



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

*Performance Audit
Community Development and Revitalization
Programs
Michigan State Housing Development Authority
Department of Treasury*

Report Number:
641-0210-09

Released:
September 2011

The Michigan State Housing Development Authority (MSHDA) was established by Act 346, P.A. 1966, and is an autonomous entity within the Department of Treasury except for budgeting, procurement, and related functions. MSHDA provides financial and technical assistance through public and private partnerships to create and preserve safe and decent affordable housing; engage in community economic development activities; develop vibrant cities, towns, and villages; and address homeless issues.

Audit Objective:

To assess the effectiveness of MSHDA's processes for identifying and awarding funds for projects for selected community development and revitalization programs.

Audit Conclusion:

We concluded that MSHDA's processes for identifying and awarding funds for projects for selected community development and revitalization programs were moderately effective. However, we question MSHDA's authority to fund non-housing related activities. We noted one material condition (Finding 1) and one reportable condition (Finding 2).

Material Condition:

MSHDA needs to seek an Attorney General Opinion regarding MSHDA's authority to fund activities that are not related to MSHDA-financed housing (Finding 1).

Reportable Condition:

Our audit also disclosed a reportable condition related to the awarding of Cities of Promise (COP) Program special project grants (Finding 2).

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Audit Objective:

To assess the effectiveness of MSHDA's efforts in measuring and evaluating performance outcomes for selected community development and revitalization programs.

Audit Conclusion:

We concluded that MSHDA's efforts in measuring and evaluating performance outcomes for selected community development and revitalization programs were moderately effective. We noted one reportable condition (Finding 3).

Reportable Condition:

Our audit disclosed one reportable condition related to performance measurement and evaluation (Finding 3).

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Audit Objective:

To assess the effectiveness of MSHDA's efforts in monitoring grants and loans to ensure compliance with program requirements for selected community development and revitalization programs.

Audit Conclusion:

We concluded that MSHDA's efforts in monitoring grants and loans for selected community development and revitalization programs to ensure compliance with program requirements were moderately effective except for the COP Program and the Housing Development Fund (HDF) special project grants, for which MSHDA's efforts in monitoring grants and loans to ensure compliance with program requirements were not effective. We noted five reportable conditions (Findings 4 through 8).

Reportable Conditions:

Our audit disclosed five reportable conditions related to the monitoring of COP Program blight elimination grants, COP Program grant progress, the monitoring of HDF special project grants, the tracking of HDF grants and loans, and potential conflicts of interest (Findings 4 through 8).

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Audit Objective:

To assess the effectiveness of MSHDA's efforts in monitoring contracts for services related to its community development and revitalization programs.

Audit Conclusion:

We concluded that MSHDA's efforts in monitoring contracts for services related to its community development and revitalization programs were moderately effective. We noted one reportable condition (Finding 9).

Reportable Condition:

Our audit disclosed one reportable condition related to contractual services (Finding 9).

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Audit Objective:

To assess the effectiveness of MSHDA's security and access controls over the MSHDA Activity Tracking Tool (MATT) System.

Audit Conclusion:

We concluded that MSHDA's security and access controls over the MATT System were not effective. We noted two material conditions (Findings 10 and 11).

Material Conditions:

MSHDA had not established sufficient access and security controls over the MATT System (Finding 10).

MSHDA had not implemented sufficient controls over grantee and lender data in the MATT System to prevent unauthorized changes in grantee and lender names and addresses (Finding 11).

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Agency Response:

Our audit report contains 11 findings and 13 corresponding recommendations. MSHDA's preliminary response indicates that it disagrees with 3 recommendations, partially agrees with 4 recommendations, and agrees with 6 recommendations and has complied or will comply with them.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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September 30, 2011

Mr. Gary Heidel, Executive Director
Michigan State Housing Development Authority
Department of Treasury
735 East Michigan Avenue
Lansing, Michigan
and
Mr. Andy Dillon, State Treasurer
Richard H. Austin Building
Lansing, Michigan

Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Heidel, Mr. Dillon, and Mr. Finney:

This is our report on the performance audit of Community Development and Revitalization Programs, Michigan State Housing Development Authority, Department of Treasury.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; three exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

A handwritten signature in black ink that reads "Michigan Auditor General". The signature is written in a cursive, flowing style.

Auditor General

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Description of Agency

The Michigan State Housing Development Authority (MSHDA) was established under Act 346, P.A. 1966 (Sections 125.1401 - 125.1499c of the *Michigan Compiled Laws*). During our audit, MSHDA was an autonomous entity within the Department of Energy, Labor & Economic Growth (DELEG) except for budgeting, procurement, and related functions. Effective May 30, 2010, Executive Order No. 2010-02 transferred MSHDA intact from DELEG to the Department of Treasury. Effective April 24, 2011, Executive Order No. 2011-04 transferred MSHDA intact to the Michigan Strategic Fund, an autonomous entity within the Department of Treasury. MSHDA is governed by a Board of Directors, which is composed of 8 members, 5 of which are appointed by the Governor with the advice and consent of the Senate. The other 3 members are directors of State departments and currently consist of the State Treasurer, the Director of the Michigan Department of Transportation, and the Director of the Department of Human Services.

MSHDA's mission* is to provide financial and technical assistance through public and private partnerships to create and preserve safe and decent affordable housing; engage in community economic development activities; develop vibrant cities, towns, and villages; and address homeless issues.

MSHDA's primary operation is to sell revenue bonds to private investors and use the bond proceeds to provide loans to finance multi-family housing projects, single-family housing units, and home improvements for persons of low and moderate income within the State of Michigan. MSHDA also provides benefits in the form of low-income housing tax credits, federal rent subsidies, and various community development and revitalization program grants and loans.

MSHDA administered its community development and revitalization programs within the following three divisions: Office of Community Development, Specialized Technical Assistance and Revitalization Strategy (STARS) Division, and Urban Revitalization Division. See Exhibit 1 for a summary of MSHDA's community development and revitalization programs during the period July 1, 2006 through June 30, 2009 and Exhibit 2 for a description of these programs.

* See glossary at end of report for definition.

As of June 30, 2009, MSHDA reported total operating expenses of \$545 million, which includes \$27 million for salaries and benefits for its total operations. As of June 30, 2009, MSHDA had 334 employees, of which 45 were housed within the three divisions that administer MSHDA's community development and revitalization programs.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit* of Community Development and Revitalization Programs, Michigan State Housing Development Authority (MSHDA), Department of Treasury, had the following objectives:

1. To assess the effectiveness* of MSHDA's processes for identifying and awarding funds for projects for selected community development and revitalization programs.
2. To assess the effectiveness of MSHDA's efforts in measuring and evaluating performance outcomes* for selected community development and revitalization programs.
3. To assess the effectiveness of MSHDA's efforts in monitoring grants and loans to ensure compliance with program requirements for selected community development and revitalization programs.
4. To assess the effectiveness of MSHDA's efforts in monitoring contracts for services related to its community development and revitalization programs.
5. To assess the effectiveness of MSHDA's security and access controls over the MSHDA Activity Tracking Tool* (MATT) System.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan State Housing Development Authority community development and revitalization programs. We conducted this performance audit 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

* See glossary at end of report for definition.

audit objectives. Our audit procedures, conducted from April through September 2009 and January through April 2010, generally covered the period July 1, 2006 through June 30, 2009.

Our audit report includes supplemental information presented as Exhibits 1 through 3 using unaudited data obtained from MSHDA. Our audit was not directed toward expressing a conclusion on this information and, accordingly, we express no conclusion on it.

Audit Methodology

We conducted a preliminary review of MSHDA community development and revitalization programs to formulate a basis for defining the audit objectives and scope. Our preliminary review included interviewing MSHDA staff; reviewing applicable laws, rules, regulations, policies, procedures, reports, board meeting minutes, and other information; analyzing available records and data; and obtaining an understanding of MSHDA community development and revitalization programs' internal control* and operational activities. We performed a risk analysis of MSHDA community development and revitalization programs by taking various factors into consideration for each program, such as amounts and number of grants or loans awarded, program eligibility requirements, newness of the program, and other factors.

To accomplish our first objective, we identified the following programs for further review based on our risk analysis performed during our preliminary review:

- Cities of Promise* (COP) Program
- Cool Cities (Neighborhoods in Progress)
- County Allocation Program
- Downtown Development Programs
- Housing and Community Development Program
- Housing Development Fund* (HDF) special project grants
- Neighborhood Stabilization Program* (NSP1)
- Predevelopment Loan Program
- Vibrant Small Cities Initiative

For the selected programs, we reviewed program descriptions, eligibility requirements, types of program activities, and MSHDA's criteria for allocating and awarding funds. We

* See glossary at end of report for definition.

also tested a selection of grants and loans for proper approval of grant or loan agreements and amendments and eligibility of project activities in accordance with applicable laws, regulations, and policies.

To accomplish our second objective, we identified the following programs for further review based on our risk analysis performed during our preliminary review:

- COP Program
- Community Housing Development Organization (CHDO) General Operating Grants
- County Allocation Program
- Downtown Development Programs
- Homeowner Assistance Grants
- Housing and Community Development Program
- Main Street Program
- Neighborhood Preservation Program
- Property Improvement Program
- Vibrant Small Cities Initiative

For the selected programs, we reviewed performance outcome requirements based on federal regulations for federally funded programs and MSHDA requirements for all other programs. We determined if applicable performance outcomes were measurable and in line with the purpose of the program. We reviewed MSHDA's processes for complying with federal reporting requirements of performance outcomes. We reviewed internal action plans completed by MSHDA's three divisions responsible for community development and revitalization programs.

