

**Office of the Auditor General**  
Performance Audit Report

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**Homeownership Programs**  
Michigan State Housing Development Authority  
Department of Labor and Economic Opportunity

May 2021

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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.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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# OAG

Office of the Auditor General

## Report Summary

### *Performance Audit*

**Report Number:**  
**186-0205-20**

### *Homeownership Programs*

### *Michigan State Housing Development Authority (MSHDA)*

**Released:**  
**May 2021**

### *Department of Labor and Economic Opportunity*

The basic objective of MSHDA's Homeownership Programs is to provide safe, affordable, and successful homeownership opportunities to eligible low- and moderate-income residents. MSHDA offers fixed-rate mortgage loans for the purchase of a new or existing home. MSHDA also provides assistance to help homeowners avoid foreclosure and assistance with a down payment for the purchase of a home. From July 1, 2017 through December 31, 2019, MSHDA approved 18,031 mortgages totaling \$1.2 billion for low- and moderate-income applicants; provided \$27.6 million of Hardest Hit Fund (HHF) Program assistance to help over 4,000 homeowners avoid foreclosure; and supplied \$25.7 million of HHF Program assistance toward homebuyers' down payments in 61 targeted Michigan zip codes.

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #1: To assess the effectiveness of MSHDA's efforts in providing financing to Michigan residents with low and moderate income for the purchase of single-family homes.			Effective
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
MSHDA's quality control contractor did not report sufficient information for MSHDA to verify that the contractor included all MSHDA serviced loans in its quality control reviews. The contractor also provided 33% of monthly loan origination and 80% of loan servicing reviews we sampled between 1 and 39 days late ( <a href="#">Finding #1</a> ).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of MSHDA's efforts in providing assistance to Michigan homeowners under HHF Programs.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MSHDA implemented revised policies in 2016 that diminished its internal control and mitigated its ability to detect potential irregularities within HHF Program applications. In addition, MSHDA could not provide evidence that 10 contracted employees we reviewed, who worked on the Loan Rescue and DPA Programs (HHF Programs), completed conflict of interest forms. Also, MSHDA reported incorrect primary hardship reason data to the U.S. Treasury for 53% of the approved Loan Rescue Program applications that we reviewed ( <u>Finding #2</u> ).		X	Partially agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MSHDA may be able to enhance its efforts to ensure that it awards program funds to those most in need by limiting the time frame to allow homeowners to apply for assistance after an unexpected hardship and giving more consideration to the homeowners' ability to contribute to the delinquency ( <u>Observation #1</u> ).			Not applicable for observations.

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of MSHDA's security and access controls over selected systems.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
We identified a lack of procedures related to assigning user roles, monitoring of continued appropriateness of user access, and timely disabling of departed employees' user accounts ( <u>Finding #3</u> ).		X	Agrees

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# OAG

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**Doug A. Ringler, CPA, CIA**  
Auditor General

May 19, 2021

Mr. Gary Heidel, Acting Executive Director  
Michigan State Housing Development Authority  
735 East Michigan Avenue  
Lansing, Michigan

and

Ms. Susan R. Corbin, Acting Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Heidel and Ms. Corbin:

This is our performance audit report on the Homeownership Programs, Michigan State Housing Development Authority, Department of Labor and Economic Opportunity.

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 Office 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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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# SINGLE-FAMILY MORTGAGE ASSISTANCE

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## BACKGROUND

Public Act 346 of 1966, as amended, authorizes the Michigan State Housing Development Authority (MSHDA) to use proceeds from the sale of tax-exempt and taxable bonds and notes to make loans at below-market interest rates to fund its Homeownership Programs for fixed-rate home mortgages and down payment assistance (DPA). MSHDA works with participating lenders throughout the State to offer mortgages to low- to moderate-income individuals.

MSHDA contracts with a Federal Housing Administration (FHA), U.S. Department of Housing and Urban Development (HUD), approved loan servicer\* to complete the loan servicing functions for its single-family mortgages. The loan servicer carries out administrative aspects for MSHDA's mortgages from the time funds are disbursed until the mortgage is paid off. Functions performed by the servicer include collecting payments, maintaining loan account records capable of producing the amounts due from or to borrowers, applying payments to loan account records, maintaining segregated escrowed accounts, rendering payments for insurance and taxes, and monitoring for hazard insurance and, if applicable, flood insurance on mortgage properties. MSHDA developed a loan servicing manual that outlines the requirements for the loan servicer to follow, including requirements related to reporting, general loan servicing, ownership transfers, delinquent loan account servicing, and the servicer's monthly billing.

