# Office of the Auditor General
Performance Audit Report

# Rental Assistance and Homeless Solutions

### Michigan State Housing Development Authority
### Department of Talent and Economic Development

January 2019

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

*Article IV, Section 53 of the Michigan Constitution*

## OAG
### Office of the Auditor General

*Performance Audit*
*Rental Assistance and Homeless Solutions*
  *(RAHS)*
*Michigan State Housing Development*
  *Authority (MSHDA)*
*Department of Talent and Economic*
  *Development*

**Report Number:**
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MSHDA's RAHS works with local communities and teams to promote stable housing opportunities and confront issues facing low-income residents across Michigan. RAHS removes barriers for families and individuals working to overcome housing insecurity and assists those in need with housing, education, and community resources.

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| Audit Objective | | | Conclusion |
|---|---|---|---|
| Objective #1: To assess the effectiveness of MSHDA's efforts in administering the Housing Choice Voucher Program. | | | Effective |
| **Findings Related to This Audit Objective** | **Material Condition** | **Reportable Condition** | **Agency Preliminary Response** |
| MSHDA needs to improve its access and security controls over Elite, the MSHDA Activity Tracking Tool (MATT 2.0), and the Homeless Management Information System (HMIS) to ensure the integrity of its RAHS programs. Among the issues we noted was that 40% of the assignments or changes to users' security levels that we reviewed were not properly approved or documented (Finding #1). | | X | Agrees |
| MSHDA needs to improve its quality control inspection efforts. We noted weaknesses related to inspection completeness and missed opportunities to question tenants (Finding #2). | | X | Agrees |

| Audit Objective | | | Conclusion |
|---|---|---|---|
| Objective #2: To assess the effectiveness of MSHDA's efforts in administering the Family Self-Sufficiency Program. | | | Effective |
| **Findings Related to This Audit Objective** | **Material Condition** | **Reportable Condition** | **Agency Preliminary Response** |
| See Finding #1. | | X | Agrees |

| Audit Objective | | | Conclusion |
|---|---|---|---|
| Objective #3: To assess the effectiveness of MSHDA's efforts in administering the Emergency Solutions Grant Program (ESG). | | | Effective |

| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
|---|---|---|---|
| See Finding #1. | | X | Agrees |
| MSHDA needs to improve its ESG documentation to support compliance with federal grant requirements and ensure the continued availability of ESG funds. Weaknesses included the lack of contract signatures and conflict of interest forms (Finding #3). | | X | Agrees |

January 18, 2019

Mr. Earl Poleski, Executive Director
Michigan State Housing Development Authority
Department of Talent and Economic Development
735 East Michigan Avenue
Lansing, Michigan
and
Ms. Stephanie Beckhorn, Acting Director
Department of Talent and Economic Development
300 North Washington Square
Lansing, Michigan

Dear Mr. Poleski and Ms. Beckhorn:

This is our performance audit report on Rental Assistance and Homeless Solutions, Michigan State Housing Development Authority (MSHDA), Department of Talent and Economic Development.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

Sincerely,

Doug Ringler
Auditor General

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## **RENTAL ASSISTANCE AND HOMELESS SOLUTIONS**

# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# ADMINISTERING THE HOUSING CHOICE VOUCHER PROGRAM (HCV)

**BACKGROUND**

The Michigan State Housing Development Authority (MSHDA) administers the Statewide HCV through a partnership with 15 third-party independent contractors (housing agents). These housing agents provide front-line services to program applicants, participants, landlords, and management companies, including the determination of participant eligibility and the approval of safe, decent, and affordable housing units.

MSHDA utilizes Elite, a Web-based system, to allow housing agents to track data pertaining to HCV applicants, participants, and landlords. Elite integrates payment standards, income limits, utility allowances, and affordability calculations to ensure that rent amounts are correctly calculated. Also, Elite tracks participants' annual reexaminations to comply with U.S. Department of Housing and Urban Development (HUD) guidelines. MSHDA uses a third-party service organization to provide hosting, support, and maintenance for Elite.

**AUDIT OBJECTIVE**

To assess the effectiveness* of MSHDA's efforts in administering HCV.

**CONCLUSION**

Effective.

**FACTORS IMPACTING CONCLUSION**

- MSHDA appropriately selected applicants from the HCV wait lists based on application dates and special preferences.

