

## EXECUTIVE DIGEST

### PASS THROUGH PROGRAM

---

#### **INTRODUCTION**

This report contains the results of our performance audit of the Pass Through Program, Michigan State Housing Development Authority, Department of Commerce, for the period July 1, 1992 through June 30, 1995.

---

#### **AUDIT PURPOSE**

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness and efficiency.

---

#### **BACKGROUND**

The Michigan State Housing Development Authority (MSHDA) was created by Act 346, P.A. 1966, as amended (Sections 125.1401 - 125.1499 of the *Michigan Compiled Laws*). The primary responsibilities of MSHDA's Pass Through Program are to increase the supply of safe, sanitary, adequate, and affordable housing for persons and families with low and moderate incomes and to help provide for economic expansion in the housing industry.

The Pass Through Program, created by Act 215, P.A. 1984 (Section 125.1444c of the *Michigan Compiled Laws*), authorizes MSHDA to issue tax-exempt bonds for multifamily housing on behalf of a development owner. These bonds are limited obligations of MSHDA and are not obligations of the State of Michigan. As a result, the development owner provides a "credit enhancement," and MSHDA assesses whether repayment of the bonds issued to make the loan to the development owner is reasonably assured based solely on

the credit enhancement. MSHDA has issued approximately \$200.3 million in tax-exempt bonds for 18 active developments. The owners of these 18 developments have constructed 4,016 rental units, which include approximately 800 rental units for low and moderate income persons and families, and approximately 950 rental units for persons and families earning between 80% and 150% of median income.

MSHDA's approval and regulatory responsibilities for the Program are limited. As a result, the Program does not have any direct staff support for the construction underwriting process, and monitoring for receipt of required reports is assigned to an employee of MSHDA's Office of Management and Reinvestment on a part-time basis.

---

**AUDIT  
OBJECTIVES  
AND  
CONCLUSIONS**

**Audit Objective:** To assess the effectiveness of MSHDA's system of underwriting the construction of multi-family housing financed through its Pass Through Program.

**Conclusion:** We concluded that MSHDA has been generally effective in underwriting developments. MSHDA's approval process for these developments is limited to an assessment of the adequacy of the credit enhancement and limited environmental and equal housing opportunity reviews.

**Audit Objective:** To assess the effectiveness of MSHDA's monitoring of Pass Through developments for low and moderate income families.

**Conclusion:** We concluded that MSHDA was not effective in monitoring Pass Through developments for low and moderate income families. We consider the following three reportable conditions, collectively, to be a material condition in effectively monitoring developments:

- Four developments did not comply with federal and State requirements (Finding 1).

MSHDA complied by providing training to development owners and managers and by conducting resident eligibility reviews of all Pass Through developments.

- MSHDA had an ineffective internal control structure (Finding 2).

MSHDA is in the process of developing internal controls to comply with this recommendation.

- MSHDA did not maintain a comprehensive on-site monitoring process (Finding 3).

MSHDA has complied by conducting extensive resident eligibility reviews of all developments and has issued a directive that all Pass Through developments will be reviewed on a regular basis.

---

**AUDIT SCOPE  
AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the Pass Through Program, Michigan State Housing Development Authority, for the period July 1, 1992 through June 30, 1995. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit methodology included conducting interviews with MSHDA staff and performing a review of the enabling legislation and MSHDA requirements to gain an understanding of the Program. We examined the process used by MSHDA to approve developments submitted for bonding and the types of credit enhancements used. We also reviewed the systems developed for documenting that developments submitted required reports.

We reviewed the process that MSHDA used to ensure that mandated reports were received on a timely basis and MSHDA's system used to review tenant eligibility. We also tested tenant eligibility at selected developments to determine whether the owners complied with federal and State requirements.

---

**AGENCY  
RESPONSES**

Our audit report contains 3 findings and corresponding recommendations. The agency preliminary response indicated that MSHDA agreed with the recommendations and has complied with or will take steps to implement them.