamily and single family housing grants and loans) used by DHCD to promote housing opportunities and revitalize localities throughout the State. We also determined the status of five of the six findings contained in our preceding audit reports.

DHCD engaged independent accounting firms to perform audits of certain of its financial activities. Based on significance and risk, we reviewed the following financial statements of the Division of Development Finance's Community Development Administration (CDA) for the fiscal year ended June 30, 2014:

- CDA Single Family Housing Revenue Bonds
- CDA Revenue Obligation Funds
- CDA Multifamily Mortgage Revenue Bonds
- State Funded Loan Programs

In the related audit reports, the firms stated that the financial statements presented fairly, in all material respects, the related financial positions as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firm to provide audit coverage of the aforementioned revenue bonds issued by DHCD's

CDA. Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs (such as Section 8 Housing) and an assessment of DHCD's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DHCD.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DHCD's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from DHCD's Multifamily Management Information System (MMIS) for the purpose of testing multifamily project applications, construction management, and monitoring efforts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DHCD's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DHCD's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DHCD that did not warrant inclusion in this report.

DHCD's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DHCD regarding the results of our review of its response.

APPENDIX



LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lt. Governor

KENNETH C. HOLT
Secretary

ELLINGTON CHURCHILL, Jr
Deputy Secretary

November 10, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Enclosed please find our response to the legislative audit report of the Department of Housing and Community Development for the period beginning March 30, 2011 and ending June 30, 2014.

I have reviewed the findings and recommendations contained in the report and have committed the Department to a plan of corrective action, which is summarized in the attachment. Additionally, our plan of action documents the approximate time frame for compliance with the audit report's recommendations.

The Department views the correction of legislative audit findings with the utmost seriousness. Please be assured that every action will be taken to ensure compliance with the audit's recommendations. If you have any questions regarding our response, please do not hesitate to contact me or Mr. Anthony Yancey, Internal Audit Manager, at 301-429-7458 or at anthony.yancey@maryland.gov.

Sincerely,

Kenneth C. Holt
Secretary

Attachment

cc: Anthony M. Yancey, Internal Audit Manager



DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Responses to Findings and Recommendations Contained in the Legislative Audit Report of the Department

For the Period Beginning March 30, 2011 and Ending June 30, 2014

Finding 1

The Department of Housing and Community Development did not timely monitor State-funded multifamily housing projects to ensure that rental units were reserved for low-income households, as required.

Recommendation 1

We recommend that the Department complete the annual certification process timely to ensure that rental units are reserved for low-income households, as required by State law and the related financing agreements.

Department's Response:

The Department of Housing and Community Development concurs with the auditors' recommendation. However, the Department believes that it does adequately monitor its State-funded multifamily house projects to ensure compliance with income requirements. Specifically, the Department's multifamily projects are subject to annual project inspections administered by Portfolio Managers within the Division of Credit Assurance. These inspections include sample reviews of each project's tenant files to ensure adherence to the income requirements, as mandated by the Department's various loan programs. Also, many of the multifamily projects receive an allocation of Low Income Housing Tax Credits and subsequently, are subject to triennial reviews to ensure compliance with the income requirements of the program. These reviews are performed, per agreement with the Department, by Spectrum, Inc., a leading provider of Low Income Housing Tax Credit compliance monitoring services. Spectrum, Inc. performed compliance reviews for 101 of the properties in 2013 and 199 properties in 2014.

In February 2014, the Department filled the position of Compliance Coordinator. Since that time, a database of all multifamily projects and applicable restrictions has been created and maintained to aid in the Department's efforts to ensure compliance to all low income household restrictions. Furthermore, the Department has reinforced the annual certification process, having completed certifications for 2013 and with the 2014 and 2015 certifications scheduled for completion by November 30, 2015 and April 30, 2016, respectively. Moving forward, the Department will strengthen its procedures for the annual certification process to ensure timely monitoring of multifamily housing projects.

Finding 2

The Department of Housing and Community Development did not maintain complete documentation of the proposal evaluation process for certain Homeowners Preserving Equity (HOPE) and Neighborhood Conservation Initiative (NCI) grants.

Recommendation 2

We recommend that, in the future, the Department maintain documentation supporting the grant proposal evaluation process for the Homeowners Preserving Equity and Neighborhood Conservation Initiative programs.

Department's Response:

The Department concurs with the auditors' recommendation. The Department will institute additional measures to ensure retention and safeguard the integrity of physical and electronic documentation supporting the proposal evaluation process, including individual committee member scores and overall rating scores

Finding 3

The Department lacked written procedures for performing and documenting program compliance monitoring of Neighborhood Conservation Initiative grants.