- MSHDA properly completed and documented 42 (98%) of the 43 eligibility determinations that we tested.

- MSHDA ensured that the 43 housing quality standard (HQS) inspections and the 43 quality control inspections that we reviewed were completed in a timely manner.

- MSHDA properly calculated and documented the utility amounts paid to the 10 participants that we reviewed.

- MSHDA's fiscal year 2016 Section Eight Management Assessment Program (SEMAP) report accurately presented the 14 key areas used to measure MSHDA's performance.

- MSHDA implemented a control process to ensure that vouchers issued to deceased participants were provided to the appropriate household member or were recouped.

*See glossary at end of report for definition.*

- MSHDA implemented effective control procedures related to the criminal records and incarceration of HCV participants.

- MSHDA properly enforced its employee conflict of interest procedure.

- Reportable conditions* related to the need for improved user access* and security* controls over Elite (Finding #1) and improved quality control inspections (Finding #2).

*See glossary at end of report for definition.*

## FINDING #1

**Improved user access and security controls needed.**

MSHDA needs to improve its access and security controls over Elite, the MSHDA Activity Tracking Tool (MATT 2.0), and the Homeless Management Information System (HMIS). The systems were vulnerable to inappropriate access that could compromise the integrity of MSHDA's Rental Assistance and Homeless Solutions (RAHS) programs.

The Federal Information System Controls Audit Manual* (FISCAM) states that user access should be limited to individuals with a valid business purpose, access authorization forms should be maintained, access rights should prevent conflicting transactions and activities, and system owners and security managers should periodically monitor user access. Also, the State of Michigan Financial Management Guide (Part VII, Chapter 1, Section 1000) requires oversight of a third-party service organization's internal control system when those services have a material effect on the department's operation and reporting.

Our review of MSHDA's access and security controls over Elite, MATT 2.0, and HMIS disclosed:

a. MSHDA did not properly approve or maintain documentation for assigning or changing users' security levels for 17 (40%) of the 43 user roles that we reviewed for Elite. We identified 640 unique users who had access to Elite at some time from July 1, 2015 through June 30, 2017.

b. MSHDA did not monitor administrator users' activity for Elite and did not monitor user activity for MATT 2.0 to ensure that users performed only authorized activities relevant to their respective job requirements.

c. MSHDA did not ensure that the Elite, MATT 2.0, and HMIS vendors obtained an annual System and Organization Controls (SOC) report*.

d. MSHDA did not maintain documentation for the assignment of or changes to user roles, or the definitions of the user roles, for the Homeless Assistance Link Online (HALO) application of MATT 2.0. We identified 73 unique users who had access to MATT 2.0 at some time from July 1, 2015 through September 7, 2017.

e. MSHDA had not deactivated user access from the HALO application of MATT 2.0 for 3 users who had left MSHDA employment 96 days, 221 days, and 650 days prior to our May 31, 2017 review. Also, MSHDA could not determine whether these users accessed the system subsequent to their departure. MSHDA deactivated these users' access after we brought the matter to its attention.

*See glossary at end of report for definition.*

MSHDA indicated that it did not have procedures related to access and security controls and did not regularly request users' activity data from the Elite and MATT 2.0 vendors.  Also, MSHDA's HMIS vendor's contracts did not include a provision to require a third-party certification or audit.

**RECOMMENDATION**

We recommend that MSHDA improve its access and security controls over Elite, MATT 2.0, and HMIS.

**AGENCY PRELIMINARY RESPONSE**

MSHDA provided us with the following response:

*MSHDA agrees with this recommendation and will comply. However, it wishes to stress that HMIS is governed by separate security standards.*

a) *In response to the OAG preliminary findings, MSHDA created new forms to properly document the approval of new Elite users and the assigning and/or changing of user security roles for existing users.  The new form was implemented October 1, 2017 and all users were required to complete the new documentation.  MSHDA implemented a new procedure in Elite which includes the removal of the security role from the closed user.  MSHDA will remove users, including administrative users, no later than 9:00 AM on the first business day following notification or their last date of employment and/or contract with MSHDA (the date will be determined by the effective date of separation from the program or role).*

b) *MSHDA IT staff will ensure an administrative user's activities are legitimate by conducting reviews at least every 120 days.  The review of activity may require the use of reports directly from the contracted vendor.*