HUD requires all FHA-approved mortgagees to implement and continuously have in place a quality control program for the origination and/or servicing of insured mortgages as a condition of receiving and maintaining FHA approval. MSHDA contracts with a third-party vendor for its quality control plan. This contractor performs reviews and compiles separate reports of MSHDA's mortgage origination and MSHDA's loan servicer's processes to ensure compliance with HUD requirements.

From July 1, 2017 through December 31, 2019, MSHDA financed 18,031 single-family mortgages totaling \$1.2 billion (see Exhibit #4). Of these mortgages, 10,296 were first mortgages and 7,735 were DPA second mortgages. FHA insured approximately 53% of the first mortgages and other governmental or private agencies insured the remaining 47%.

## AUDIT OBJECTIVE

To assess the effectiveness\* of MSHDA's efforts in providing financing to Michigan residents with low and moderate income for the purchase of single-family homes.

\* See glossary at end of report for definition.

**CONCLUSION**

Effective.

**FACTORS  
IMPACTING  
CONCLUSION**

- 100% of MSHDA's determinations to approve or decline the single-family home mortgages we reviewed appeared appropriate based on established eligibility criteria and documentation in the applications.
- MSHDA maintained 97% of employees' conflict of interest forms we reviewed.
- MSHDA developed policies for its loan servicer to implement to help ensure compliance with contractual requirements.
- MSHDA's loan servicer met selected contractual requirements.
- MSHDA's single-family mortgage interest rates were consistent with average national rates for similar mortgage programs.
- Reportable condition\* related to improving the monitoring of MSHDA's quality control contractor (Finding #1).

\* See glossary at end of report for definition.

## **FINDING #1**

### **Monitoring of quality control contractor needs improvement.**

MSHDA should improve its monitoring of its quality control contractor to help ensure compliance with all HUD requirements related to single-family home mortgages.

Improved monitoring would help identify noncompliance with its own loan origination and loan servicing requirements; ensure swift and appropriate corrective actions; protect MSHDA against unacceptable risk; and ultimately guard against errors, omissions, and fraud. Noncompliance with specific HUD quality control requirements may result in sanctions and penalties against MSHDA by HUD's Mortgagee Review Board.

Chapter 7 of the FHA Title II Mortgagee Approval Handbook requires that all FHA-approved mortgagees must implement and continuously have in place a quality control plan for the origination and/or servicing of insured mortgages as a condition of receiving and maintaining FHA approval. Also, Chapter 7 of the Handbook provides that a mortgagee contracting out any part of its quality control function is responsible for ensuring that the contractor meets HUD requirements.

Our review of reports completed from July 1, 2017 through December 31, 2019 noted that MSHDA did not ensure that the contractor:

- a. Included information within its loan servicing quality control report to allow MSHDA to verify that the contractor utilized a complete and accurate population of loans and verify the appropriateness of the contractor's sampling methodology for the loan servicing operation reviews it completed. A procedure to review the contractor's sampling process or verification of completeness and accuracy of the population used would help ensure that the contractor:
  - (1) Included all of its serviced loans in the required quality control review.
  - (2) Reviewed the appropriate number of loans for each loan servicing operation.
  - (3) Mitigated the risk to MSHDA that noncompliance by the loan servicer could go undetected and negatively impact MSHDA's loans.

HUD stipulates that all mortgagees, regardless of their portfolio size, must document the total population and how the sample size and selections were determined for each area of servicing operations.

MSHDA indicated that it relied on the loan subservicing contractor to provide the quality control contractor with complete and accurate servicing operation populations. Also, MSHDA indicated that it relied on the quality control contractor to pull its loan servicing samples in accordance with HUD requirements.

b. Provided quality control reports in a timely manner. Timely reports aid MSHDA's ability to identify and initiate prompt action to resolve potential problems in its loan origination process and/or its loan servicer's processes. Our review disclosed:

- (1) For 2 (33%) of 6 monthly loan origination reviews, the contractor provided the quality control report 32 and 39 days after the 90-day requirement.