To accomplish our third objective, we identified the following programs for further review based on our risk analysis performed during our preliminary review:

- COP Program
- Downtown Development Programs
- Housing and Community Development Program
- HDF special project grants
- Predevelopment Loan Program
- Vibrant Small Cities Initiative

For the selected programs, we tested a selection of grants and loans for compliance with applicable grant or loan agreement requirements, including proper and timely submission of progress reports and allowable costs. We extracted and reviewed the property addresses submitted by the eight cities designated as "Cities of Promise" when requesting reimbursement for demolition costs through the MSHDA Activity Tracking Tool* (MATT) System. We compared property addresses for these blighted properties to available property tax records and analyzed addresses for duplicates. We also visited 85 blighted properties in 2 of the 8 cities based on reimbursement requests submitted by these cities for demolition costs.

To accomplish our fourth objective, we obtained a list of MSHDA's outstanding technical assistance and personal services contracts related to administering its community development and revitalization programs. We reviewed the contracts, invoices, and other contract file documentation for a selection of technical assistance contracts and all personal services contracts. We tested for proper approval of contracts in accordance with State procurement policies and compliance with contract requirements.

To accomplish our fifth objective, we obtained an understanding of MSHDA policies and procedures for granting MSHDA employees and external users (grantee and lending agencies) access to the MATT System, including the assignment and protection of passwords. We reviewed access levels of MSHDA employees and external users (primarily grantees) to the following three system portals used to manage community development and revitalization grants and loans: On-line Project Administration Link, Property Improvement Program, and COP. We reviewed the access privileges assigned to MSHDA users and compared their access levels to their job titles and requirements. We tested a selection of external users for documentation of proper authorization by the applicable grantee or lending agency.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

** See glossary at end of report for definition.*

Agency Responses

Our audit report includes 11 findings and 13 corresponding recommendations. MSHDA's preliminary response indicates that it disagrees with 3 recommendations, partially agrees with 4 recommendations, and agrees with 6 recommendations and has complied or will comply with them.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Department of Treasury to develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

IDENTIFICATION AND AWARDING OF FUNDS FOR PROJECTS

COMMENT

Background: The Michigan State Housing Development Authority (MSHDA) funded its community development and revitalization grants and loans from both MSHDA operating funds and federal funds from the U.S. Department of Housing and Urban Development (HUD). MSHDA's primary operating fund is its Housing Development Fund (HDF), a separate fund created by Section 125.1423 of the *Michigan Compiled Laws*. MSHDA informed us that it allocates excess investment income that is not needed to pay debt service expenditures on its bonds to HDF. See Exhibit 1 for a summary of grants, loans, and contracts awarded during the period July 1, 2006 through June 30, 2009 and Exhibit 2 for a description of the programs.

The largest and newest program funded with MSHDA operating funds was the Cities of Promise (COP) Program. The COP Program was a five-year initiative implemented in February 2006 with the primary mission of eliminating blight in eight cities that were experiencing devastating conditions due to declining population, extreme poverty, loss of industry and jobs, crumbling infrastructure, and blighted neighborhoods. These eight cities included Benton Harbor, Detroit, Flint, Hamtramck, Highland Park, Muskegon Heights, Pontiac, and Saginaw. The initiative included the involvement of 19 State agencies, with MSHDA and the Department of Human Services acting as the lead State agencies for the overall initiative. Partnership teams, consisting of co-captains from at least one State agency and from each city, were established to identify high priority activities and implement existing plans. MSHDA awarded grants from its HDF totaling \$11.6 million under this program for both blight elimination and special projects. In 2009, MSHDA awarded six COP Program blight elimination grants totaling \$4.7 million using federal Neighborhood Stabilization Program (NSP1) funds.

Specific goals* established for the COP Program include improving neighborhood safety for children; substantially increasing the number of blighted residential structures demolished in each of the cities; increasing income and skills of homeless persons in the cities; increasing the use of deconstruction in place of and/or in conjunction with demolition; and increasing the use of holistic market-based neighborhood revitalization plans tied to neighborhoods where blight is being addressed with MSHDA funds.

* See glossary at end of report for definition.

Audit Objective: To assess the effectiveness of MSHDA's processes for identifying and awarding funds for projects for selected community development and revitalization programs.

Audit Conclusion: We concluded that MSHDA's processes for identifying and awarding funds for projects for selected community development and revitalization programs were moderately effective. However, we question MSHDA's authority to fund non-housing related activities. Our assessment disclosed one material condition*. MSHDA needs to seek an Attorney General Opinion regarding MSHDA's authority to fund activities that are not related to MSHDA-financed housing (Finding 1).

Our assessment also disclosed one reportable condition* related to the awarding of COP Program special project grants (Finding 2).

FINDING

1. MSHDA's Funding of Non-Housing Related Activities

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

An Attorney General Opinion would opine on the extent to which MSHDA is authorized by law to use its resources to engage in non-housing related activities, as well as the scope of such activities. Without such an opinion, it is unclear whether MSHDA's funding of non-housing related activities is within its statutory authority and responsibilities.

Section 125.1401 of *Michigan Compiled Laws* provides that a primary public purpose of MSHDA is to finance the acquisition, rehabilitation, and construction of housing to benefit persons and families of low and moderate income and to persons and families located in cities experiencing blight. Also, MSHDA may finance social, recreational, commercial, and communal facilities to serve those persons or families.

* See glossary at end of report for definition.

In Attorney General Opinion No. 5658 (dated February 27, 1980), the Attorney General opined that, in light of MSHDA's established purpose, MSHDA may only finance commercial facilities provided that the following occurs:

- Such facilities must serve and improve a residential area in which a MSHDA residential project is located or planned.
- Such facilities must provide basic domestic residential needs, such as those provided by a supermarket, a clothing store, a hardware store, or a drug store.
- Such commercial facilities must be within walking distance of MSHDA's planned residential facilities.

The Opinion also emphasized the following:

It must be stressed that the basic function of the Authority is to provide housing, not commercial development; therefore, the commercial use must be incidental to the housing.

Although the Opinion was limited to MSHDA's financing activities and did not expressly consider MSHDA's grant activities, the underlying premise of the Opinion establishes a framework for the limits of MSHDA's authority in light of its established purpose.

Our review of program and grant activities administered by MSHDA's three divisions responsible for administering community development and revitalization programs during the period July 1, 2006 through June 30, 2009 noted:

- a. MSHDA awarded \$35.0 million in grants and contracts for community development and revitalization programs in which some of the funded activities did not appear to be related to MSHDA's basic function. Examples of the types of activities funded by these programs included:
 - Consulting services provided to communities to help create new jobs and private investment in the communities' downtowns and adjacent neighborhoods through the Blueprints for Michigan's Downtowns Program.

- Consulting and training services provided to communities to help revitalize older, traditional business districts through the use of volunteers through the Main Street Program.
- Demolition of blighted residential and commercial properties for which there were no requirements for immediate or future redevelopment of affordable housing through the COP Program blight elimination grants.
- Development and renovation of commercial buildings for which there was no evidence that the commercial buildings would serve or improve the area in which housing for low or moderate income persons is located through the Cool Cities Program.
- Development of a wireless hot spot through the Cool Cities Program.
- Construction of an arts sculpture through the Cool Cities Program.
- Façade and infrastructure improvements and other economic development projects through the Downtown Development Programs and the Vibrant Small Cities Initiative.

Many of these programs, along with the employees who administered the programs, were transferred to MSHDA from the Michigan Economic Development Corporation in 2006 because of budget constraints. In addition, MSHDA created a new division to administer the COP Program, which was created in 2006. However, MSHDA did not evaluate program activities to ensure that they were related to MSHDA's basic function. MSHDA's costs for salaries and wages in the three divisions that administered these programs averaged \$4 million per year and have increased 66% since its fiscal year ended June 30, 2006.

- b. MSHDA awarded some special project grants for activities that did not appear to be related to MSHDA's basic function. Our review of 14 COP Program special project grant awards and 15 other special project grant awards noted 9 COP Program special project grants totaling \$536,690 and 7 other special project grants totaling \$1,171,400 for which there was no evidence that the

activities were related to enhancing MSHDA-financed housing in areas populated by low or moderate income residents or in areas experiencing blight. Examples of funded activities included:

- Sponsorship of a Michigan Week parade.
- Payment of the utilities of a recreation center.
- Establishment of youth-run farm stands.
- Payment of housing stipends to families with children attending specific schools who agree to remain in their home for two years.
- Provision of services to residents through a local hospital for a range of services such as legal services, health education, and career counseling.
- Administration of a commercial lending program.
- Administration of a Cool Cities Internship Program.
- Administration of various public policy and technical assistance activities that were primarily focused on economic and community development issues and not related to providing affordable housing.

Although some of these activities could be considered community development activities, there was no evidence that the activities were related to MSHDA-financed housing. For example, the Cool Cities interns were primarily working on activities related to economic development and art-related projects.

MSHDA funded \$13.0 million of the grants and contracts noted in parts a. and b. with its HDF and the remaining \$23.7 million with federal funds. Section 125.1424(3) of *Michigan Compiled Laws* provides that MSHDA may use HDF resources to make grants to eligible entities for planning for or implementing housing assistance or community or housing development. Examples of permissible community or housing development include land and building

acquisition; housing rehabilitation; capital improvements or modifications, including streets, open space, utilities, recreation or community centers, and parking facilities; and the provision of necessary supportive services.

RECOMMENDATION

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

AGENCY PRELIMINARY RESPONSE

MSHDA disagrees. MSHDA stated that its enabling act, Act 346, P.A. 1966, contains multiple provisions authorizing MSHDA to engage in community development and revitalization activities. MSHDA also stated that 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 stated that its statute and rules provide that MSHDA may utilize HDF for these purposes.