c) *Effective September 1, 2018, MSHDA requires third-party security certification of MATT 2.0, Elite, and all IT systems be provided in accordance with vendor contracts.  If the terms related to this certification are not specifically addressed in the current contract, MSHDA will make every effort to obtain appropriate documentation from the vendor, if possible.  MSHDA will obtain annual third-party internal control certifications and/or audits as required under the Contract with each stated vendor.*

d) *MSHDA will be implementing an access control policy and enforcing access control procedures to greater increase security controls.  Provisioning of all end-user accounts will be the responsibility of the Technical Support Services staff for MATT 2.0 and Elite, effective March 31, 2019.*

e) *Effective dates for account provisioning in all systems will be in accordance with employment status dates in the HRMN system.  Additionally, MSHDA will require that each*

*business unit certify that staff have the appropriate access assigned in MATT 2.0 and Elite, as well as any IT system, on a periodic basis not less than every 120 days.*

*HMIS*

*The HMIS system is governed by the 2004 HUD HMIS final rule, (Federal Register Vol. 69 No. 146) and by the Policies and Procedures agreed to by the 21 participating Continuums of Care and codified through the Joint Governance Charters defining the project.  The HUD HMIS final rule does not require such additional security protection measures.  Furthermore, as of January 2018, the HMIS agreement is between the Michigan Coalition Against Homelessness (MCAH) and the service provider, WellSky, not MSHDA.  As such, the evaluation of controls related to the services provided by WellSky falls within the scope of the independent audit performed of MCAH, the report from which is provided to MSHDA for review.  MSHDA will include in future HMIS grant agreements with MCAH that SOC reports must be reviewed by MCAH and their independent auditor.*

*Both MSHDA and MCAH are fully committed to providing an HMIS system which is secure and makes the privacy of personal protected information for vulnerable populations a top priority.  We are firmly committed to fully cooperating with the OAG to facilitate audits as required, while ensuring that client level records are protected per applicable federal and state laws.*

## FINDING #2

**Improvements needed to quality control inspections.**

MSHDA needs to improve its quality control inspection efforts for HCV to help ensure that the units leased to low-income families are meeting housing quality standards.

Title 24, Part 982, section 405 of the *Code of Federal Regulations* (CFR) requires MSHDA to inspect the unit leased to a family prior to the initial term of the lease and biennially during assisted occupancy to determine if the unit meets housing quality standards. The federal regulation also requires MSHDA to conduct supervisory quality control inspections. In addition, MSHDA policy 8-II.A requires that the inspection checklist or form must be completed in its entirety for all types of inspections.

MSHDA contracts out the HQS inspections and performs the periodic quality control inspections on a sample basis. Our review of 43 quality control inspections and 86 contractor HQS inspections noted:

a. For 16 (37%) quality control inspections, MSHDA did not document what action, if any, it took to address why seemingly preexisting deficiencies had not been identified during the contractor's inspection. For example, the quality control inspection noted the absence of required ground fault interrupter (GFI) outlets and broken or improperly wired outlets that were not noted on the contractor's inspection.

b. For 19 (44%) quality control inspections, MSHDA did not complete all of the sections of the inspection form even though they appeared to be relevant as indicated by the contractor's inspection.

c. For the 41 quality control inspections and for 47 (75%) of the 63 contractor inspections during which the tenant was present, the inspector did not ask the optional tenant questions. These questions may help MSHDA identify potential fraudulent activity, including discrepancies in the reported number of people living in the unit and the amount of rent and other items, such as utilities, that the tenants are paying to the landlord.

**RECOMMENDATION**

We recommend that MSHDA improve its quality control inspection efforts.