HUD stipulates that loans must be reviewed within 90 days from the end of the month in which the loan closed. MSHDA's contract for quality control review services provides that all origination reviews are required to be completed within 90 calendar days of loan closing.

- (2) For 8 (80%) of 10 monthly loan servicing reviews, the contractor took longer than 60 days to provide the monthly loan servicing quality control reports. The reports were received between 1 and 32 days after the required deadline.

HUD stipulates that mortgages selected for servicing reviews must be reviewed within 60 days from the end of the month in which the loan was selected. In addition, MSHDA's contract for quality control review services provides that monthly FHA servicing reviews must be submitted within 60 calendar days of the respective month end.

MSHDA indicated that it relied on its quality control contractor to provide the quality control reports in a timely manner in accordance with the contract requirements and MSHDA allowed its quality control contractor to provide late reports without any repercussions.

## **RECOMMENDATION**

We recommend that MSHDA improve its monitoring of its quality control contractor to ensure compliance with HUD requirements related to single-family mortgages.

## **AGENCY PRELIMINARY RESPONSE**

MSDHA provided us with the following response:

*The MSHDA agrees with this finding.*

- 1a. *Agree. The MSHDA will work with the loan subservicing contractor to ensure their sampling process includes steps to test the population to assure completeness and accuracy. The MSHDA will implement a process to verify that the contractor is documenting the total population and how the sample size and selections were determined, in accordance with HUD requirements.*

- 1b. Agree. The MSHDA instituted an internal process to check at the 80-day mark to ensure we have received quality control reports. If reports have not been received by that date, a follow up call to the contractor will be made and then daily checks to ensure receipt by the 90-day benchmark.

The MSHDA has identified two issues causing delays in the delivery of servicing quality control reports. The first issue was a delay in the sub-servicer providing reports needed for the contractor to perform testing, which resulted in delays to the final report issuance. The MSHDA will continue to intervene to expedite the delivery of needed reports, when reporting issues arise, to limit the instances when the reports are issued beyond the deadline.

The second issue causing apparent delays in the delivery of some servicing quality control reports can be attributed to the lack of an "issue date" on reports sampled for this audit. The issue date used for testing purposes was the email date, which on occasion was dated after the 60-day deadline. The MSHDA will request the contractor include an 'as of' or 'issue date' on the final report in the future.

**Completion Dates**

Process to verify loan servicing samples: **3/1/2021.**

Process to ensure QC reports received timely: **1/1/2021.**

Request servicing reports include an "issue date": **1/1/2021.**

**Responsible Individual(s)**

Loan servicing sample process: Teena Briggs, Audit/Mortgage Servicing Manager.

QC monthly report monitoring: Sarah Bohne, Homeownership Division Audit Unit.

Servicing monthly report monitoring: Stephen Kantola, Finance Division Audit Unit.

# HARDEST HIT FUND PROGRAM ASSISTANCE

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## BACKGROUND

In February 2010, the U. S. Department of the Treasury (U.S. Treasury) established the Hardest Hit Fund (HHF) within the Troubled Asset Relief Program (TARP) to provide targeted aid to families in states impacted by the economic and housing market downturn of 2009. The U.S. Treasury awarded funds to housing finance agencies (HFAs) to develop and implement innovative housing initiatives tailored to their local conditions to help prevent foreclosures and stabilize housing markets. Each state's HFA designed and administered its HHF Program.

To meet the U.S. Treasury's eligibility requirements to receive funds under the HHF Program, MSHDA created the Michigan Homeowner Assistance Nonprofit Housing Corporation (MHA) to administer the distribution of the HHF Program funds. MHA's governing board consists of 3 MSHDA staff and 2 external members. MHA is housed organizationally within MSHDA's Homeownership Division. As of December 31, 2019, there were 6 MSHDA employees and 33 contract staff assigned to MHA.

