



STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

GARY HEIDEL
EXECUTIVE DIRECTOR

July 20, 2012

Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Director Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Michigan State Housing Development Authority Community Development and Revitalization Programs (641-0210-09).

Questions regarding the summary table or corrective action plans should be directed to me at (517) 335-1346.

Sincerely,

Signature Redacted

Corina Peña Andorfer
Attorney and Chief Compliance Officer

cc: Executive Office
Office of Auditor General
House Fiscal Agency
Senate Fiscal Agency
House Appropriations, General Government Subcommittee
Senate Appropriations, General Government Subcommittee
House Committee on Government Operations
House Committee on Oversight, Reform, and Ethics
Senate Committee on Reforms, Restructuring and Reinventing
Senate Committee on Banking and Financial Institutions



#641021009 Performance Audit
Michigan State Housing Development Authority
Community Development and Revitalization Programs
Summary of Agency Changes
Audit Period: July 1, 2006 through June 30, 2009

A. Audit recommendations the agency has complied:

2. Awarding of COP Program Special Project Grants (in part)
5. Cities of Promise (COP) Program Grant Progress
8. Potential Conflicts of Interest
10. Access and Security Controls Over the MATT System (in part)
11. Changes to Grantee and Lender Data (in part)

B. Audit recommendations the agency agrees with and will comply:

3. Performance Management and Evaluation (in part)
(Anticipated completion October 31, 2012)
4. Monitoring of COP Program Blight Elimination Grants
(Anticipated completion December 31, 2012)
6. Monitoring of HDF Special Project Grants (in part)
(Anticipated completion April 15, 2013)
7. Tracking of HDF Grants and Loans (in part)
(Anticipated completion August 31, 2012)
10. Access and Security Controls Over the MATT System (in part)
(Anticipated completion August 31, 2012)
11. Changes to Grantee and Lender Data (in part)
(Anticipated completion December 31, 2014)

C. Audit recommendations the agency disagrees:

1. MSHDA's Funding of Non-Housing Related Activities
2. Awarding of COP Program Special Project (in part)
3. Performance Measurement and Evaluation (in part)
6. Monitoring of HDF Special Project Grants (in part)
7. Tracking of HDF Grants and Loans (in part)
9. Contractual Services

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FINDING 1: MSHDA's Funding of Non-Housing Related Activities

RECOMMENDATION 1:

That MSHDA seek an Attorney General Opinion regarding MSHDA's authority to fund activities that are not related to MSHDA-financed housing.

RESPONSE:

MSHDA disagrees. MSHDA has in its enabling act, Act 346, P.A. 1966, multiple provisions authorizing MSHDA to engage in community development and revitalization activities. Also given that many of the community development and community revitalization activities are funded by and under federal programs, provisions in its enabling act authorize both the acceptance of the funds and the compliance with the requirements related to those programs. In other cases, MSHDA utilizes HDF to support its community development and community revitalization activities. MSHDA's statute and rules provide that MSHDA may utilize HDF for these purposes. Given the above, MSHDA has the necessary statutory and regulatory authority to engage in the community development and revitalization activities in which it is involved.

FINDING 2: Awarding of Cities of Promise (COP) Program Special Project Grants

RECOMMENDATION 2:

That MSHDA obtain sufficient documentation to support that COP Program special project grants were awarded for high priority activities aligned with COP Program mission and goals.

RESPONSE:

Part a. MSHDA disagrees. Because these are special project grants and not blight elimination grants, it was not a requirement that these funded activities be in areas where blight is being addressed; therefore, documentation that supports activities in blighted areas was not applicable. However, for 3 of the 4 activities noted, the activities did take place in areas where blight was being addressed. Further, of the 6 grants noted for not being eligible under the COP Program, 2 grants were not COP Program grants as they were erroneously coded in the MSHDA Activity Tracking Tool (MATT) System. One of these grants was for a sponsorship and the other was an Urban Revitalization grant.