Given the above, MSHDA stated that it has the necessary statutory and regulatory authority to engage in the community development and revitalization activities in which it is involved. MSHDA asserts that any argument that the projects and strategies pursued by any of MSHDA's community development and community revitalization programs in addressing blight and otherwise revitalizing communities are or were not sufficiently connected to MSHDA's housing and community development mission represents an exceedingly narrow and mistaken view of that mission. MSHDA stated that its strategies for ensuring that stable low and moderate income housing exists and vibrant communities are supported are wide and deep in scope and impact, involving establishment of a sense of place and sense of community. Where sense of place or community is missing, MSHDA believes the prospects for successful execution of housing and community development initiatives are limited.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

While we concur that MSHDA has the authority to engage in community development and revitalization activities that relate to MSHDA-financed housing, an Attorney General Opinion would be useful in this instance to provide direction regarding the limits of MSHDA's authority to fund activities not related to MSHDA-financed housing.

FINDING

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

MSHDA did not obtain sufficient documentation to support that all COP Program special project grants were awarded for high priority activities aligned with COP Program mission and goals. As a result, MSHDA could not ensure that COP Program grant funds were utilized appropriately as related to COP Program mission and goals.

MSHDA's application process for COP Program special project grants required partnership teams* to submit funding requests to MSHDA for activities identified as high priority in need of funding. The funding request must be signed by the MSHDA co-captain and the applicable city's highest official as evidence of support for the funding. The funding request must also describe how the planned activities are in alignment with the program mission and goals of the COP Program initiative and provide evidence that applicants have made a good faith attempt to exhaust all other possible sources of funding. Therefore, these grants should be considered as "grants of last resort."

During the period July 1, 2006 through June 30, 2009, MSHDA awarded 27 COP Program special project grants totaling \$1.6 million to 20 different grantees. Our review of a selection of 14 COP Program special project grants disclosed:

- a. MSHDA did not obtain sufficient documentation describing how the planned activities were in alignment with the mission and goals of the COP Program initiative for 4 (29%) grants totaling \$396,090. Also, the described activities for 6 (43%) grants totaling \$426,690 did not appear to be related to any of the goals of the COP Program.

* See glossary at end of report for definition.

Funded activities that did not appear to be related to COP Program goals included:

- Sponsorship of a Michigan Week parade.
- Payment of the utilities of a recreation center.
- Payment of housing stipends to families with children attending specific schools who agree to remain in their home for two years.
- Provision of services to residents through a local hospital for a range of services such as legal services, health education, and career counseling.
- Façade improvements for downtown businesses.
- Provision of funds to a nonprofit organization to administer a separate MSHDA grant program that was not related to the COP Program.

Although the primary mission of the COP Program initiative was to eliminate blight, one of the goals was to increase the use of holistic, market-based neighborhood revitalization plans tied to neighborhoods where blight is being addressed with MSHDA funds. MSHDA informed us that it evaluated the eligibility of COP Program special project grant activities using more broadly defined factors, such as whether the activities increased community and economic development and helped improve quality of life. This evaluation criteria does not take into consideration the goal that the grant funds be used in neighborhoods where blight was being addressed with MSHDA funds.

- b. MSHDA did not obtain sufficient documentation that the partnership team supported the funding request for 6 (43%) of the grants totaling \$654,065 prior to MSHDA awarding the grants. The grant files for these 6 grants did not contain a funding request signed by the partnership team or other documentation providing evidence that the partnership team identified the activities as high priority with a need for funding.

- c. MSHDA did not obtain sufficient documentation that the cities supported the funding request for 4 (29%) of the grants totaling \$625,237 prior to MSHDA awarding the grants. The grant files for these 4 grants did not contain documentation, such as a funding request or grant agreement signed by the city, providing evidence that the city's highest official supported the funding request.

RECOMMENDATION

We recommend 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.

AGENCY PRELIMINARY RESPONSE

MSHDA partially agrees. MSHDA stated that given the size and scope of the issues and problems arising in the Cities of Promise, the multifaceted strategies developed to address them, and the number of parties and organizations involved in implementing the strategies, it is not surprising or unforeseeable that the COP Program implementation encountered difficulties and unforeseen issues in attempting to achieve its goals.

With respect to part a., MSHDA stated that it believes the Office of the Auditor General's conclusions related to the potential ineligibility of the special project grants appear to be based on the blight elimination program goals. MSHDA stated that the Notice of Funding Availability (NOFA) related to the COP special project grants states that "Activities are typically those considered to be eligible under MSHDA evaluation factors, and are broadly defined as those activities that improve quality of housing, neighborhoods, and/or community services in a particular area, increase community and economic development, and/or demonstrate new and innovative approaches to the problems of housing the homeless, housing development, and community and economic development." Because these are special project grants and not blight elimination grants, MSHDA stated that 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, MSHDA stated that for 3 of the 4 activities noted, the activities did take place in areas where blight was being addressed.

MSHDA also stated that 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.

With respect to part b., MSHDA stated that 3 of the 6 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.

With respect to part c., MSHDA stated that 2 of the 4 grants were erroneously identified as COP Program grants. Therefore, city approval was not required for these funded activities. MSHDA concurs that the other 2 grants should have supporting documentation to show the cities' support. However, MSHDA stated that it believes that the cities' involvement represents implied approval for the program activities.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Regarding MSHDA's statement that it was not a requirement that funded activities for COP Program special project grants be in areas where blight is being addressed, we disagree. MSHDA's "Notice of Funding Availability" for these special project grants stated that specific activities must be in alignment with the mission and goals of the COP Program initiative, which are to eliminate blight and increase the use of holistic, market-based neighborhood revitalization plans tied to neighborhoods where blight was being addressed with MSHDA funds. Further, MSHDA requested a description of how the activities were in alignment with the COP Program mission and goals on the special project grants request form.

Regarding MSHDA's statement that some of the grants in parts a., b., and c. of the finding were erroneously coded as COP Program grants, we spent significant time with MSHDA staff trying to obtain a complete population of COP Program grants prior to conducting our review, and MSHDA staff identified all these grants as COP Program special project grants at the time of our audit.

MEASUREMENT AND EVALUATION OF PERFORMANCE OUTCOMES

COMMENT

Audit Objective: To assess the effectiveness of MSHDA's efforts in measuring and evaluating performance outcomes for selected community development and revitalization programs.

Audit Conclusion: We concluded that MSHDA's efforts in measuring and evaluating performance outcomes for selected community development and revitalization programs were moderately effective. Our assessment disclosed one reportable condition related to performance measurement and evaluation (Finding 3).

FINDING

3. Performance Measurement and Evaluation

MSHDA needs to develop a more comprehensive process to measure and evaluate the effectiveness of its community development and revitalization programs. Such a process would help MSHDA establish funding priorities for its housing, community development, and revitalization programs based on measured outcomes and improve accountability for federal and State funds.

Program effectiveness can often be evaluated and improved by having a comprehensive measurement and evaluation process that includes performance indicators for measuring outputs* and outcomes; quantifiable performance standards* or goals that describe the desired level of outputs and outcomes based on management expectations, peer group performance, and/or historical performance; a management information system to accurately gather relevant output and outcome data on a timely basis; a comparison of the actual data to desired outputs and outcomes; a reporting of the comparison results to management; and recommendations to improve effectiveness and efficiency or change the desired performance standards or goals.

MSHDA implemented some elements of a comprehensive measurement and evaluation process, such as requiring divisions to submit annual action plans outlining division goals and objectives for the upcoming year, identifying a plan for

* See glossary at end of report for definition.

accomplishing the goals and objectives, and reporting the end results and accomplishments. Also, MSHDA reported some measurable goals relating to its federally funded community development programs in its 2008 Consolidated Plan submitted to HUD and had begun reporting data on outcomes related to these programs to HUD in 2004. However, our review disclosed some areas in which MSHDA could improve its performance measurement and evaluation process:

- a. MSHDA needs to establish quantifiable goals necessary to assess the effectiveness of community development and revitalization programs. Our review of MSHDA's division action plans disclosed that MSHDA described many program goals in generalized terms, such as "Create an environment that attracts, retains and/or grows business in the Cities of Promise, and generates opportunities for jobs," and "Provide grantees with tools and resources to achieve or maintain long-term neighborhood sustainability by enabling them to continue to implement effective neighborhood revitalization strategies." These goals were not quantified and did not provide a measurable basis for assessing specific performance. Quantified performance goals could describe the expected number of blighted properties demolished or the expected number of affordable housing units constructed or rehabilitated.
- b. MSHDA needs to review annual division action plans by comparing results and accomplishments with identified goals and objectives. Our review disclosed that MSHDA did not report and evaluate the results and accomplishments achieved in relation to division goals and objectives.
- c. MSHDA needs to ensure that its Specialized Technical Assistance and Revitalization Strategy (STARS) Division completes and submits annual action plans. The STARS Division administered various downtown and community development programs, including the Downtown Development Programs, Main Street Program, and Blueprints for Michigan's Downtowns and Blueprints for Michigan's Neighborhoods Programs, but it did not submit annual action plans for its fiscal years ended June 30, 2008 and June 30, 2009.

* See glossary at end of report for definition.

RECOMMENDATION

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

AGENCY PRELIMINARY RESPONSE

MSHDA partially agrees. With respect to part a., MSHDA disagrees that it did not establish quantifiable goals by which management could assess the effectiveness of all its community development and revitalization programs in its annual action plans. MSHDA stated that its 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 stated 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 stated that the following measures have been taken:

1. In early 2011, MSHDA developed authority-wide performance measures representing all of MSHDA's major programs. These measures will be updated regularly throughout the year to be used by senior managers to identify areas of potential improvement for MSHDA programs.
2. MSHDA is in 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. It is MSHDA's goal to finalize these measures by the end of 2011.