The U.S. Treasury awarded MSHDA and MHA \$761.6 million to operate the HHF Program and they now have until June 30, 2021 to utilize these funds. The U.S. Treasury required that MSHDA, in designing Michigan's program, implement a program of internal control and did not require MSHDA to establish specific criteria to determine eligible recipients or appropriate amounts of assistance.

MSHDA and MHA administered the Loan Rescue Program and the DPA Program (HHF Programs) during our audit period:

- **Loan Rescue Program:** This Program helps homeowners who have experienced a qualifying involuntary hardship\* that has caused them to fall behind on their mortgage, property taxes, and/or condominium association fees to avoid foreclosure (see Exhibit #2). The Program's goal is to prevent avoidable foreclosures by helping homeowners get back on solid footing. The Program provides up to a one-time \$30,000 interest-free forgivable loan.

For the period July 1, 2017 through December 31, 2019, MSHDA and MHA awarded 4,004 Loan Rescue Program forgivable loans totaling \$27.6 million to homeowners throughout Michigan who experienced eligible hardships (see Exhibit #1).

\* See glossary at end of report for definition.

- **DPA Program:** This Program provided in the form of a second forgivable mortgage up to \$15,000 toward a homebuyer's down payment, closing costs, or prepaids/escrows for borrowers who contribute at least 1% of their own funds toward the purchase. Properties must be in 1 of 61 eligible zip codes. The Program's goal is to help in stabilizing property values, preventing foreclosures and promoting homeownership in areas that have high rates of vacancies, foreclosures, and stagnant property value growth. This Program began October 1, 2018.

From October 1, 2018 through December 31, 2019, MSHDA and MHA awarded 1,724 DPA Program forgivable loans totaling approximately \$25.7 million to homebuyers purchasing homes in 61 targeted zip codes (see Exhibit #3).

Under both HHF Programs' requirements, borrowers sign a mortgage lien document and note. There is no interest or monthly payments required on the loan, and the loan is forgivable, at a forgiveness rate of 20% per year, as long as the homeowner occupies the property as its principal residence for five years.

Based on information in the U.S. Treasury's quarterly HHF Program performance summary reports, the primary performance metrics that U.S. Treasury focused on included the number of homeowners assisted and the amount of assistance that State agencies had administered.

**AUDIT OBJECTIVE**

To assess the effectiveness of MSHDA's efforts in providing assistance to Michigan homeowners under HHF Programs.

**CONCLUSION**

Effective.

**FACTORS IMPACTING CONCLUSION**

- 100% of MSHDA's determinations to approve or decline the HHF Programs' applications that we reviewed appeared appropriate based on established eligibility criteria and documentation in the applications.
- Observation\* regarding MSHDA enhancing its efforts to ensure that it awards program funds to those most in need (Observation #1).
- Reportable condition related to the need for MSHDA to strengthen its development and execution of its internal control for administering its HHF Programs (Finding #2).

\* See glossary at end of report for definition.

## FINDING #2

### Internal control design and execution should be strengthened.

MSHDA should strengthen its internal control development and execution for administering its HHF Programs.

The U.S. Treasury's HHF guidelines require that MSHDA, in designing Michigan's HHF Program, implement a "program of internal control" to minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency\* and effectiveness. These guidelines also indicate that MSHDA shall maintain complete, accurate, and appropriate records of, and supporting documentation for, all services provided in connection with the assistance programs. Although these guidelines and best practices are specific to HHF Programs, the internal control concepts are applicable to any assistance programs MSHDA may administer.

From July 1, 2017 through December 31, 2019, MSHDA distributed HHF Program assistance totaling \$27.6 million on behalf of 4,004 homeowners for the Loan Rescue Program.

Our review disclosed:

- a. MSHDA revised its policies, effective May 1, 2016, and reduced the documentation it required of Michigan homeowners applying for Loan Rescue Program assistance. MSHDA no longer required applicants to submit current bank statements to support that they did not exceed liquid asset thresholds. Beginning March 2018, MSHDA no longer required first-time applicants to include documentation to support that their stated hardship was a qualifying involuntary hardship. Instead, MSHDA only required that the applicants disclose and certify on their application how the identified hardship contributed to their delinquency and that the amounts for their checking and savings accounts were truthful and accurate.