**AGENCY PRELIMINARY RESPONSE**

MSHDA provided us with the following response:

*MSHDA agrees with this recommendation.*

*MSHDA has established guidelines in-place to ensure that units leased to low income families are meeting HQS. MSHDA is in full compliance with 24 CFR 982.405 which requires an HQS*

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

*inspection prior to the initial term of the lease and at least biennially during assisted occupancy. In addition, MSHDA has a set policy and procedure for HQS inspections and for MSHDA Quality Control (QC) inspections as required under 24 CFR 985.3.*

*a)* *In response to evaluating deficiencies noted by QC inspectors, MSHDA has revised the Quality Control Summary Report to include the following items: Summary of the QC HQS Inspections; Common Deficiencies Noted; Date the HQS Summary and Recommendations (if applicable) were discussed with the Housing Agent. This form will be retained in the SEMAP file as documentation of appropriate follow-up and required actions.*

*b)* *In response to the issue regarding completion of the QC inspection form, MSHDA will begin entering "None" for Item 5.1 when there is no entry to be made in this section of the form.*

*c)* *In response to the issue with the QC inspector not asking the optional tenant questions provided on the HUD 52580 inspection form, in calendar year 2016, MSHDA implemented the use of the MSHDA 281b, a questionnaire that is completed by each MSHDA staff member who completes a QC inspection. The questionnaire asks similar questions listed on the HUD 52580 inspection form. The questionnaire is reviewed by the QC inspector and the Field Manager at the end of the inspection to determine if additional follow-up or action is necessary based on the responses. The questionnaires are used as an internal tool and not a required item per HUD SEMAP reporting. In addition, MSHDA updated Standard Operating Procedure on September 26, 2017 to clearly state that pages 6 and 7 (which include the optional questions noted by the OAG) of the HUD 52580 inspection form are optional and that the form is considered complete with these pages blank.*

*The SEMAP Coordinator and Policy Manager conducted a meeting with QC Inspectors in September 2018 before the QC process resumed for calendar year 2019. The items identified by the OAG were highlighted. MSHDA staff was reminded to complete the HUD 52580 form in its entirety as detailed in Standard Operating Procedure. A review of the current Internal Procedure for QC Inspections was also completed.*

# ADMINISTERING THE FAMILY SELF-SUFFICIENCY PROGRAM (FSS)

**BACKGROUND**

The objective of FSS is to reduce the dependence of low-income families on public assistance, including rent or homeownership subsidies.  Through FSS, low-income families are provided opportunities for education, job training, counseling, and other forms of social service assistance while living in assisted housing so they may obtain the education, employment, and business and social skills necessary to achieve self-sufficiency.

MSHDA contracted with 15 local agencies to provide case management services for FSS participants.

The FSS participant and MSHDA sign a five-year contract setting forth the terms and conditions, participant goals, and individual training plans.  MSHDA calculates a credit for the FSS participant who is becoming self-sufficient and, if eligible, the credit (funded by HCV) is deposited into the participant's escrow account.  When the contract is successfully completed, MSHDA issues a check to the participant for the balance of the escrow account.

MSHDA utilizes Elite, a Web-based system, to allow local agency caseworkers to track data pertaining to FSS participants.  Elite integrates payment standards, income limits, utility allowances, and affordability calculations to ensure that rent amounts are correctly calculated.  Also, Elite tracks participants' annual reexaminations to comply with HUD guidelines.  MSHDA uses a third-party service organization to provide hosting, support, and maintenance for Elite.

**AUDIT OBJECTIVE**

To assess the effectiveness of MSHDA's efforts in administering FSS.

**CONCLUSION**

Effective.

**FACTORS IMPACTING CONCLUSION**

- MSHDA properly reviewed and disbursed escrow funds for FSS participants.

- MSHDA properly documented FSS participants' terminations and recaptured escrow funds.

- No significant weaknesses identified related to MSHDA's process over payments to local agencies.

- MSHDA sufficiently monitored the FSS local agencies' case management through on-site reviews.

- Reportable condition related to the need for improved user access and security controls over Elite (Finding #1 under Objective #1).

# ADMINISTERING THE EMERGENCY SOLUTIONS GRANT PROGRAM (ESG)

**BACKGROUND**

ESG promotes Housing First* through prevention and rapid re-housing activities. ESG addresses the issue of homelessness, provides rental assistance (short-term and medium-term) to rapidly re-house homeless persons, and helps people who are experiencing homelessness or a housing crisis to regain stability. ESG funds can be used for the following activities:

- Street outreach

- Emergency shelters

- Homeless prevention assistance

- Rapid re-housing assistance

- HMIS

- Administration

MSHDA uses MATT 2.0 to administer the grant application and monitoring process. Within MATT 2.0, the HALO application allows applicants to submit the required documentation for the ESG application. Also, MATT 2.0 allows MSHDA to maintain the records of the approval process and requests for reimbursements.