MSHDA partially disagrees with part c., which suggests that MSHDA did not ensure that its STARS Division complete and submit annual action plans for fiscal years 2007-08 and 2008-09. MSHDA stated that for much of 2008, it was in negotiations with the Michigan Economic Development Corporation (MEDC) that

ultimately resulted in the movement of several programs from MSHDA back to MEDC. Due to the uncertainty on program placement during the negotiations in 2008, the STARS Division did not complete an annual action plan. MSHDA stated that 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.

MONITORING OF GRANTS AND LOANS

COMMENT

Background: Under MSHDA's COP Program, MSHDA disbursed \$6.6 million to the eight cities designated as "Cities of Promise" for demolition costs related to 2,160 properties during the period July 1, 2006 through June 30, 2009. The following is a breakdown of disbursements and number of properties demolished for each city:

City	Number of Properties Demolished	Amount Disbursed by MSHDA for Demolition Costs
Detroit	1,346	\$ 3,732,709
Flint	383	788,735
Saginaw	177	639,362
Highland Park	96	560,877
Hamtramck	15	512,600
Pontiac	79	248,866
Benton Harbor	47	66,378
Muskegon Heights	17	45,329
Totals	2,160	\$ 6,594,856

When the COP Program was first implemented, there were approximately 16,000 blighted residential properties in these eight cities, of which approximately 6,700 were publicly owned. MSHDA initially reimbursed cities for 50% of the cost of the demolition for residential properties, or \$3,000 (whichever was less) per property. In 2008, the reimbursement amount per residential property was increased to

a maximum of \$4,000 and the COP Program was expanded to include demolition of commercial properties with the amount reimbursed to be determined on a case-by-case basis. Cities were required to supplement the balance with federal Community Development Block Grant* (CDBG) funds.

Audit Objective: To assess the effectiveness of MSHDA's efforts in monitoring grants and loans to ensure compliance with program requirements for selected community development and revitalization programs.

Audit Conclusion: We concluded that MSHDA's efforts in monitoring grants and loans for selected community development and revitalization programs to ensure compliance with program requirements were moderately effective except for the COP Program and HDF special project grants, for which MSHDA's efforts in monitoring grants and loans to ensure compliance with program requirements were not effective. Our assessment disclosed five reportable conditions related to the monitoring of COP Program blight elimination grants, COP Program grant progress, the monitoring of HDF special project grants, the tracking of HDF grants and loans, and potential conflicts of interest (Findings 4 through 8).

FINDING

4. Monitoring of COP Program Blight Elimination Grants

MSHDA did not implement controls to ensure that it reimbursed cities only once and only for valid properties eligible for demolition reimbursement under the COP Program blight elimination grants. As a result, MSHDA overpaid two cities by a total of \$177,641 in duplicate demolition reimbursement costs for 71 properties and may have reimbursed cities for demolition costs that the cities did not incur.

MSHDA procedures for its COP Program blight elimination grants required cities to submit photographs of blighted properties before and after the demolition of the property. MSHDA also required cities to submit addresses of demolished properties through the MSHDA Activity Tracking Tool (MATT) System when requesting reimbursement for demolition costs related to these properties.

* See glossary at end of report for definition.

Our review of MSHDA's payments to cities disclosed:

- a. MSHDA did not obtain photographs from the cities of the blighted properties before and after the demolition. MSHDA informed us that it intended to determine whether cities demolished blighted properties in accordance with program requirements through site visits. However, MSHDA did not perform any site visits.
- b. MSHDA did not implement controls to identify duplicate reimbursement requests submitted by cities for property demolition costs, nor did MSHDA have a process to hold payment when cities sought such duplicate reimbursement. Our review of the submitted property addresses disclosed that 2 of the 8 cities sought and received reimbursement more than once for demolition of 71 properties. MSHDA overpaid the 2 cities \$177,641 in duplicate payments.
- c. MSHDA did not verify property addresses for which cities sought and received demolition reimbursement. Our review of demolition reimbursements to 5 cities disclosed that 1 city sought and received demolition reimbursement for 15 properties that were not valid addresses according to city and county property tax records. Our review of the parcel identification numbers submitted by the city disclosed different addresses for the properties than what the city sought and received demolition reimbursement, including four addresses for which MSHDA had already reimbursed the city for demolition costs. As a result, MSHDA may have overpaid this city by \$9,661.

RECOMMENDATION

We recommend 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.

AGENCY PRELIMINARY RESPONSE

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

1. Before and after photographs are now required in the COP grant system prior to approving a property for reimbursement on the system.

2. 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. This on-site monitoring process started March 9, 2010 and, subject to the program staff not encountering significant delays, should be completed by the end of calendar year 2011.
3. 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.
4. 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.

FINDING

5. COP Program Grant Progress

MSHDA did not obtain sufficient documentation from COP Program grantees to support that grant funds were being expended appropriately and in a timely manner.

As a result, MSHDA could not determine whether COP Program grantees expended funds in accordance with grant and program requirements. Also, MSHDA could not provide evidence that it was monitoring grantees to ensure that they had the capacity to expend COP Program grant funds in a timely manner.

During the period July 1, 2006 through June 30, 2009, MSHDA awarded 24 blight elimination grants and 27 special project grants totaling \$14.7 million and \$1.6 million, respectively. During this same time period, MSHDA approved 44 amendments to extend the grant terms for 22 grantees and 7 amendments to

adjust the award amounts for 6 grantees. On average, MSHDA extended grant terms for the 22 grantees by 13 months, ranging from 1 month to 26 months. MSHDA adjusted award amounts by a total of approximately \$2.4 million.

Our review disclosed:

- a. MSHDA did not ensure that COP Program grantees of special project grants submitted required progress reports. MSHDA's Notice of Funding Availability for COP Program special project grants requires grantees to provide quarterly progress reports.

Our review of a selection of 13 (48%) special project grants disclosed that MSHDA did not include language in its grant agreements with 5 grantees requiring quarterly progress reports and did not include language in its grant agreements with 2 grantees requiring a progress or final outcomes report. As a result, MSHDA did not receive any reports from these grantees in order to monitor progress.

Of the 11 special project grants that required some type of progress or final outcomes report in the grant agreement, 5 (45%) did not submit all required reports. Also, MSHDA did not require specific due dates for the required reports and did not date stamp the reports when they were received. Therefore, we could not verify whether any of the submitted reports were submitted in a timely manner.

- b. MSHDA did not consistently require COP Program grantees to submit written requests for amendments to extend their grant awards. MSHDA grant terms for COP Program grants provide that MSHDA may recapture funds not expended by grantees. MSHDA did not have an office-wide policy requiring written requests for grant amendments.

Our review of a selection of 13 (54%) blight elimination grants and 14 (52%) special project grants disclosed that MSHDA approved 26 amendments to extend grant terms for 7 blight elimination grants and 5 special project grants during our audit period. In addition, for 3 of the 7 blight elimination grants, MSHDA also approved 3 amendments to increase award amounts during our

audit period. However, MSHDA approved the amendments for all 7 blight elimination grants and 3 of the 5 special project grants without obtaining written requests for amendments.

Requiring regular progress reports and written requests for grant amendments from grantees would provide MSHDA with timely information to help determine whether grant funds should be recaptured and utilized for MSHDA's other community development and housing programs.

RECOMMENDATION

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

AGENCY PRELIMINARY RESPONSE

MSHDA agrees that it did not develop consistent policy and procedures regarding grantee reporting requirements. MSHDA stated that the Blight Elimination Program was a complicated combination of funding sources. In the Blight Elimination Program's first iteration, the grantee was to come up with matching funds typically in the form of CDBG funding. Later, MSHDA utilized NSP funding to continue the Blight Elimination Program. MSHDA stated that the development of a new grant program and the inclusion of multiple funding sources necessitated the need to be liberal in extending the grant terms. MSHDA also stated that new corrective policies (as listed below) in addition to existing policy will be implemented to ensure that grant funds are being expended appropriately and in a timely manner:

1. NSP1 blight elimination grants include language in the grants requiring progress reports be submitted through the MATT System.
2. 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.
3. Timely use of funds and drawdowns will be closely monitored to identify recapture opportunities.

4. 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.
5. 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.
6. 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.

FINDING

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

MSHDA did not institute an effective grant management process over its HDF special project grants. As a result, MSHDA could not ensure that grantees used grant funds for activities that were allowable and required by grant agreements. Also, MSHDA improperly advanced \$610,473 to 7 grantees and reimbursed 1 grantee over \$32,000 for unreasonable and unnecessary costs.

Effective grant management should address monitoring the financial status and progress of grants to ensure that grantees are held accountable for properly using funds and achieving project outcomes. Also, the State of Michigan Financial Management Guide requires all executive branch departments and subunits, including MSHDA, to obtain approval from the Department of Technology, Management, and Budget (DTMB) prior to making advance payments unless they are payments for routine recurring administrative costs (e.g., lease and utility payments) and prohibits loans unless authorized by statute.

MSHDA records disclosed approximately 43 HDF special project grants totaling \$15.4 million outstanding during the period July 1, 2006 through June 30, 2009 that related to its community development and revitalization programs.