The revised policies diminished MSHDA's internal control and mitigated its ability to detect potential irregularities within the Loan Rescue Program applications and decide when further follow-up was necessary to validate applicant eligibility concerning the hardship and liquid asset amounts disclosed by the applicants.

A review of bank statements would allow MSHDA the opportunity to identify significant withdrawals, for example, that may require further explanation from the homeowners. These types of withdrawals may be an indication of potential additional cash reserves that the homeowners did not disclose in their application or large, abnormal, and/or luxury expenses. Bank statements may also reveal the existence of additional bank accounts the homeowners did not disclose. In addition, a review of supporting documentation such as receipts for the purchase that caused the hardship would help MSHDA ensure that the

\* See glossary at end of report for definition.

hardship was involuntary, that the expense was incurred, and that it was directly responsible for causing the homeowner's delinquency in mortgage payments, property taxes, or condominium fees.

According to the U.S. Office of Management and Budget (OMB), one of the primary reasons for improper payments for assistance programs is the failure to verify appropriate data to determine whether or not a recipient should receive a payment even though the data exists.

During our April 2014 performance audit of MSHDA's Homeownership Programs (271-0205-13), we questioned the eligibility of several applicants that MSHDA had approved for homeownership assistance based on our review of bank statements, receipts, and other documentation MSHDA required applicants to submit at that time.

MSHDA indicated that it implemented the revised policies that reduced the documentation it required applicants to submit to help simplify the application process for Michigan homeowners and increase MSHDA's effectiveness in aiding homeowners.

- b. MSHDA could not provide evidence that 10 contracted employees working on the HHF Programs completed 15 (71%) of 21 conflict of interest forms for calendar years 2017 through 2019. Contracted employees sign the forms to acknowledge their awareness of MSHDA's conflict of interest and ethical standards and to indicate their agreement to comply with the provisions for the HHF Program regarding potential issues including improper gifts and relationships.

MSHDA did not have a formal written code of ethics policy establishing when HHF contract employees should complete conflict of interest forms. MSHDA's practice required all new HHF contract employees to complete the form as part of its hiring process. Although no policy required contract employees to annually complete a new conflict of interest form, MSHDA's practice was to ask contract employees to complete a conflict-of-interest form in conjunction with its annual MSHDA-IT fraud and security\* training session.

MSHDA indicated that it could not provide the requested 2017 forms because MSHDA had not saved the forms electronically and did not have the original hard-copy forms. In addition, MSHDA had not collected the 2019 forms at the time of our review in March 2020 despite completing its annual MSHDA-IT fraud and security training in May 2019.

\* See glossary at end of report for definition.

- c. MSHDA reported incorrect primary hardship reason data to the U.S. Treasury for 21 (53%) of the 40 approved Loan Rescue Program applications reviewed. For example, we found several hardships reported within the "other" category that, based on the documentation, belonged in one of the other defined categories, such as medical. Accurate Loan Rescue Program data allows MSHDA and the U.S. Treasury to analyze the cause of applicants' hardships and modify or design future programs to help prevent foreclosures.

MSHDA's participation agreement with the U.S. Treasury required MSHDA to submit quarterly reports to the U.S. Treasury that include borrower characteristic data and program specific performance data that must be accurate, complete, and in agreement with retained HFA records.

MSHDA indicated that changes to its online application process allowing applicants to select the category of their hardship and the lack of requirement for staff to manually update the primary hardship reason in the system caused MSHDA to report inaccurate information to the U.S. Treasury.

Although our review was focused on specific HHF Programs that are scheduled to end during 2021, the areas identified for improvement represent opportunities for MSHDA to also incorporate into future assistance programs.

## **RECOMMENDATION**

We recommend that MSHDA strengthen its internal control development and execution for administering its HHF Programs.