MSHDA uses HMIS to collect client-level data and data on the provision of housing and services to homeless individuals and families and persons at risk of homelessness. MSHDA also uses HMIS data in determining the fiduciary grant award amounts. MSHDA provides funding to the MCAH to operate HMIS.

**AUDIT OBJECTIVE**

To assess the effectiveness of MSHDA's efforts in administering ESG.

**CONCLUSION**

Effective.

**FACTORS IMPACTING CONCLUSION**

- MSHDA's controls ensured that fiduciary grant awards were properly approved and obligated in a timely manner.

- MSHDA's controls ensured that payment requests from fiduciaries were properly approved and paid in a timely manner.

*See glossary at end of report for definition.*

- MSHDA's controls ensured that fiduciary risks were assessed and that the fiduciaries expended funds on allowable costs.

- Based on our observations, the 5 emergency homeless shelters that we visited were in compliance with basic standards related to sanitation, food preparation, physical condition, security, fire safety, and living space arrangements.

- Reportable conditions related to the need for improved user access and security controls over MATT 2.0 and HMIS (Finding #1 under Objective #1) and improved ESG documentation (Finding #3).

# FINDING #3

**Improved documentation needed.**

MSHDA needs to improve its ESG documentation to support compliance with federal grant requirements and ensure the continued availability of ESG funds.

We noted that MSHDA delegated responsibility for the contract procurement process to the entity that operates its HMIS and that MSHDA did not sufficiently review grant award attachments during the application review process to ensure that all required forms were submitted. Specifically, our review of MSHDA's ESG documentation noted:

a. MSHDA had not signed the 2017 contract amendment for its utilization of HMIS. Also, MSHDA did not maintain a copy of the original signed 2011 HMIS contract to support that it was appropriately approved.

   MSHDA's procedures for contracting products and services require that the executive director and chief operating officer are the sole authorized signatories to execute the contract, and the procedures recommend that divisions' files include the executed contract.

b. MSHDA did not obtain 5 of the 11 required basic standards certification forms for 3 (38%) of the 8 emergency homeless shelter grant recipients reviewed.

   Federal regulation 24 *CFR* 576.403 requires any emergency shelter that receives ESG assistance for shelter operations to meet minimum safety, sanitation, and privacy standards. Also, MSHDA's ESG application requires applicants to certify that basic standards for emergency homeless shelters have been met.

c. MSHDA did not obtain conflict of interest forms for 2 (14%) of the 14 ESG grantees that we reviewed for the 2017 grant award period.

   Federal regulation 24 *CFR* 576.500(p) requires MSHDA, as the ESG grant recipient, to maintain records supporting compliance with the conflict of interest requirements.

**RECOMMENDATION**

We recommend that MSHDA improve its ESG documentation.

**AGENCY PRELIMINARY RESPONSE**

MSHDA provided us with the following response:

*MSHDA agrees with this recommendation and has implemented the following corrective actions for the deficiencies noted.*

   *a) MSHDA has amended the HMIS contract between the MCAH and MSHDA to require the WellSky (fka Mediware/Bowman Systems) HMIS contract to be signed by MCAH and WellSky, not WellSky and MSHDA. MSHDA no longer signs this agreement.*

b & c) *MSHDA has resolved ESG grant document retention deficiencies by requiring grantees to upload a current conflict of interest form and basic standards certification form into the MATT 2.0 system at ESG application. The basic standards certification is required for each shelter. These two documents are grant application threshold requirements and the grant will not be executed without the correct, completed forms.*

# DESCRIPTION

MSHDA was established by Public Act 346 of 1966 and is an autonomous entity within the Department of Talent and Economic Development, except for budgeting, procurement, and related functions.

MSHDA's mission* is to enhance economic and community vitality through housing and historic preservation activities.

MSHDA provides financial and technical assistance 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 RAHS works with local communities and teams to promote stable housing opportunities and confront issues facing low-income residents across Michigan. RAHS removes barriers for families and individuals working to overcome housing insecurity and assists those in need with housing, education, and community resources. Through RAHS, MSHDA administers various housing programs that are financed through federal government programs (e.g., HUD), State government programs, and private investors, including HCV, FSS, and ESG, as follows:

- HCV provides rent subsidies for very low-income individuals and families who find their own housing in private homes and apartment buildings. MSHDA administers approximately 28,000 HCV vouchers annually and expended $190 million for HCV for fiscal year 2016. HCV is 100% federally funded.