Our review of grant file documentation for 17 special project grants awarded to 8 grantees disclosed:

- a. Five grantees did not submit all required progress reports for 9 (53%) of the 17 grants totaling \$1,616,400. For one grantee, MSHDA awarded three grants totaling \$524,000 and forgave the repayment of \$660,000 in repayable grants during the period July 1, 2006 through June 30, 2009, even though the grantee did not submit all required progress reports for its outstanding grants. As further described in Finding 8, MSHDA's Executive Director was a member of this grantee's Board of Trustees during this period.
- b. Three grantees did not obtain required audits for 5 (29%) grants totaling \$3,787,940. These grantees also did not report required information related to MSHDA grants in audited financial statements. MSHDA's Office of Community Development requires grantees of MSHDA-funded awards of \$200,000 or more to obtain financial audits of these grants; report detailed information relating to each grant, including the grant number, reported revenues, audited expenditures, and any match/leverage funds used, in a supplemental schedule in its audited financial statements; and submit the audited financial statements to MSHDA.
- c. MSHDA improperly advanced \$610,473 to 7 grantees without obtaining prior approval from DTMB.

Section 125.1424 of *Michigan Compiled Laws* allows MSHDA to make loans for development costs of proposed housing projects; however, it does not specifically allow advances for HDF grants. Therefore, MSHDA should have obtained approval to advance payments for HDF grants from DTMB.

MSHDA's Office of Community Development Policy Bulletin No. 2 provides that MSHDA will advance funds to grantees on a case-by-case basis but requires grantees to expend the advanced funds within 60 days. We neither found evidence that MSHDA obtained approval for advancing funds from DTMB nor found evidence that MSHDA enforced its own policy. We noted that 6 (86%) of the 7 grantees did not submit sufficient documentation to demonstrate that advanced funds were expended within 60 days.

- d. MSHDA improperly reimbursed one grantee for over \$32,000 in costs that were not reasonable and necessary. These costs included \$793 for alcoholic beverages served at receptions and almost \$12,000 in expenses related to cleaning and preparing a vacant warehouse for a one-day conference.

RECOMMENDATION

We recommend that MSHDA institute an effective grant management process over its HDF special project grants.

AGENCY PRELIMINARY RESPONSE

MSHDA partially agrees and acknowledges that grantee quarterly reporting may not have been timely. However, MSHDA stated that required quarterly reports were received for the 9 grants referenced in part a., and it believes that 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.

With respect to part b., MSHDA agrees that required audits were not obtained for the HDF grants mentioned. MSHDA stated that it 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.

With respect to 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.

The State has no beneficial interest in such funds, and when such funds are used to finance the construction of housing, the State cannot be said to be financially interested in such construction. . . ." According to MSHDA, this language further clarifies MSHDA's exemption from the State of Michigan Financial Management Guide advance payment policy.

With respect to 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 and the Office of Community Development will be educating staff on allowable vs. unallowable grant reimbursement expenses.

MSHDA stated that 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.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Regarding MSHDA's response to part a. of the finding, although we located some quarterly progress reports in MSHDA grant files for some of the 9 grants, MSHDA did not obtain all required progress reports from the grantees. We followed up with MSHDA grant managers on all missing progress reports and, where it was evident that reports were combined for some quarters, we did not take exception.

Regarding MSHDA's response to part c. of the finding, while Act 346, P.A. 1966, allows MSHDA to act independently of the head of the department where it resides organizationally, it does not exclude MSHDA from the requirement to follow financial management policies and procedures prescribed for all State agencies. In addition, the Advisory Opinion clarifies that MSHDA-constructed projects are not assets of the State, but this does not exempt MSHDA from State financial management policies and procedures. During our audit, we confirmed with DTMB's Office of Financial Management that MSHDA is subject to the State's advance payment policy.

FINDING

7. Tracking of HDF Grants and Loans

MSHDA did not sufficiently track its HDF grants and loans. As a result, MSHDA could not ensure the accuracy and completeness of the financial status and activity relating to these grants and loans. Also, MSHDA underreported its loans receivable by \$1,040,000 in its financial statements for the fiscal years ended June 30, 2007; June 30, 2008; and June 30, 2009.

Control Objectives for Information and Related Technology* (COBIT) provides that, in order to satisfy business objectives, agencies should effectively manage data to ensure the completeness, accuracy, availability, and protection of data. Utilizing the MATT System to track and manage all grants and loans would make information on the status of these grants and loans readily available to MSHDA staff and grantees and help MSHDA better track and monitor these grants and loans.

MSHDA tracked some of its HDF grants and all of its predevelopment loans using spreadsheets and other manual methods instead of using its MATT System. Based on original information provided to us regarding these grants and loans, we identified 38 outstanding HDF grants with awards totaling \$12.6 million and 37 predevelopment loans with loans totaling \$3.1 million that MSHDA did not track using its MATT System. Our comparison of this original information with MSHDA financial statement activity disclosed that MSHDA did not sufficiently track the status and activity of all of these grants and loans. We noted the following discrepancies:

- a. MSHDA did not include four grants with awards totaling approximately \$2.3 million on its list of outstanding grants maintained by MSHDA's Office of Community Development; however, MSHDA financial statement activity disclosed that these grants were outstanding. MSHDA subsequently located the grant files for three of these grants, but it could not locate the grant file for one grant that MSHDA reported as a repayable grant with an outstanding balance of \$56,250. We could not determine if this was a valid outstanding grant.

* See glossary at end of report for definition.

- b. MSHDA did not report two repayable grants with outstanding balances totaling \$1.3 million on its financial statements. As a result, MSHDA underreported its loans receivable in its financial statements for the fiscal years ended June 30, 2007; June 30, 2008; and June 30, 2009. Although MSHDA's Office of Community Development tracked these two repayable grants using spreadsheets, MSHDA's Finance Office treated the grants as nonrepayable grants by recording expenses for all disbursements.
- c. MSHDA incorrectly reported a \$260,000 loans receivable relating to a portion of a repayable grant that it forgave. As a result, MSHDA overreported its loans receivable on its financial statements for the fiscal years ended June 30, 2007; June 30, 2008; and June 30, 2009.

RECOMMENDATION

We recommend that MSHDA sufficiently track its HDF grants and loans.

AGENCY PRELIMINARY RESPONSE

MSHDA partially agrees. With respect to 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.

With respect to 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.

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.

MSHDA stated that a new position has been created, the agency information technology manager, and one of the responsibilities of this position is to ensure the functionality exists so all HDF grants can be housed in the MATT System.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Regarding MSHDA's response to part a. of the finding, while we agree that the four grants were included on the grant schedules maintained by MSHDA's Finance Office, these schedules were used only to track activity related to these grants that could impact MSHDA's financial statements. These grants were not included on the list maintained by MSHDA's Office of Community Development, and MSHDA could not originally locate the grant files for these grants. Therefore, we questioned whether MSHDA was monitoring these grants if they were, in fact, valid outstanding grants.

Regarding MSHDA's response to part c. of the finding, documentation disclosed that the MSHDA Board of Directors approved the forgiveness of this repayable grant on October 25, 2006; therefore, MSHDA should have instructed its Finance Office to remove this receivable from its financial statements during the fiscal year ended June 30, 2007.

FINDING

8. Potential Conflicts of Interest

MSHDA employees did not 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. Also, MSHDA did not ensure that members of management recused themselves from performing official duties when potential conflicts of interest existed. As a result, MSHDA and the MSHDA Board of Directors could not ensure that management was free from all impairments to independence, both in fact and in appearance, when approving grants.

The State Ethics Act (Sections 15.341 - 15.348 of the *Michigan Compiled Laws*) prohibits public officers and executive branch employees from rendering services to a private or public interest when that service is either incompatible or in conflict with the discharge of the officers'/employees' official duties or when that employment may tend to impair their independence of judgment or action in the performance of official duties. Also, Michigan Civil Service Commission Rule 2-8.3 requires each employee to annually disclose to the employee's appointing authority all personal or financial interests of the employee or members of the employee's immediate family in any business or entity with which the employee has direct contact while performing official duties.

MSHDA's Executive Director served as a member of the Board of Trustees of a nonprofit organization that received MSHDA grants but did not disclose this or any other relationships with entities doing business with MSHDA. Grants awarded to the nonprofit organization totaled \$3,664,000 during the period July 1, 2006 through June 30, 2009. Of these grants, MSHDA's Executive Director directly approved one grant totaling \$249,000 and the forgiveness of one grant totaling \$100,000 while serving as a member of the organization's Board of Trustees.

Proper disclosure of potential conflicts of interest, in addition to management disqualifying themselves from approving grants to entities when potential conflicts of interest exist, would help alleviate the perception of favoritism to grantees. As noted in Finding 6, MSHDA awarded grants and forgave the repayment of grants to this entity although the entity did not submit all required progress reports.

RECOMMENDATIONS

We recommend 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.

AGENCY PRELIMINARY 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.

MSHDA stated that 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. MSHDA stated that 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. MSHDA stated that 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. MSHDA also stated that 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.

In addition, MSHDA stated that it requires employees to annually disclose their 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. MSHDA stated that these disclosures are made to the Director of Legal Affairs and reviewed by Legal Division staff.

MONITORING OF CONTRACTS FOR SERVICES

COMMENT

Audit Objective: To assess the effectiveness of MSHDA's efforts in monitoring contracts for services related to its community development and revitalization programs.

Audit Conclusion: We concluded that MSHDA's efforts in monitoring contracts for services related to its community development and revitalization programs were moderately effective. Our assessment disclosed one reportable condition related to contractual services (Finding 9).

FINDING

9. Contractual Services

MSHDA did not follow sound business practices, including its own policies, when awarding and managing a personal services contract. Also, MSHDA did not obtain prior approval from DTMB before advancing funds to some contractors. As a result, MSHDA did not provide appropriate administrative oversight of personal services contracts.

Use of sound business practices when bidding, awarding, and managing publicly funded contracts helps ensure that desired services are acquired and provided at competitive prices. In addition, various DTMB Administrative Guide policies outline requirements that State agencies must follow when awarding and managing contracts. MSHDA policies related to awarding contracts and obtaining competitive bids are similar to DTMB policies.

