



STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

SCOTT WOOSLEY, CFA
EXECUTIVE DIRECTOR

July 17, 2014

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

Dear Director:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Michigan State Housing Development Authority Homeownership Programs (271-0205-13).

Questions regarding the summary table or corrective action plans should be directed to me at (517) 373-8326 or Corina Pena Andorfer at (517) 335-1346.

Sincerely,

Signature Redacted

Marissa Reyes
Compliance Officer

cc: Executive Office of the Governor
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
House and Senate Appropriation General Government Subcommittees
House Committee on Oversight, Reform and Ethics
House Committee on Commerce
Senate Committee on Economic Development
Scott Woosley, Executive Director
Jennifer Bowman, Director of Governmental Affairs

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#271-0205-13 Performance Audit
Michigan State Housing Development Authority
Homeownership Programs
Summary of Agency Changes
Audit Period: July 1, 2010 through June 30, 2013

A. Audit recommendations the agency has complied:

1. Quality Control Review of Single-Family Mortgages
2. HHF Program Eligibility Review Process

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

- 3b. HHF Program System Access Controls (in part)
(Anticipated implementation by September 30, 2014)

C. Audit recommendation the agency disagrees:

- 3a. HHF Program System Access Controls (in part)

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FINDING 1: Quality Control Review of Single-Family Mortgages

RECOMMENDATION 1:

That MSHDA comply with all HUD quality control requirements related to its single-family mortgages.

RESPONSE:

MSHDA agrees. A new early payment default (EPD) process has been implemented as of May 2013 for April production, and on a monthly basis the special servicer now provides to the Homeownership Division a report identifying all loans that are classified or meet the definition of EPDs. Once received, these loans are requested for audit by a third party vendor. MSHDA also has implemented procedures to monitor and ensure timely receipt of contractor provided quality control reports for both origination and servicing quality control reviews.

No additional changes since the release of the OAG audit report.

FINDING 2: HHF Program Eligibility Review Process

RECOMMENDATION 2:

That MSHDA ensure that HHF Program applicants meet eligibility requirements before awarding HHF Program assistance.

RESPONSE:

MSHDA and the Michigan Homeowner Assistance Nonprofit Housing Corporation (MHA) agree. To further ensure that MSHDA and MHA continue to provide assistance to only eligible homeowners, MSHDA and MHA have implemented the following: In March 2013, an existing resource module, already available to all Program staff to identify participating partners (i.e. mortgage lenders, mortgage services, county treasurers) was enhanced to include an easily accessible operating manual. As of September 2013, internal controls were implemented requiring all proposed operating manual revisions to be reviewed and approved by management before distribution to staff. Additionally, in April 2013 MSHDA and MHA designed and initiated an internal quality control process (scorecard) which allows earlier identification of concerns in case level eligibility determinations. And by year end 2013; the MHA compliance team was expanded to a total of five staff members who review a random selection of all cases

approved for Program assistance prior to releasing HHF funds to participating partners. Lastly, in May 2013, a more extensive training schedule for existing staff members assigned to the Eligibility Review teams was implemented, along with the expansion of the new staff training period implemented January 2014, and recently weekly training classes for existing staff were set up to reinforce operation guidelines, procedures and best practices.

No additional changes since the release of the OAG audit report.

FINDING 3: HHF Program System Access Controls

RECOMMENDATION 3:

That MSHDA establish sufficient access controls over its HHF Program systems.

RESPONSE:

Part a. MSHDA and MHA disagree. MSHDA and MHA take their program administration responsibilities seriously and have already established sufficient controls over its HHF Program systems. The MHA utilizes various security controls within the Counselor Direct system to prevent unauthorized activities. One of these security controls includes the segregation of access to the Counselor Direct system based upon each users role. It is MSHDA's and MHA's belief that such segregation aids in preventing unusual activities from occurring in the first place. Lastly, MSHDA and MHA contract with a third party to aid in verifying the effectiveness of internal controls as it relates to Counselor Direct. Based upon the MHA's most recent third party review, as referenced in the third party providers letters, no material weaknesses of internal controls were cited. The cited DTMB policy stats that management of State agency information systems implement sufficient system access controls; MSHDA and MHA believe they have in place sufficient system access controls.

For the Treasury Edge system, The MHA System Administrator establishes users in accordance to Bank of New York Mellon security recommendations; where each user has limited access and transactions entered by each user requires a second level approval (i.e., no one can enter a payment transaction, establish or change a user and establish a payment or payment recipient without having to have a second level approval in the system). These built-in internal controls are effective preventive security measures. Although MSHDA and MHA believe the current controls that are in place are sufficient, as a compensating control, management will begin reviewing the Treasury Edge User ID report and the User Audit Activity report on a monthly basis to ensure no unauthorized activity has occurred. Management will provide timely and adequate notification to Treasury Services should any discrepancies be noted.

Part b. MSHDA and MHA agree. MSHDA and MHA agree that it could strengthen the process to ensure the protection of passwords in Counselor Direct. MSHDA and MHA have been in discussion with their third party vendor regarding changes to the system. MSHDA and MHA have asked the third party vendor to implement changes to the system that would force a password change upon initial sign-in as well as require a password reset every 90 days. MSHDA and MHA estimate that changes to the system will be implemented by September 30, 2014.