  HCV participants may also qualify for other opportunities, such as FSS.

- FSS is administered in connection with HCV and helps participating families increase earned income, improve financial literacy, reduce or eliminate their need for welfare assistance, and make progress toward economic independence and self-sufficiency. FSS had 1,109 participants as of June 30, 2017 and expended $966,000 for fiscal year 2016. FSS is 100% federally funded.

- ESG promotes Housing First through prevention and rapid re-housing activities. MSHDA annually provides funds to approximately 40 fiduciaries that distribute the funds to subgrantees, including homeless shelters and not-for-profit organizations. ESG expended $9.6 million for fiscal year 2016 and was 50% federally funded and 50% funded by MSHDA fees and charges.

*See glossary at end of report for definition.*

# AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

**AUDIT SCOPE**  To examine the records and processes related to the administration of MSHDA's RAHS programs, specifically HCV, FSS, and ESG.  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 audit objectives.

**PERIOD**  Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered July 1, 2015 through June 30, 2017.

**METHODOLOGY**  We conducted a preliminary survey of MSHDA's RAHS programs to formulate a basis for defining our audit objectives and scope.  During our preliminary survey, we:

- Interviewed MSHDA's RAHS staff and reviewed documentation to obtain an understanding of RAHS operations, responsibilities, and activities.

- Observed HCV inspections.

- Gained an understanding of user access and processes related to Elite and MATT 2.0.

- Requested SOC reports for third-party vendors.

- Verified completion of emergency homeless shelter certifications.

- Reviewed ESG grant agreements.

**OBJECTIVE #1**  To assess the effectiveness of MSHDA's efforts in administering HCV.

To accomplish this objective, we:

- Reviewed security controls for Elite, and determined if the level of access for 43 Elite user roles was appropriate and approved.  Our sample was randomly selected to eliminate bias and enable us to project the results to the entire population.

*See glossary at end of report for definition.*

- Reviewed the completion and propriety of eligibility determinations for 43 of the 35,600 HCV participants who had active vouchers at some time from July 1, 2015 through June 30, 2017. Our sample was randomly selected to eliminate bias and enable us to project the results to this population.

- Matched all 35,600 HCV participants who had active vouchers at some time from July 1, 2015 through June 30, 2017 and their household members against the Michigan Department of State Police's criminal history records system, the Department of Corrections' Offender Management Network Information System (OMNI), and the Michigan Department of Health and Human Services' death records to identify participants who had criminal records that would deem them ineligible for HCV participation or who were incarcerated or deceased while receiving HCV payments.

- Reviewed the appropriateness of MSHDA's selection of 43 of the 19,863 applicants selected from the HCV wait lists for July 1, 2015 through July 24, 2017. Our sample was randomly selected to eliminate bias and enable us to project the results to this population.

- Reviewed the timely and proper completion of the most recently required HQS inspections of housing units occupied by 43 HCV participants. Our sample was randomly selected from the 35,600 participants who had active vouchers at some time from July 1, 2015 through June 30, 2017 to eliminate bias and enable us to project the results to this population.

- Reviewed 43 of the 432 quality control inspections completed during fiscal years 2016 and 2017, as of June 30, 2017, for proper and timely completion. We randomly selected the inspections to eliminate bias and enable us to project our results to this population.

- Verified the appropriateness of the housing assistance amounts paid to landlords on behalf of 43 of the 35,600 HCV participants who had active vouchers at some time from July 1, 2015 through June 30, 2017. Our sample was randomly selected to eliminate bias and enable us to project the results to this population.

- Verified the appropriateness of the utility assistance amounts paid to the 10 participants (of the 43 reviewed) who received utility assistance payments.

- Gained an understanding of MSHDA's process to monitor the effectiveness of HCV and reviewed MSHDA's fiscal year 2016 SEMAP report for accuracy with supporting documentation.

- Reviewed MSHDA's process related to employee conflict of interest and reviewed conflict of interest forms for 19 of the 45 RAHS employees who were employed during fiscal year 2017. We randomly and judgmentally selected our sample to eliminate bias and ensure representation among the RAHS areas. Therefore, we could not project the results to the entire population.