Part b. and c. MSHDA partially agrees.

Part b., Three of the six grants were erroneously identified as COP Program grants. Therefore, MSHDA stated that partnership team approval was not required for these funded activities. MSHDA concurs that the other 3 grants should have supporting documentation to show partnership team support. However, MSHDA stated that there was a level of implied approval based on the partnership team involvement.

Part c., Two of the four grants were erroneously identified as COP Program grants. Therefore, city approval was not required for these funded activities. MSHDA agrees that the other two grants should have supporting documentation to show the cities' support. However, MSHDA believes that the cities' involvement represents implied approval for the program activities.

MSHDA concurs that the noted grants for the COP Program should have supporting documentation to show the cities' support. However, MSHDA believes that the cities' involvement represents implied approval for the program activities. Additionally, the COP Program is no longer in existence. For future programs, supporting documentation will be obtained as appropriate.

FINDING 3: Performance Measurement and Evaluation

RECOMMENDATION 3:

That MSHDA develop a more comprehensive process to measure and evaluate the effectiveness of its community development and revitalization programs.

RESPONSE:

Part a., MSHDA disagrees. MSHDA did establish quantifiable goals by which management could assess the effectiveness of all its community development and revitalization programs in its annual action plans. MSHDA's Office of Community Development has complied with federal reporting requirements and established quantifiable goals for all its production grants, such as the number of affordable housing units constructed or rehabilitated. In addition, MSHDA notes that where these grants are also geographically targeted, its Office of Community Development considers the likely/desired positive impact of its housing activities on the neighborhood as a whole as a part of its funding decisions. As a part of the closeout of targeted grants, grantees submit a "final outcome report" in which the grantee reports impacts of the housing projects on the neighborhood.

MSHDA agrees with part b. and in early 2011, MSHDA developed authority-wide performance measures representing all of MSHDA's major programs. These measures are being updated monthly and used by senior managers to identify areas of potential improvement for MSHDA programs. MSHDA senior management is in the process of updating the scorecard with the strategic planning process and will use this process to measure and revise performance measures accordingly. The most recent scorecard is dated June 2012.

The strategic planning process is incorporating the process of creating performance measures for each of MSHDA's four major areas of business, deemed "Pillars": Affordable Housing, Homeownership, Preventing Homelessness, and Vibrant Cities. Action plans for the strategic planning process are scheduled to be finalized in

September 2012. The anticipated completion date for this recommendation is October 31, 2012.

Part c., MSHDA disagrees. In 2009, STARS Division staff did complete work plans that, while differing in terminology and format from other MSHDA annual action plans, contained detailed objectives and tasks as well as specific time frames of completion. The objectives and tasks have met the time frames for completion.

FINDING 4: Monitoring of COP Program Blight Elimination Grants

RECOMMENDATION 4:

That MSHDA implement controls to ensure that it reimburses cities only once and only for valid properties eligible for demolition reimbursement under the COP Program blight elimination grants.

RESPONSE:

MSHDA agrees and stated that corrective action and preventive measures have been undertaken to address these issues as follows:

- a. Before and after photographs are now required in the COP grant system prior to approving a property for reimbursement on the system.
- b. Every COP grant site or program that has been awarded funds since the inception of the COP Program will be scheduled for a site or program visit.
- c. Additional functionality has been incorporated into the COP grant system to flag duplicate property addresses to prevent future reimbursement on duplicate properties. Duplicate property address flags will be reviewed prior to issuing reimbursements. MSHDA has recouped the \$177,641 related to duplicate reimbursement errors noted in part b.
- d. Since June 2009, MSHDA has implemented additional controls to meet compliance requirements for the Neighborhood Stabilization Program (NSP1). Demolition subprogram activities require the submission and review of the following documentation to ensure validity of addresses: title policy records and/or recorded warranty deed(s), legal descriptions, and real estate summary information.