Recommendation 3

We recommend that the Department:

- a. establish written procedures for performing on-site program compliance monitoring of Neighborhood Conservation Initiative grants to ensure that services were performed in accordance with the grant agreements, and
- b. document all grant monitoring efforts consistent with these procedures.

Department's Response:

The Department concurs with the auditors' recommendations. However, the Department does not perform program compliance monitoring of Neighborhood Conservation Initiative grants without guidelines. Specifically, the Department uses the written procedures governing the United States Department of Housing and Urban Development's Neighborhood Stabilization Program as a guideline for the implementation of the Neighborhood Conservation Initiative program. Also, financial reviews are part of on-going grant monitoring through reviews of payment requests, monthly activity reports, quarterly reports and in-person on-site reviews. Additionally, the Department conducts a final financial review upon completion of all Neighborhood Conservation Initiative grant activities. Grants are closed out only after all activities and expenses have been monitored and compliance issues, if any, have been resolved.

In regards to the issue of consistency during on-site monitoring; since the Neighborhood Conservation Initiative program funds a variety of activities, program managers use a risk-based approach in order to focus their review on different activities during on-site monitoring. For example, a program manager may conduct a review of beneficiaries during one monitoring visit and a review of construction activities during a subsequent monitoring visit. The Department believes this approach allows program managers to provide effective monitoring to all Neighborhood Conservation Initiative grants. Currently, the Department is in the process of establishing written procedures for performing on-site compliance monitoring of Neighborhood Conservation Initiative grants, which will be completed by November 30, 2015.

Finding 4

The Department's procedures for reconciling the receivable balances for State-funded loans did not ensure that reconciliations were properly performed and that reconciling items were resolved in a timely manner.

Recommendation 4

We recommend:

- a. that the supervisory review of the monthly State-funded loans receivable reconciliations include a verification of reconciling items and a review of related supporting documentation; and
- b. that all reconciling items, including the aforementioned 273 items, be promptly investigated and resolved during the reconciliation process.

Department's Response:

The Department concurs with the auditors' recommendations. However, it has always been the practice of the Department's Division of Finance and Administration to conduct supervisory review of State-funded loan receivable reconciliations and supporting documentation. This documentation is readily available electronically through DocuShare software, in accordance with the Division's approved records retention policy. The supervisor is now required to initial the reconciliations as evidence of this review. With regard to the aforementioned reconciling items, the Department has put into effect an action plan that will result in the resolution of all outstanding items by June 30, 2016.

Finding 5

Controls over employee access to the Department's single family loan accounting system were not sufficient.

Recommendation 5

We recommend that the Department's establish appropriate controls over employee access to its single family loan accounting system in accordance with the Maryland Division of Information Technology *Information Security Policy* requirements.

Specifically, we recommend that the Department:

- a. disable user access capabilities upon termination of employment, and
- b. periodically review system user capabilities to ensure that access granted is appropriate.

Department's Response:

The Department concurs with the auditors' recommendations. The Department will disable user access to its network upon notification of termination of employment. To achieve compliance, the Department's Division of Information Technology will rely upon separation documents from divisional staff, cross referenced with separation data from Human Resources and Facilities staff, in order to accurately identify user accounts to be disabled. The Department will also conduct an annual review of user capabilities to ensure account access capabilities are appropriate. To achieve compliance, on an annual basis, the Department's Division of Information Technology will circulate current user account information to appropriate divisional staff, whom will then validate acceptable user access, and also identify any user capabilities that should be modified or disabled.

Finding 6

The Department did not always comply with certain requirements of State procurement regulations for service contracts awarded through the competitive sealed bid process.

Recommendation 6

We recommend that the Department comply with State procurement regulations by:

- a. securing all vendor bids prior to opening,
- b. ensuring that two State employees witness the openings of competitive sealed proposals and maintaining documentation of the employees present, and
- c. publishing contract awards on *eMaryland Marketplace* within the required time frame.

Department's Response:

The Department concurs with the auditors' recommendations. However, in response to recommendation (a), the Department believes that the vendor bids it receives are secured prior to opening. Specifically, all bids and proposals are logged in the mailroom managed by the Department's Facilities and Fleet Management Services unit and stored in a separate area monitored by FFMS staff. The mailroom itself is locked when not staffed. The documents are then picked up by the procurement officer or delivered by Facilities and Fleet Management Services to the procurement officer once the deadline for submission has passed, at which time the procurement officer signed to accept delivery.

In regards recommendations (b) and (c), the Department will ensure that a minimum of two state employees are present, and documented as such, to witness the opening of competitive sealed technical proposals. Additionally, the Department will ensure that all contract awards are published on *eMaryland Marketplace* within 30 days to ensure compliance with State procurement regulations.

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