**OBJECTIVE #2**    To assess the effectiveness of MSHDA's efforts in administering FSS.

To accomplish this objective, we:

- Summarized FSS expenditures and reviewed the propriety of salary and wage costs.

- Reviewed case files for 25 of the 167 FSS participants who completed the program from July 1, 2015 through June 30, 2017 and received an escrow disbursement from July 1, 2015 through June 30, 2017 for proper documentation and accuracy of the escrow disbursement calculation. We randomly and judgmentally selected the participants. Therefore, we could not project our results to the entire population.

- Reviewed 24 of the 227 FSS participants who were terminated from the program from July 1, 2015 through June 30, 2017, had a forfeiture of escrow, and had an escrow balance of zero to verify the appropriateness of the termination and the escrow balance disposition. We randomly selected the participants to eliminate bias and enable us to project our results to this population.

- Reviewed the 7 FSS participants who were terminated from the program from July 1, 2015 through June 30, 2017 and had an escrow balance as of the date of their termination to verify the appropriateness of the termination and the escrow balance disposition.

- Reviewed 18 of the 90 FSS contractor payments issued in 6 selected months (from July 1, 2015 through June 30, 2017) to determine if the payments were authorized and appropriately calculated. We randomly selected the payments and months to eliminate bias and enable us to project our results to the entire population.

- Reviewed 2 of the 13 on-site reviews completed with exceptions noted from January 1, 2016 through June 30, 2017 for proper follow-up. We randomly selected one review from each calendar year to eliminate bias and enable us to project our results to the respective populations.

- Reviewed security controls for Elite and determined if the level of access for 43 Elite user roles was appropriate and approved.  Our sample was randomly selected to eliminate bias and enable us to project the results to the entire population.

**OBJECTIVE #3**

To assess the effectiveness of MSHDA's efforts in administering ESG.

To accomplish this objective, we:

- Reviewed documentation of MSHDA's monitoring audits conducted of 5 of the 16 fiduciaries monitored during calendar year 2017.  We randomly selected the fiduciaries to eliminate bias and enable us to project our results to this population.

- Reviewed documentation for 14 of the 133 grants awarded during fiscal years 2016 and 2017 to determine if they were obligated in a timely manner, if they were properly approved prior to disbursement, if the grant agreements contained all required data elements, and that the grantees submitted a signed conflict of interest form for 2017.  We randomly selected the grants to eliminate bias and enable us to project our results to this population.

- Reviewed basic standards certification forms documentation for the 8 grantees, of the 14 grantees reviewed, that used grant funds for shelter operations for appropriate documentation.

- Reviewed the 14 grantees' financial activity reports to determine if the grantees were paid in a timely manner and properly approved prior to payment.

- Reviewed the 14 grantees' progress/consolidated annual performance evaluation reports to determine if they were submitted prior to payment.

- Visited 5 of the 26 shelters to verify that the shelters existed and the reasonableness of the shelters' basic standards form.

- Reviewed MSHDA's HMIS contract to determine if proper procurement procedures were followed.

- Reviewed the user access and security controls for MATT 2.0.

**CONCLUSIONS**     We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations.  Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY RESPONSES**     Our audit report contains 3 findings and 3 corresponding recommendations.  MSHDA's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork.  Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit.  Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

**PRIOR AUDIT FOLLOW-UP**     Following is the status of the reported findings from our January 2011 performance audit of Family Housing Programs, Michigan State Housing Development Authority, Department of Treasury (641-0205-07):

| Prior Audit Finding Number | Topic Area | Current Status | Current Finding Number |
|:---:|:---|:---:|:---:|
| 1 | MSHDA's process for allocating federal low-income housing tax credits. | Not in scope of this audit. | |
| 2a | MSHDA's process to complete criminal history screening for MSHDA-financed and tax credit financed housing assistance programs. | Not in scope of this audit. | |
| 2b | MSHDA's oversight of housing development property owners' compliance with criminal history screening requirements. | Complied | Not applicable |
| 2c | MSHDA's process to complete criminal history screening for HCV. | Complied | Not applicable |