The on-site monitoring process started March 9, 2010 and remains in process today as some grants remain open. With grant money not completely expended, the process of monitoring cannot be completed. Grants that are open receive oversight on an on-going basis and when grants are disbursed, on-site monitoring will be completed. The anticipated completion date for this recommendation is December 31, 2012.

FINDING 5: COP Program Grant Process

RECOMMENDATION 5:

That MSHDA obtain sufficient documentation from COP Program grantees to support that grant funds are being expended appropriately and in a timely manner.

RESPONSE:

MSHDA agrees. The corrective policies listed below, in addition to existing policy, continue to be implemented with no additional changes to policies and procedures.

a. NSP1 blight elimination grants include language in the grants requiring progress reports be submitted through the MATT System.

b. The grantees for those special project grants that remain open will be required to provide quarterly reports and COP Program staff will monitor timely receipt of these reports.

c. Timely use of funds and drawdowns will be closely monitored to identify recapture opportunities.

COP Program staff will require all grant amendment requests to be submitted in writing. All grant amendment requests shall include documentation justifying any amendment to the applicable grant. All grant amendment requests shall be signed by the grantees' authorized signatories.

d. COP Program staff have been integrated into the Office of Community Development in an effort to create efficiencies as well as develop controls that are consistent across all grant programs.

e. Personnel will be brought in to perform on-site internal audit functions. To date, MSHDA has relied on its development program auditors and Department of Treasury auditors.

An employee was hired in April 2012 and began work May 2012 to assist with the on-site internal audit functions.

FINDING 6: Monitoring of Housing Development Fund (HDF) Special Project Grants

RECOMMENDATION 6:

That MSHDA institute an effective grant management process over its HDF special project grants.

RESPONSE:

MSHDA partially agrees. The effectiveness of MSHDA's grant management process will be improved with the grant system enhancements underway, the hiring of an agency information technology manager to ensure uniform application across divisions of the grant management system, and increased training to community development specialists on the grant process.

Part a., MSHDA disagrees. The required quarterly reports were received for the 9 grants. The reports may have been overlooked by the auditors' review of the grant file due to some grantees reporting on two quarters in the same report. In addition, MSHDA stated that there may have been some confusion on the content of documentation in the grant file as the HDF grant progress reports are typically in narrative format vs. an actual form labeled "progress report" so the auditors may not have distinguished some of the reports as being progress reports.

Part b., MSHDA agrees that required audits were not obtained for the HDF grants mentioned. MSHDA is working with the vendor of the grant management system to establish system functionality that will allow for the inclusion of all HDF grants in the system in addition to incorporating controls for the submission and review of required audits.

To date, MSHDA management has identified what funding is included under the HDF. HDF is scheduled to be included in the new grant management system. Initial phase (discover and development) is scheduled to start August 1, 2012, with completion of the project (going live) April 15, 2013. Therefore, the anticipated completion date for part b. of this recommendation is April 15, 2013.

Part c., MSHDA disagrees that it is required to follow the advance payment policies of the State of Michigan Financial Management Guide. MSHDA's Act 346, P.A. 1966 (specifically, Section 125.1421(7) of the *Michigan Compiled Laws*), states: "The authority shall be within the department of consumer and industry services and shall exercise the authority's prescribed statutory powers, duties, and functions independently of the head of that department. ... " The Advisory Opinion on the Constitutionality of Act No. 346 of the Public Acts of 1966, 380 Mich 554 (1968), page 583 states: "Moneys of the State housing development authority are not moneys of the State. The funds to be established under the act are trust funds to be administered by the State housing development authority.

Part d., MSHDA agrees to having reimbursed a grantee for unreasonable costs. MSHDA stated that the grantee has been informed such costs will not be reimbursed in the future. The Community Development (CD) Division staff assigned to approve HDF special grant projects has received appropriate training. Any new staff that will have responsibility for HDF special grants will be appropriately trained. Additionally, the current responsible staff person is in the process of updating its desk manual to clarify allowable vs. unallowable grant reimbursement expenses.