## **AGENCY PRELIMINARY RESPONSE**

MSHDA provided us with the following response:

*The MSHDA agrees in part with this finding.*

- 2a. *Disagree. During the life of the Hardest Hit Program, which expires by its own terms on December 31, 2021, the U.S. Department of Treasury approved 15 program amendments to increase fund allocation, maximize funds per household, and streamline eligibility criteria. These changes were made to increase program efficiency and effectiveness while honoring program guidelines and participant needs. These changes were not made without due attention to the program's internal control process nor the internal eligibility review process already in place. In 2016, prior to the scope of this audit review period and after a six-year performance history, the MHA amended the eligibility criteria to allow self-attestation of assets from the homeowner in lieu of requiring the applicant to submit copies of multiple deposit account statements. This change dramatically improved efficiency and service to struggling homeowners trying to remain in their*

homes. The MSHDA and MHA accepted the risk to the program's integrity and weighed this risk against the positive impact it may have to further the purpose of the program. The MSHDA and MHA determined that the positive impact greatly outweighed potential risk.

No changes were made to the Hardest Hit Program's compliance process or requirements. The MHA has an established independent quality control staff review process on all decisioned cases: approved cases prior to funding and declined or withdrawn cases prior to reporting to Treasury. A quarterly risk analysis control matrix (RACM) is completed internally by the program underwriter/compliance analyst and, a third party was commissioned to review the program, in its entirety, on an annual basis. Treasury's Office of Financial Security (OFS) conducts an annual compliance audit, and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) has conducted numerous audits during the program's tenure.

The MSHDA disagrees with comparing its change in policy with OMB's analysis of improper payments. The MHA did implement its revised SFM policies: 1) not requiring applicants to submit copies of multiple deposit account statements, and 2) allowing submission of documentation to support a subsequent, alternative eligible hardship reason. This was implemented to simplify the application process, protect the integrity of the eligibility review process, and increase the MHA's effectiveness in providing assistance to eligible applicants. The MHA implemented revised underwriting guidelines with clear hardship detail and acceptable documentation requirements along with weekly/bi-weekly team meetings with eligibility review, quality control, customer service and program leadership staff to discuss specific cases as needed. The MHA and MSHDA recognize that a struggling applicant faced with foreclosure often has multiple, eligible program hardship events that directly impacted their onset of delinquency. In some of these cases there were periods of recovery prior to the applicant reapplying for assistance, and it was prudent for the MHA to ask for supporting documentation to align with the 2nd or 3rd hardship, rather than simply dismissing their resubmitted application. The MSHDA disagrees that this change in policy is appropriately compared to OMB's broad conclusion stated in this finding regarding improper payments for assistance programs.

- 2b. Agree in part. The MSHDA and MHA policy is to have all new staff, at the time of on-boarding, execute a conflict of interest disclosure. Neither the MSHDA nor MHA has an existing policy for current staff to re-sign the conflict of interest disclosure annually; however, the MHA did voluntarily include the conflict of interest disclosure in its annual IT Security and Fraud training sessions. The MSHDA agrees that some of these non-required forms were not properly

*retained even though they were not a required annual recertification.*

*The Hardest Hit Program expires by its own terms on December 31, 2021; the MHA projects the last new loan eligibility determination will be prior to June 30, 2021 and final loan disbursement date to be no later than July 31, 2021 which is considered the End of Term Date. Therefore, the MHA does not identify a corrective action or change of policy is warranted in regards to the annual recertification of conflict of interest disclosures.*

- 2c. *Agree in part. The MHA reports the primary hardship reason accurately within the eligibility determination notes and to Treasury on the quarterly reports and acknowledges that in some instances, the final program hardship determined was not updated in the system of record reporting field. It is the applicant that first defines their 'eligible hardship that impacted their ability to pay and how that qualifying hardship caused the applicant to become delinquent on their mortgage, property taxes, and/or condominium association fees' and selects the hardship category in the system of record's application portal. The SFM staff interviews, listens to, and analyzes each applicant during the eligibility review process. These staff then help to correlate the stated and/or documented hardship to the documented delinquency and then summarizes it on behalf of the applicant in the eligibility determination notes. It is staff's responsibility to either update the hardship field in the application portal to match the final hardship reason determination and/or enter it in the underwriting portal. The system of record was created with two separate portals and the hardship field was not linked between them until December 2019 when we completed a data normalization process. The program data supports that all applicants were impacted economically by an eligible program hardship and most had multiple eligible hardships impact their lives and threatened their homeownership status. The MHA stayed true to the purpose of the Hardest Hit Fund program which was to stop foreclosure and retain homeownership for eligible homeowners.*

