

*Internal Audit Report*

**DEPARTMENT OF HOUSING AND  
COMMUNITY DEVELOPMENT AUDIT  
MARCH 2022**

*Office of the County Auditor*





# OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA  
County Auditor


March 11, 2022

The Honorable Members of the County Council  
The Honorable Calvin Ball, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of the Department of Housing and Community Development (Housing). Our audit disclosed that Housing generally operated its programs in accordance with the County Code and Department regulations. However, improvements could be made in certain areas with respect to policies and practices over releases of unsold Moderate Income Housing Unit Program properties. In addition, Housing could improve the verification process to ensure recipients of Settlement/Downpayment Loan Program loans are using the properties as their primary residences.

We conducted a portion of our fieldwork during the COVID-19 pandemic health crisis. Although the crisis impacted Housing staffing and workload (as Housing played a significant role in distributing funds for housing assistance), the crisis did not impact our audit objectives.

This report has been reviewed with the Chief Administrative Officer and we have included the Administration's response. We wish to express our gratitude to Housing for the cooperation and assistance extended to us during the course of this engagement.

  
Craig Glendenning, CPA  
County Auditor

## BACKGROUND

The Department of Housing and Community Development (Housing) administers a range of federal, state, and county funded programs providing opportunities for affordable homeownership, loans and grants for special needs housing programs, rental assistance, rehabilitation loans and community facilities and programs. Housing manages various programs such as the Moderate Income Housing Unit Rental and Homeownership Program, the Community Development Block Grant Program, the Home Investment Partnership Program, and the Settlement/Downpayment Loan Program to provide affordable housing opportunities for low- and moderate-income families who live or work in Howard County.

<b>Table Department of Housing and Community Development Outstanding Loans as of June 30, 2020</b>		
<b>Loan Program</b>	<b>Number of Accounts</b>	<b>Account Balance as of June 30, 2020</b>
Settlement/Downpayment Loan	586	\$ 8,291,913
Community Renewal	6	4,989
HOME-Rehabilitation	29	2,254,351
CDBG Housing Rehabilitation	20	887,086
Farmers Home Loan	1	511
Housing Initiative	8	2,654,236
Rehabilitation	3	25,942
Rental Housing Development	9	7,004,172
Reinvest, Renovate and Restore	6	83,230
<b>Total</b>	<b>668</b>	<b>\$ 21,206,430</b>

Source: Department of Finance

### **Settlement/Downpayment Loan Program:**

The Settlement/Downpayment Loan Program (SDLP) provides low-interest-rate loans to Howard County residents who meet certain criteria. These loans may be used for costs associated with home purchases including down payment and settlement fees. The loan amount may not exceed \$40,000.

### **Moderate Income Housing Unit Program:**

The Moderate Income Housing Unit (MIHU) Program provides for affordable rental and for-sale units throughout the County for persons meeting certain eligibility criteria (such as income and ability to qualify for a loan). The number of units available for rental or purchase depends on the number of total units being constructed in a qualifying development. Developers in certain zoning districts may opt out of providing MIHUs (generally single family detached developments) and pay a fee-in-lieu instead. These fees are used to fund other housing programs.

Applicants interested in MIHU rentals may apply directly to a participating rental community at any time during the year. Moderate Income Housing Units are rented on a first-come, first-serve basis. They are interspersed throughout each community and residents enjoy all the amenities of the community life. Household incomes cannot exceed specified limits (\$70,638 for a household of four, for example, as of June 30, 2021). Housing also sets the maximum rental rates. The rental communities are responsible for performing and documenting the application, assessment, and approval process.

The MIHU Homeownership Program is an inclusionary zoning program that requires developers of new housing in specific zoning districts to sell a portion (generally 10-15%) of the dwelling units to households of moderate income. Moderate Income Housing Units are sold at prices set by Housing. Current prices range up to approximately \$350,000 for a new townhouse.

Developers may obtain a release from the requirement to sell a MIHU-designated property if Housing cannot find a qualifying party interested in purchasing the unit within a specified amount of time. The developer may petition Housing to sell the unit at market value and split the “profit” with Housing, using a specified formula. Housing uses its share of the proceeds to fund other housing programs.

Open enrollment periods for the MIHU Homeownership Program are held quarterly. Anyone interested in purchasing a MIHU must complete an application during one of four open enrollment periods held throughout the year – during the months of January, April, July, and October. Any person or family can apply to buy a MIHU, provided their household income does not exceed specified maximums. Once an application is received and determined complete, the applicant’s name is placed in a database. As MIHUs become available, eligible applicants are notified and invited to attend a lottery drawing to select an eligible purchaser for each home. The selected purchaser must contract with the seller, obtain a mortgage commitment, and pay all down payment and settlement costs.

## **FINDINGS AND RECOMMENDATIONS**

**Settlement/Downpayment Loan Program - Finding 1**  
**Housing did not have a process to periodically verify that loans applied to the recipient’s primary residence.**

We tested 8 percent of loans outstanding as of June 30, 2020. Our testing disclosed that for one loan, State tax assessment records showed that the property was not the loan recipient’s primary residence. As of June 30, 2020, the outstanding balance on this account was \$26,099.