Our review of MSHDA personal services contracts for services related to its community development and revitalization programs disclosed:

- a. MSHDA did not obtain competitive bids or proposals prior to awarding a \$340,000 contract to an external consultant. As a result, MSHDA had not determined the competitiveness of the rate paid to the consultant. MSHDA's contract with the consultant provided that the consultant would render consulting and advisory services for MSHDA's COP Program and other duties as assigned through MSHDA's Executive Office. Our review of similar personal services contracts with consultants providing consulting and advisory services for MSHDA's COP Program during the same time period disclosed an average hourly rate of approximately 45% less than the hourly rate paid to the consultant.

Executive Directive No. 2005-3 prohibits State agencies from entering into contracts with a value of \$25,000 or more without following the competitive solicitation procedures required by DTMB. Also, MSHDA policies require a competitive bid solicitation process when entering into personal services contracts with a value of \$25,000 or more.

- b. MSHDA improperly advanced funds totaling \$227,905 to the external consultant noted in part a. and \$47,000 to another consulting firm without obtaining approval from DTMB.

The State of Michigan Financial Management Guide requires State agencies to obtain approval from DTMB prior to making advance payments unless they are payments for routine recurring administrative costs (e.g., lease and utility payments).

- c. MSHDA did not obtain sufficient documentation to substantiate that the external consultant noted in part a. performed the activities as required by contract. Also, MSHDA could not ensure that the consultant did not bill for duplicate services provided by other contractors providing services under the COP Program.

Monthly invoices submitted by the consultant for work performed lacked detail regarding what activities were performed under the contract. Also, MSHDA did not provide us with evidence to support that the consultant completed any deliverables required under the contract. Contract deliverables included a summary of COP Program recent accomplishments, current work plans for each of the cities, and five local leadership workgroup action plans.

- d. MSHDA paid \$39,849 to the external consultant noted in part a. for services outside of the contract period. MSHDA also paid for these services prior to obtaining authorization from the MSHDA Board of Directors.

MSHDA entered into the contract with the external consultant on December 1, 2008, with a contract start date of November 1, 2008; however, it obtained approval from the MSHDA Board on November 19, 2008 and informed the MSHDA Board that the contract start date was December 1, 2008. MSHDA paid three invoices totaling \$39,849 to the consultant prior to both the start date of the contract and the date of approval by the MSHDA Board.

MSHDA's Office Bulletin No. 2 states that any contract in excess of \$25,000 requires prior approval by the MSHDA Board.

MSHDA informed us that the consultant was a subcontractor under another MSHDA contract with a separate contractor at the time these three invoices were paid and, instead of paying the contractor for those services, MSHDA paid the consultant (subcontractor) directly. However, our review of MSHDA payments to the separate contractor disclosed that MSHDA paid the contractor the maximum amount of its contract, which included payments for services provided during the same period.

RECOMMENDATIONS

We recommend 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.

AGENCY PRELIMINARY 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.

With regard to part a., MSHDA argued that 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. MSHDA stated that the change in structure was intended to provide MSHDA's Executive Director with the ability to provide direct supervision over the subcontractor and to allow for the exercise of additional control over the activities engaged in by the subcontractor. MSHDA stated that since the work was already being provided to MSHDA by terms of the contractor/subcontractor relationship, all MSHDA did was revise the structure and form of the contract to eliminate the contractor from the position of "middle man" by breaking this subcontractor and these services out of the initial contract and contracting directly with the subcontractor through a new contract for these identical services. Therefore,

MSHDA stated that its management team did not believe 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, MSHDA asserted that 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. MSHDA also stated that the services provided by this consultant were substantively different than those provided by other vendors.

With regard to 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.

With regard to part c., MSHDA stated that it did receive 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.

With regard to 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.

In addition, MSHDA disagrees that MSHDA inappropriately paid three invoices totaling \$39,849 to the consultant for services outside of the contract period. MSHDA stated that a portion (\$16,656.92) of the invoiced work of the consultant was accounted for under the remainder of the vendor contract. MSHDA also stated that it anticipated that it would be contracting directly with the consultant for the continuation of the work performed by the consultant for the above described reasons, but it was important that the work not be interrupted so, in the interim

period between the two contracts, MSHDA directly engaged the consultant for the remainder of the work at \$23,192.22, which is under the \$25,000 limit provided by MSHDA's Office Bulletin No. 2.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

Regarding MSHDA's response to part a. of the finding, we do not agree that the contract in question was simply an adjustment of an existing contract because MSHDA paid the contractor the maximum amount under the existing contract. MSHDA subsequently awarded a new \$340,000 contract to the subcontractor that was not subject to a competitive bid process. Also, MSHDA did not have a direct contractual relationship with the subcontractor prior to entering into the contract. As stated in part a., our review of similar personal services contracts with consultants providing consulting and advisory services for MSHDA's COP Program during the same time period disclosed an average hourly rate of approximately 45% less than the hourly rate paid to the consultant.

Regarding MSHDA's response to part c. of the finding, MSHDA did not provide us with detailed monthly reports submitted by this consultant. With respect to MSHDA's response to part d., MSHDA did not provide us with documentation that it entered into a separate interim contract with the consultant for \$23,192.22, nor did MSHDA inform us that there was a direct engagement agreement during the audit. Also, as stated in the finding, MSHDA paid the separate contractor the maximum amount of the contract; therefore, the additional payment of \$16,656.92 paid directly to the consultant (subcontractor) exceeded the contract amount.

SECURITY AND ACCESS CONTROLS

COMMENT

Background: MSHDA contracted with an external vendor to provide hosting, support, and maintenance for the MATT System for the period January 1, 2007 through January 1, 2012. MATT is a commercial off-the-shelf software application used by MSHDA to manage its housing and community development projects. The three primary portals used by MSHDA to manage its community development and revitalization grants and loans consist of the On-line Project Administration Link, the Property Improvement Program, and COP.

Audit Objective: To assess the effectiveness of MSHDA's security and access controls over the MATT System.

Audit Conclusion: We concluded that MSHDA's security and access controls over the MATT System were not effective. Our assessment disclosed two material conditions. MSHDA had not established sufficient access and security controls over the MATT System (Finding 10). Also, MSHDA had not implemented sufficient controls over grantee and lender data in the MATT System to prevent unauthorized changes in grantee and lender names and addresses (Finding 11).

FINDING

10. Access and Security Controls Over the MATT System

MSHDA had not established sufficient access and security controls over the MATT System. As a result, MSHDA could not ensure that it could prevent or detect errors or irregularities that may be caused by users performing unauthorized duties.

COBIT recommends that management implement sufficient system access controls to ensure that user access rights to systems and data are in line with defined and documented business needs and that users are performing only authorized duties relevant to their respective job requirements. Management should also implement a division of roles and responsibilities that reduces the possibility of a single individual compromising a critical process and perform regular reviews of all user accounts and related privileges. Also, COBIT recommends that management monitor and evaluate the internal control of external service providers and obtain, as needed, assurance of the completeness and effectiveness of internal control of providers through third-party reviews.

Our review of MSHDA's access and security controls over its MATT System during the period July 1, 2006 through June 30, 2009 disclosed:

- a. MSHDA did not assign passwords to users in a secure manner and did not protect passwords to prevent users from logging in as other users and performing unauthorized activities. As a result of these weaknesses, we could determine the assigned password of a MSHDA employee by reviewing system messages in the demonstration system. We were able to log into the MATT production system as this employee using this password.

- b. MSHDA did not limit the number of employees with privileged access rights and did not assign appropriate user privileges to those employees to ensure proper segregation of duties. We noted 53 employees with the ability to perform system administrator activities that also could perform grant and financial related activities.
- c. MSHDA assigned access rights to seven MSHDA employees and one DTMB employee that were incompatible with their job requirements.
- d. MSHDA did not implement procedures to document the assignment of user access rights to authorized lenders and loan agents in the Property Improvement Program.
- e. MSHDA did not implement procedures to document the assignment of and changes to security levels for its employees.
- f. MSHDA did not deactivate 19 departed employees as users from the MATT System in a timely manner.
- g. MSHDA did not monitor user activity, including the activity of security administrators and other privileged users, to ensure that users are performing only authorized activities relevant to their respective jobs and positions.
- h. MSHDA did not ensure that the MATT System vendor obtained an annual third-party certification or audit as required under its contract.

RECOMMENDATION

We recommend that MSHDA establish sufficient access and security controls over the MATT System.

AGENCY PRELIMINARY RESPONSE

MSHDA agrees that there was a lack of some security controls in the MATT System during the audit period; however, MSHDA stated that subsequent to the audit period, system enhancements to strengthen the controls of the MATT System have been implemented or are in development. Also, MSHDA stated that it created an agency information technology manager position that will be

responsible for maintaining documentation on user access rights and monitoring user activity. MSHDA also stated that it has requested the MATT System vendor to provide audits as required by the contract.

FINDING

11. Changes to Grantee and Lender Data

MSHDA had not implemented sufficient controls over grantee and lender data in the MATT System to prevent unauthorized changes in grantee and lender names and addresses. As a result, MSHDA could not ensure that grant and loan disbursements were mailed to the proper recipients and addresses.

COBIT provides that management define and implement policies and procedures to identify and protect sensitive data from being altered by unauthorized users.

MSHDA did not require written authorization from grantees and lenders when requesting a change in name or addresses. Authorized grantee and lender users could make changes to their addresses directly within the MATT System without notifying MSHDA. Also, certain MSHDA users could not only edit the address of a grantee or lender, but they could also edit the name of the grantee or lender directly within the MATT System. MSHDA users with this ability included both system administrators and nonsystem administrators, such as managers and analysts that could approve grants and payments.