FINDING 7: Tracking of HDF Grants and Loans

RECOMMENDATION 7:

That MSHDA sufficiently track its HDF grants and loans.

RESPONSE:

MSHDA partially agrees.

Part a., MSHDA stated that the four grants mentioned were included in either the repayable or the nonrepayable grant schedules that are kept in Excel spreadsheet format within the Finance Office. The repayable grant schedules are submitted to the MSHDA Board of Directors with the quarterly financial statements. These schedules are used to track grants that are not in the MATT System. MSHDA stated that all four of the grant files have been located and because none of the four grants have been fully disbursed, the grants should remain outstanding. MSHDA also stated that it is currently working with the developers of the MATT System to provide enhancements to the System so all MSHDA grants can be housed in the MATT System on a trial balance that will be reconciled to the general ledger on a monthly basis.

MSHDA continues to work with the developers of the MATT System to provide enhancements to the System. The initial projected completion date was June 30, 2012, however; the new target date is August 31, 2012.

Part b., MSHDA agrees that the two repayable grants referenced were treated as nonrepayable grants. MSHDA stated that it will reclassify the grants from nonrepayable grants to repayable grants and establish accounts receivable for the two grants. As of May 31, 2012, the two grants were not yet on the system. By August 31, 2012, MSHDA management will determine if the grants are still due (repayable) or if the grants have been forgiven.

With respect to part c., MSHDA disagrees that its loans receivable were overstated on its financial statements for the fiscal years ended June 30, 2007, 2008 and 2009. MSHDA stated that its Finance Office was not informed until April 2010 that this loan was not collectible. MSHDA also accrues a provision for loan losses on its financial statements.

Also, MSHDA has created and filled a central system user security administrator position where one of the responsibilities of this position is to ensure the functionality exist so all HDF grants can be housed in the MATT System. The original report indicates that one position would be created; however, two positions have been created to address information technology enhancements for MSHDA. One position relates to information security (including the responsibility for maintaining documentation on user access rights and monitoring user activity), while the other relates to creating policies and procedures to protect MSHDA data.

FINDING 8: Potential Conflicts of Interest

RECOMMENDATION 8:

That MSHDA employees fully disclose potential conflicts of interest to the MSHDA Board of Directors when members of management approve grants for entities in which they have personal involvement.

We also recommend that MSHDA ensure that members of management recuse themselves from performing official duties when potential conflicts of interest exist.

RESPONSE:

MSHDA agrees that MSHDA staff should disclose and be sensitive to potential conflicts of interest that may arise in the conduct of their official duties, including those arising from possible board memberships and the approval of grant activities related to the entity on which board they serve. Pursuant to a Code Ethics adopted by the Board in 2002, MSHDA employees are required to annually disclose to the Director of Legal Affairs business and financial interests related to entities that engage in MSHDA business so as to avoid the exercise of authority where and when a conflict of interest might exist.

In the specific instance raised by the audit report, the employee only became a member of the entity's governing board after employment with MSHDA specifically to monitor and exercise some control over the use of the funds that MSHDA provided to the entity. While the decision to support the entity was made by the MSHDA Board of Directors prior to this individual's assuming a board position with the entity, the offer of board membership was directly related to MSHDA's support for the entity. In this sense, there was no conflict between this individual's official duties as an officer of MSHDA and this individual's service on this board of trustees. This employee had no independent or personal interest in the activities of the outside entity; rather, he exercised his official function as a member of this entity's board. The current executive director does not serve on this entity's Board.

FINDING 9: Contractual Services

RECOMMENDATION 9:

That MSHDA follow sound business practices, including its own policies, when awarding and managing all personal services contracts.

We also recommend that MSHDA obtain prior approval from DTMB before advancing funds to contractors.