Our finding was caused by Housing not having a procedure in place to periodically review the loan recipient’s residence status. Settlement/Downpayment Loan Program regulations require that the home must be the qualified homebuyer’s primary residence. Without a procedure to

check on the resident's status, a loan recipient could move and rent out the related property and Housing would not be aware of the change.

***We recommend that Housing implement a process to periodically verify that SDLP loan recipients are using the designated property as a primary residence. In instances where the property is not the primary residence, we recommend that Housing take immediate action to collect any outstanding loan balance (including interest) due.***

*Administration's Response:*

*We agree. The Department implemented a revised process to periodically verify that SDLP loan recipients are using the designated property as a primary residence. We will take immediate action to collect any outstanding loan balances due, including interest.*

#### **Settlement/Downpayment Loan Program - Finding 2**

**Housing did not have a written policy to document actions to be taken when loan recipients sell the property but cannot repay the loan.**

Our test of 24 loans, which were all sales over the last seven years, disclosed that for 2 loans, the proceeds of the sale by the loan recipients were not sufficient to repay the original mortgage due and the outstanding loan from the SDLP. Our review of the SDLP regulations and policies found that the potential for loan losses due to insufficient sales proceeds (such as from a short sale) was not addressed in these documents. Housing worked with the Office of Law to resolve both cases. In one case, Housing wrote off the loan while in the other case, Housing entered into a payment agreement. In that instance, Housing did not receive any payments and subsequently advised us that that it had written off that loan as well.

***We recommend that Housing develop a standardized process (to the extent practical) to address steps to be taken when a loan recipient cannot repay SDLP loans. We also recommend that Housing revise its existing policies to include this information.***

*Administration's Response:*

*We agree. The Department updated the standardized procedure of steps to be taken when a borrower cannot repay an SDLP loan in full.*

#### **Moderate Income Housing Unit - Finding 1**

**Housing did not always timely collect amounts due from MIHU releases from developers.**

Our audit found that Housing did not always timely receive its share of sales proceeds from units released from the MIHU Program. Our test of all 16 releases from January 2016 to June 30,

2020, revealed that for two properties, Housing did not receive its share of the proceeds from the developer for more than two years after the settlement date. Housing collected the proceeds from both sales. One property sold on July 28, 2017, and the County received payment on February 12, 2020. The other property was sold on December 31, 2017, and the County received payment on March 4, 2020.

***We recommend that Housing review and update its procedures for tracking and collecting sales proceeds for all released MIHU properties. We further recommend that Housing collect any amounts due in a timely manner.***

*Administration's Response:*

*We agree. The Department released three (3) properties in 2017 and has received funds from all three settlements. We agree that the proceeds were not collected in a timely manner, but we do not release the recorded covenant until funds are received. This process gives us recourse if the developer fails to pay. When units are released for market rate sale, there is no specific date that they need to be sold by; therefore, we cannot predict a closing date. When an MIHU homeowner sells their home after the 120-day priority period expires, the Compliance Officer sets an Outlook reminder for the closing date to ensure we receive the funds shortly after the closing date. Upon receipt of the funds, a release is executed and sent to land records. Procedure updated to improve tracking and collection of proceeds.*

**Moderate Income Housing Unit - Finding 2**  
**Housing did not have a standardized process for documenting inspections of MIHU properties being resold.**

Housing performs inspections of MIHU properties to be resold (these stay in the program in perpetuity unless released). However, Housing did not have a standardized process for documenting the condition of a property.

The purpose of the inspection is to gauge the condition of the house and determine any repairs that the current owner may be required to do before resale and any pricing adjustments to be made on the subsequent sales price.

***We recommend that Housing develop, and update as needed, a process for documenting inspections of MIHU properties to be resold.***

*Administration's Response:*

*We agree. The existing policy did not include steps regarding completion of the walkthrough and presenting findings in writing to the homeowner. Procedure revised and marketing pieces updated.*

## AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of the Department of Housing and Community Development (Housing) for the period from July 2017 to June 2020. Our audit did not include Housing use of funds received under the Coronavirus Aid, Relief, and Economic Security Act and the America Rescue Plan Act, as funds received from these Acts were primarily disbursed after the end of our audit period.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Ensure that Housing operates the Settlement/Downpayment Loan Program and similar grant programs in accordance with the County Code and Housing policies.
2. Determine if Housing administers the Moderate Income Housing Unit Program in compliance with County Code and Housing policies.
3. Ensure that other loan programs maintained by Housing (such as those funded under the Federal Community Development Block Grant) meet applicable requirements.

To accomplish our objectives, we met with the Housing staff responsible for operating and overseeing its programs. We reviewed the applicable sections of the County Code and Housing regulations and policy. We performed tests designed to determine adherence to the requirements contained in the County Code and Housing policies. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk or random number selection. 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 these results to the entire population from which the test items were selected.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to Housing, were considered by us during the course of this audit.

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.

We conducted our field work from January 2019 to August 2021. The Administration's responses to our finding and recommendations are included in this report.



**AUDIT TEAM**

**Edward L. Shulder, CPA**  
Deputy County Auditor

**Lisa L. Geerman, CPA**  
Legislative Audit Manager

**Michael A. Martin, CPA**  
Legislative Auditor