MSHDA informed us that the MATT System did not contain an audit trail to show what changes, if any, were made to grantee and lender data. Any changes made to grantee and lender data would have overwritten the previous data. Approved payments to grantees and lenders in the MATT System interface to MSHDA's financial accounting system. A paper check is then automatically issued and mailed to grantees and lenders based on their current name and address stored in the MATT System.

RECOMMENDATION

We recommend 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.

AGENCY PRELIMINARY RESPONSE

MSHDA agrees and stated that it has increased system control over grantee and lender data in the 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.

SUPPLEMENTAL INFORMATION

COMMUNITY DEVELOPMENT AND REVITALIZATION PROGRAMS
Michigan State Housing Development Authority (MSHDA)
Department of Treasury
Summary of Grants, Loans, and Contracts Awarded During the Period
July 1, 2006 through June 30, 2009

Grant Programs	MSHDA Funded		Federally Funded	
	Number of Grants	Amounts Awarded	Number of Grants	Amounts Awarded
Cities of Promise Program				
Blight Elimination Grants	18	\$ 9,936,326	6	\$ 4,730,000
Special Project Grants	27	1,625,708		
Community Development Corporation Pilot Initiative	19	467,444		
Community Housing Development Organization (CHDO)				
General Operating Grants			99	3,046,539
Cool Cities (Neighborhoods in Progress)	6	600,000		
County Allocation Program			97	24,105,466
Downtown Development Programs				
Blueprints for Michigan's Neighborhoods			3	1,200,000
Downtown Façade Improvement			41	5,138,965
Downtown Infrastructure Program			12	2,956,674
Downtown Land Assembly			7	996,702
Downtown Planning Grants			8	184,651
Downtown Signature Building Program			4	950,250
Downtown Special Project Grants			7	1,798,948
Entitlement Community Grants	5	520,000		
Habitat for Humanity	3	614,000	3	8,836,688
Homebuyer Assistance	2	186,100	42	8,080,994
Homeowner Assistance	1	40,000	56	14,601,243
Housing and Community Development Program	9	499,050		
Housing Development Fund Special Project Grants	27	3,542,256		
Neighborhood Preservation Program	17	1,490,965	6	2,721,901
Neighborhood Stabilization Program			16	25,987,220
Rental Development			1	360,000
Rental Rehabilitation	5	1,142,000	6	1,467,142
Vibrant Small Cities Initiative			25	5,750,000
Total Grant Awards	139	\$ 20,663,849	439	\$ 112,913,383

Loan Programs	MSHDA Funded		Federally Funded	
	Number of Loans	Amounts Awarded	Number of Loans	Amounts Awarded
Predevelopment Loan Program	27	\$ 2,324,439		\$
Property Improvement Program	523	7,284,655		
Total Loan Awards	550	\$ 9,609,094	0	\$ 0

This summary continued on next page.

COMMUNITY DEVELOPMENT AND REVITALIZATION PROGRAMS
Michigan State Housing Development Authority (MSHDA)
Department of Treasury
Summary of Grants, Loans, and Contracts Awarded During the Period
July 1, 2006 through June 30, 2009
(continued)

Contract Awards	MSHDA Funded		Federally Funded	
	Number of Contracts	Amounts Awarded	Number of Contracts	Amounts Awarded
Blueprints for Michigan's Downtowns	2	\$ 355,000		\$
Cities of Promise Program	6	501,406		
Contractor Assistance Program	N/A	350,000		
Housing Development Related	68	864,012	38	258,990
Main Street Program	3	391,497		
Other	3	1,516,000		
Total Contract Awards	82	\$ 3,977,915	38	\$ 258,990

Note: Award amounts may not reflect original grant, loan, or contract amounts due to subsequent amendments that may have occurred since the information was extracted.

Source: MSHDA Activity Tracking Tool (MATT) System and other MSHDA data relating to grants, loans, and contracts not tracked in the MATT System.

COMMUNITY DEVELOPMENT AND REVITALIZATION PROGRAMS

Michigan State Housing Development Authority (MSHDA)

Department of Treasury

Description of Programs

Blueprints for Michigan's Downtowns: A downtown revitalization program that provides for the completion of market studies and five-year action strategies through a MSHDA-approved consultant for communities that maintain an active, downtown business organization and have a traditional downtown. The objective of the program is to provide economic enhancement strategies by creating new private jobs and private investment in Michigan's downtowns. The consultant fee is paid for by a 50/50 match between the community and MSHDA. This program was originally administered by the Michigan Economic Development Corporation (MEDC) and was transferred to MSHDA in November 2005. MSHDA provided services to nine communities under this program during the period July 1, 2006 through June 30, 2009. See Exhibit 3 for the location of communities that have been selected as Blueprints for Michigan's Downtowns.

Cities of Promise (COP) Program: A five-year initiative implemented in February 2006 with the primary mission of eliminating blight in eight cities (Benton Harbor, Detroit, Flint, Hamtramck, Highland Park, Muskegon Heights, Pontiac, and Saginaw) that were experiencing devastating conditions because of declining population, extreme poverty, loss of industry and jobs, crumbling infrastructure, and blighted neighborhoods. The initiative included the involvement of 19 State agencies, with MSHDA and the Department of Human Services acting as the lead State agencies for the overall initiative. Partnership teams, consisting of co-captains from at least one State agency and from each city, were established to identify high priority activities and implement existing plans. MSHDA awarded grants for both blight elimination and special projects.

Community Development Corporation Pilot Initiative: Grants of up to \$25,000 awarded to eligible Community Development Corporations for foreclosure prevention and related activities.

Community Housing Development Organization (CHDO) General Operating Grants: Grants for operating expenses to MSHDA-designated CHDOs that are currently receiving federal HOME Investment Partnerships Program* (HOME) funds from the U.S. Department of Housing and Urban Development (HUD) project funds through the homebuyer program administered by MSHDA's Office of Community Development. CHDOs are nonprofit organizations that are locally controlled organizations with an affordable housing mission and the demonstrated capacity to develop housing.

Contractor Assistance Program: A training program implemented by MSHDA in 1992 to provide opportunities for small, minority and/or female contractors to achieve success and independence. Training was provided to qualified participants in three strategically located offices within the State by MSHDA-contracted program coordinators. MSHDA ended this program in 2008.

Cool Cities (Neighborhoods in Progress): A competitive program implemented in 2004 that provided funding, technical assistance, priority access to State economic development tools, and "Cool Cities" brand marketing to successful applicants for the purposes of building vibrant, diverse downtowns and neighborhoods that will attract talent, create jobs, and support innovation. The program was originally administered by the Department of Energy, Labor & Economic Growth but included involvement from several State agencies, including MSHDA, MEDC, and the Department of History, Arts and Libraries. The Cool Cities initiative was later renamed Cool Cities Neighborhoods in Progress. In April 2007, the responsibility for administration of the Cool Cities Neighborhoods in Progress was transferred to MSHDA's newly created Urban Revitalization Division. As of June 30, 2009, there were 49 communities designated as Cool Cities. See Exhibit 3 for the location of Cool Cities Neighborhoods in Progress.

County Allocation Program: Federal Community Development Block Grant (CDBG) grants allocated to county governments based on population. Funds may be used for various activities designed to provide quality, affordable housing for low and moderate income households, such as homebuyer or homeowner assistance, rental rehabilitation, rental development, and neighborhood preservation.

Downtown Development Programs: Various grant programs funded by federal CDBG funds for the purpose of providing funding for façade improvements and infrastructure improvements, acquisition of vacant or substantially underused buildings,

* See glossary at end of report for definition.

demolition of blighted properties, and other economic development projects in traditional downtowns. These grant programs were originally administered by MEDC but were transferred to MSHDA in November 2005. See Exhibit 1 for a list of Downtown Development Program grants.

Entitlement Community Grants: MSHDA-funded grants awarded to entitlement communities (communities that receive federal CDBG funds directly from HUD) to be used for façade improvements and acquisition of vacant, partially vacant, or substantially underused buildings in traditional downtowns for the purpose of stimulating private investment and creating economic development opportunities in the downtowns.

Habitat for Humanity: Grants to Michigan Habitat for Humanity to provide principal reduction assistance of \$10,000 per unit to eligible families to buy Habitat for Humanity homes.

Homebuyer Assistance: Grants to units of local government, local participating jurisdictions targeting a Cool Cities designated neighborhood, and nonprofit organizations, including CHDOs, which may be used to expand homeownership opportunities for low income homebuyers through the acquisition, rehabilitation, or new construction of single-family units. Funds may also be used to help low income buyers qualify for conventional financing through either second mortgage financing or down payment assistance.

Homeowner Assistance: Grants to non-CDBG entitled units of local government and nonprofit organizations which may be used to improve the principal residence of low income homeowners. Eligible activities include rehabilitation, emergency repair, and refinancing and closing cost assistance related to refinancing a first mortgage. For assistance other than emergency repair, repayment is required upon the sale or transfer of the property to a new owner or if the property is no longer occupied by the borrower.

Housing and Community Development Program: MSHDA-funded grants awarded from a separate fund created under Section 58a, Act 346, P.A. 1966, as amended, to fund housing for low income, very low income, and extremely low income housings and for projects located in a downtown area or adjacent neighborhood.

Housing Development Fund Special Project Grants: MSHDA-funded special project grants awarded from a separate fund created under Section 23, Act 346, P.A. 1966.