RESPONSE:

MSHDA disagrees that it failed to follow sound business practices and stated that, although it engages in contracting processes and procedures substantially mirroring those mandated by DTMB and applicable to other State agencies, MSHDA has received legal opinion guidance from the Department of Attorney General and other guidance from State officials with regard to exceptions from certain State contracting procedures, given that the vast majority of MSHDA's funds are non-State funds. Although most personal services contractors are selected by competitive bid process, the MSHDA Board recently adopted a policy to select contractors through competitive solicitation to ensure that any selection of a personal service contractor comply with the provisions of that policy.

Part a., The contract was not subject to competitive bid or request for proposal (RFP) requirements because the contract in question was simply an adjustment of an existing contract/subcontract relationship. Therefore, the MSHDA management team did not believe that a competitive bid or RFP process was advisable or required by either State policy or sound business practices. With regard to the rate paid for this external

consultant's services, the rate was reasonable given the level of services provided by the consultant and the type and scope of activity engaged in by the consultant. The services provided by this consultant were substantively different than those provided by other vendors.

Part b., MSHDA disagrees and reiterated that the DTMB requirements/limitations regarding advances do not apply to the expenditure of MSHDA funds as noted and outlined in its response to Finding 6.

Part c., MSHDA received detailed monthly reports of work performed in many cases that demonstrate the extensive work and activities engaged in by the consultant. MSHDA also stated that the consultant provided a detailed report at the conclusion of the engagement regarding work performed and likely next steps that MSHDA would need to take to continue to achieve the goals of the COP Program.

Part d., MSHDA stated that these issues principally arose because of the change in contract form and how the contract was structured as outlined above. MSHDA also stated that while it is true that the new contract was formally authorized by the MSHDA Board at the November 19, 2008 meeting, the vendor in question had been performing work as a subcontractor under an existing contract prior to that date (as noted and discussed above) and the payments noted were directly related to work performed under this prior relationship.

FINDING 10: Access and Security Controls Over the MATT System

RECOMMENDATION 10:

That MSHDA establish sufficient access and security controls over the MATT System.

RESPONSE:

The contract referenced in the report has expired. However, in order to ensure the security of the system, the DTMB Cyber Security Team is in the process of conducting a review of their Trouble Logs to determine if any breaches of security or intrusions were reported to them during the period July 1, 2006 through June 30, 2009 (the same timeframe reviewed within the audit). Corrective action will be taken, by MSHDA, DTMB or Agate, as necessary. MSHDA anticipates the DTMB Cyber Security Team review will be complete by August 31, 2012.

Also, MSHDA has created and filled a central system user security administrator position that is responsible for maintaining documentation on user access rights and monitoring user activity. The original report indicates that one position would be created; however, two positions have been created to address information technology enhancements for MSHDA. One position relates to information security (including the responsibility for maintaining documentation on user access rights and monitoring user activity), while the other relates to creating policies and procedures to protect MSHDA data.

FINDING 11: Changes to Grantee and Lender Data

RECOMMENDATION 11

That MSHDA implement sufficient controls over grantee and lender data in the MATT System to prevent unauthorized changes in grantee and lender names and addresses.

RESPONSE:

MSHDA agrees and has increased system control over grantee and lender data within the current MATT System by requiring grantees to submit all requests for name and address information to MSHDA, requiring approval of these changes by a designated community development specialist, and requiring only system administrators to make the changes in the MATT System.

MSHDA also stated that it is currently working with the system developer on system enhancements to limit access rights to users that align with their job responsibilities and create an audit trail on changes made to grantee and lender information. Under the new system, MATT 2.0, security enhancements will continue to be implemented. To date, identification of security roles has been completed, with the number of roles being significantly reduced. Identification of forms certain users can access has been completed (MSHDA users vs. external users) and core enhancements continue to be in process, implementation will be ongoing through 2014.

It is important to note that no breaches of security were identified in the audit findings or reported to MSHDA by the OAG. The only issue noted by the OAG pertains to the security procedures, which MSHDA takes very seriously and which MSHDA's IT security staff continue to work to ensure are current.