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

| Prior Audit Finding Number | Topic Area | Current Status | Current Finding Number |
|---|---|---|---|
| 3 | MSHDA's maintenance of tenant data for MSHDA-financed and tax credit financed housing developments. | Not in scope of this audit. | |
| 4 | MSHDA's process to identify and update records of deceased tenants. | Complied | Not applicable |
| 4 | MSHDA's process to recover overpayments made on behalf of deceased tenants. | Complied | Not applicable |
| 5 | MSHDA's process to inform the MSHDA Board of matters related to activities involving the Michigan Magnet Fund. | Not in scope of this audit. | |
| 6a | MSHDA's process related to conflicts of interest. | Complied | Not applicable |
| 6b | MSHDA's enforcement of postemployment restrictions of former employees. | Not in scope of this audit. | |
| 6c | MSHDA's process related to postemployment restrictions regarding the disclosure and use of confidential information. | Not in scope of this audit. | |
| 7 | MSHDA's use of Housing Development Fund repayable grants for the Great Lakes Capital Fund. | Not in scope of this audit. | |
| 8 | MSHDA's use of Homeless Initiatives Grants to procure personal services from an employee of a grantee. | Not in scope of this audit. | |
| 9 | MSHDA's approval process for grants. | Not in scope of this audit. | |
| 10 | MSHDA's control environment over the procurement of its integrated accounting and management information system. | Not in scope of this audit. | |

# GLOSSARY OF ABBREVIATIONS AND TERMS

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|---|---|
| **access controls** | Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts. |
| ***Code of Federal Regulations (CFR)*** | The codification of the general and permanent rules published by the departments and agencies of the federal government. |
| **effectiveness** | Success in achieving mission and goals. |
| **ESG** | Emergency Solutions Grant Program. |
| **Federal Information System Controls Audit Manual (FISCAM)** | A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with *Government Auditing Standards.* |
| **FSS** | Family Self-Sufficiency Program. |
| **HALO** | Homeless Assistance Link Online. |
| **HCV** | Housing Choice Voucher Program. |
| **HMIS** | Homeless Management Information System. |
| **Housing First** | An approach to quickly and successfully connect individuals and families experiencing homelessness to permanent housing without preconditions and barriers to entry, such as sobriety, treatment, or service participation requirements. |
| **HQS** | housing quality standard. |
| **HUD** | U.S. Department of Housing and Urban Development. |
| **material condition** | A matter that, in the auditor's judgment, is more severe than a reportable condition and 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. Our assessment of materiality is in relation to the respective audit objective. |

| MATT 2.0 | MSHDA Activity Tracking Tool. |
| --- | --- |
| MCAH | Michigan Coalition Against Homelessness. |
| mission | The main purpose of a program or an entity or the reason that the program or the entity was established. |
| MSHDA | Michigan State Housing Development Authority. |
| OAG | Office of the Auditor General. |
| performance audit | An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. |
| RAHS | Rental Assistance and Homeless Solutions. |
| reportable condition | A matter that, in the auditor's judgment, is less severe than a material condition and 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 audit objectives; 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. |
| security | Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity. |
| SEMAP | Section Eight Management Assessment Program. |
| System and Organization Controls (SOC) report | Designed to help organizations that provide services to user entities build trust and confidence in their delivery processes and controls through a report by an independent certified public accountant (CPA).  Each type of SOC report is designed to meet specific user needs:<br><br>• SOC 1 (Report on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial |

Reporting) - Intended for user entities and the CPAs auditing their financial statements in evaluating the effect of the service organization's controls on the user entities' financial statements.

- SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy) - Intended for a broad range of users that need information and assurance about a service organization's controls relevant to any combination of the five predefined control principles.

There are two types of SOC 1 and SOC 2 reports:

  o Type 1 - Reports on the fairness of management's description of a service organization's system and the suitability of the design of the controls to achieve the related control objectives included in the description, as of a specified date.

  o Type 2 - Includes the information in a type 1 report and also addresses the operating effectiveness of the controls to achieve the related control objectives included in the description, throughout a specified period.

- SOC 3 (Trust Services Report for a Service Organization) - Intended for those needing assurance about a service organization's controls that affect the security, availability, or processing integrity of the systems a service organization employs to process user entities' information, or the confidentiality or privacy of that information, but do not have the need for or the knowledge necessary to make effective use of a SOC 2 report.

- SOC for Cybersecurity.  Intended to communicate relevant information about the effectiveness of an organization's cybersecurity risk management programs.

Office of the Auditor General

Independent     Objective     Transparent