Main Street Program: A national community revitalization program created in 1980 by the National Trust for Historic Preservation that focuses on revitalization of older, traditional business districts throughout the United States using a four-point approach. MSHDA functions as a coordinating agency by competitively selecting local Main Street Program communities for participation; serving as a liaison with the National Trust for Historic Preservation; and providing on-site counseling and training services to the Main Street Program communities at three different levels (Associate, Selected, and Master). The Main Street Program was first administered by MEDC in 2003 and was transferred to MSHDA in November 2005. In addition to MSHDA, Oakland County and the City of Detroit also function as coordinating agencies in Michigan and select their own Main Street Program communities. As of June 30, 2009, there were 34 local Main Street Program communities functioning under the direction of MSHDA, including 22 Associate level communities and 12 Selected and Master level communities.

Neighborhood Preservation Program: Grants to eligible units of local government and nonprofit organizations with the purpose of creating healthy neighborhoods by funding beautification, demolition, public improvements, and marketing projects.

Neighborhood Stabilization Program (NSP1): Federal grants from the U.S. Department of Housing and Urban Development under Title III of the Housing and Economic Recovery Act (HERA) of 2008. Through a Congressionally-mandated formula, MSHDA was allocated \$98.6 million from NSP1 funds, which was awarded under the CDBG Program. As of June 30, 2009, MSHDA had allocated \$13,590,000 to the Michigan Land Bank Fast Track Authority and \$12,397,220 to 15 MSHDA-designated entitlement communities. Eligible uses of NSP1 funds include: acquisition and rehabilitation of foreclosed or abandoned single family homes for resale to homeowners; demolition of blighted structures for future redevelopment (land banks only); demolition of blighted structures for green space or immediate redevelopment; redevelopment of demolished or vacant properties for single family owner occupied housing; and redevelopment of demolished or vacant properties for public facilities or public services. The American Recovery and Reinvestment Act of 2009 provided a second round of Neighborhood Stabilization Program funds (known as NSP2) on a competitive basis. MSHDA and a consortium of 20 other municipalities and land banks were awarded \$223.9 million in NSP2 funds on February 11, 2010. The NSP2 funds were not included within the scope of this audit as they were awarded outside of the audit period.

Predevelopment Loan Program: Interest-free loans to nonprofit organizations for predevelopment expenses of affordable housing developments. Loans may be used for a variety of reasons, such as to pay for market studies or consulting fees, but may not be used to pay general staff or administrative costs.

Property Improvement Program: Low-interest loans (4% to 8%) to homeowners that can be used to improve their home or rental property. The homeowner may add energy conservation improvements, make the home more accessible to a family member with physical disabilities, repair serious hazards to health or safety, and repair damage from a declared natural disaster. Income and loan limits apply. Applications are made through approved participating lenders and community agents.

Rental Development: Grants for small scale rental development (projects of 1 to 24 units) of affordable multi-family rental housing to be owned, developed, or sponsored by community based nonprofit organizations. Eligible activities include acquisition, rehabilitation, and new construction.

Rental Rehabilitation: Grants to eligible units of local government and nonprofit organizations for moderate or substantial rehabilitation of existing, occupied, or vacant rental housing or conversion of vacant space to rental units.

Technical Assistance Program: Direct technical assistance program designed to increase the capacity of nonprofit organizations and local units of government to produce affordable housing. The Technical Assistance Program is provided through MSHDA-approved consultants in the following categories: planning and resource development, board governance, personnel and administrative management, financial management, housing development, and portfolio and asset management.

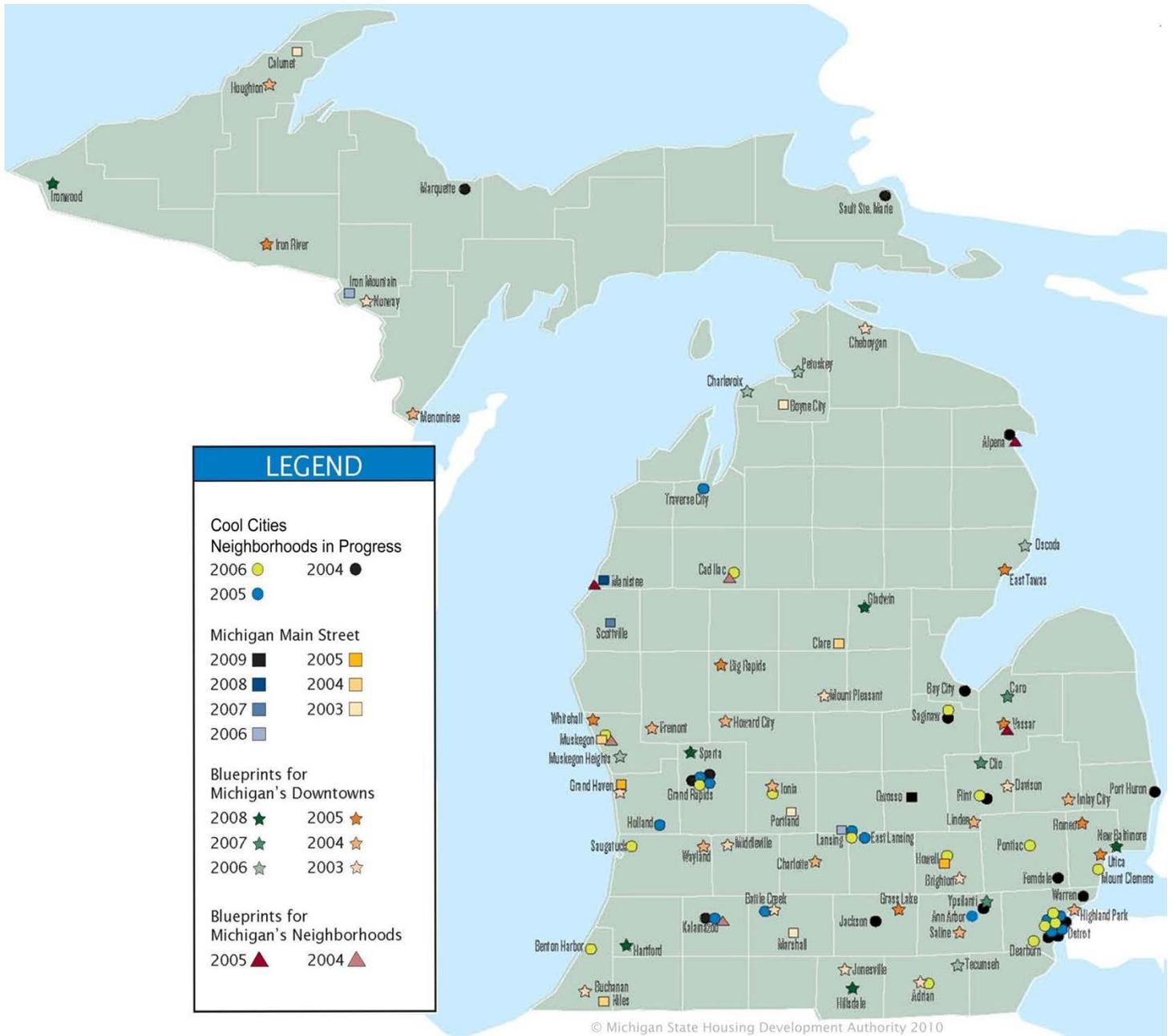
Vibrant Small Cities Initiative: A competitive grant program funded by federal CDBG funds awarded to selected large nonentitlement cities where 51% or more of the population is comprised of low or moderate income households for redevelopment activities to stimulate private and public reinvestment in the community, such as façade improvements and public infrastructure improvements. This program was implemented by MSHDA in 2007 and was a one-time grant program.

COMMUNITY DEVELOPMENT AND REVITALIZATION PROGRAMS

Michigan State Housing Development Authority

Department of Treasury

Award Designees for the Cool Cities Neighborhoods in Progress, Michigan Main Street, Blueprints for Michigan's Downtowns, and Blueprints for Michigan's Neighborhoods Programs
As of June 30, 2009



Source: Michigan State Housing Development Authority. Exhibit information presents calendar years except for 2009, which is through June 30, 2009.

GLOSSARY

Glossary of Acronyms and Terms

CHDO	Community Housing Development Organization.
Cities of Promise (COP)	A program administered by MSHDA with the primary mission of eliminating blight in eight cities (Benton Harbor, Detroit, Flint, Hamtramck, Highland Park, Muskegon Heights, Pontiac, and Saginaw).
Community Development Block Grant (CDBG)	A federal grant awarded by HUD with the primary objective of developing viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.
DELEG	Department of Energy, Labor & Economic Growth.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
goal	An intended outcome of a program or an agency to accomplish its mission.
HOME Investment Partnerships Program (HOME)	A federal grant awarded by HUD with the primary objective of expanding the supply of decent and affordable housing, particularly housing for low and very low income Americans.
Housing Development Fund (HDF)	A separate fund created by Section 125.1423 of the <i>Michigan Compiled Laws</i> that may be used by MSHDA to make grants to eligible entities for housing assistance or community or housing development.

HUD	U.S. Department of Housing and Urban Development.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MEDC	Michigan Economic Development Corporation.
mission	The main purpose of a program or an agency or the reason that the program or the agency was established.
MSHDA	Michigan State Housing Development Authority.
MSHDA Activity Tracking Tool (MATT)	A commercial off-the-shelf software application used by MSHDA to manage its housing and community development projects.
Neighborhood Stabilization Program (NSP1)	A program authorized under Title III of the Housing and Economic Recovery Act of 2008 and awarded by HUD with the objective of stabilizing communities that have suffered from foreclosures and abandonment.
NSP2	The second round of Neighborhood Stabilization Program funds.
outcome	An actual impact of a program or an agency.

output	A product or a service produced by a program or an agency.
partnership teams	Teams established to identify high priority activities for Cities of Promise, consisting of co-captains from at least one State agency and from each city.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
performance standard	A desired level of output or outcome.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
RFP	request for proposal.
STARS	Specialized Technical Assistance and Revitalization Strategy.