*The completion of December 2019 system of record data normalization process minimized the risk of reporting the applicant's initial hardship selected in the application portal as the final hardship determination selected by staff in the underwriting portal on the eligibility review tab. The Funding/Reporting staff now pulls a data report monthly and prior to Treasury Report data reconciliation to ensure the primary hardship reason is entered into the eligibility review tab. No further corrective action is warranted.*

**AUDITOR'S  
COMMENTS TO  
AGENCY  
PRELIMINARY  
RESPONSE\***

- 2a. MSHDA voluntarily amended its eligibility policies to no longer require individuals to submit current bank statements or first-time applicants to include documentation to support a qualifying involuntary hardship after it reviewed a six-year performance history. However, MSHDA appears to have ignored the results of our April 2014 performance audit, which occurred within its six-year "performance" history. During that audit, we reviewed bank statements and documentation for involuntary hardships and identified that MSHDA had not sufficiently verified liquid assets and household income or documentation for involuntary hardships for 22% and 19%, respectively, of sampled homeowners. This error rate does not appear to align with MSHDA's decision to eliminate required documentation. Although MSHDA indicated in its response to the prior audit that it implemented corrective action to address the eligibility determination issues, it had not. To the contrary, MSHDA's eligibility policy revisions further mitigated its ability to prevent or detect improper eligibility determinations or fraud when applicants were not truthful about the amount of their liquid assets or involuntary hardships.

The additional quality control and audit efforts MSHDA references in its response utilize information MSHDA requires applicants to submit with their applications. Accordingly, they did not include bank statements or evidence of involuntary hardships and, therefore, did not mitigate the internal control deficiency that resulted with MSHDA's policy revisions.

MSHDA disagrees with the OAG comparing its change in policy with OMB's conclusion that one of the primary reasons for improper payments for assistance programs is the failure to verify appropriate data to determine whether a recipient should receive a payment even though that data exists. MSHDA does not dispute that its revised policy does not require bank statements or documentation of involuntary hardships, even though that data exists. Therefore, OMB's conclusion is directly applicable to MSHDA's policy revisions.

MSHDA's policy revisions may have streamlined eligibility criteria to allow it to approve more applications faster. However, we disagree that the program's integrity in distributing limited program funds is protected by the reduced efforts to verify an applicant's eligibility. Therefore, the finding stands as written.

- 2b. Although the HHF Program expires on December 31, 2021, our finding suggests an improvement opportunity for MSHDA to also incorporate into future assistance programs. Therefore, the finding stands as written.

\* See glossary at end of report for definition.

- 2c. MSHDA acknowledges that it made changes to its application system and reporting process after the period under audit. On March 5, 2020, MSHDA corrected the 21 hardship reasons cited in the finding. We will assess the sufficiency of its corrective action during a future audit. The finding stands as written.

## OBSERVATION #1

**MSHDA may be able to enhance its efforts to ensure it awards program funds to those most in need.**

As of June 30, 2020, MSHDA had provided Loan Rescue Program assistance of approximately \$210 million to more than 28,000 homeowners to reinstate mortgage, property tax, and/or delinquent condominium association fees necessary to prevent property foreclosures.

MSHDA required applicants to have incurred a qualifying involuntary hardship that impacted their ability to pay these expenses. When the hardship was caused by a critical, one-time out-of-pocket expense, the expense needed to be equal to or exceed the homeowner's one-time monthly housing expense. In addition, MSHDA required homeowners to have \$10,000 or less in combined liquid assets.

Our review of 40 applications MSHDA approved for assistance showed that homeowners applied for assistance on average 20 months after incurring a hardship. MSHDA informed us that homeowners often had multiple eligible program hardship events that directly impacted their ability to maintain the housing expense causing the delinquency. MSHDA required homeowners to disclose only one qualifying hardship in their application.

As depicted in the following table, some homeowners in our sample received significantly more in assistance than the amount of their reported hardship and indicated on their applications that the hardships had occurred years before they applied for assistance (all of these homeowners met MSHDA's eligibility requirements):

Category of Hardship	Type of Expense Causing Hardship	Amount of		Assistance Covered	Date of	
		Hardship	Assistance Provided		Hardship	Application
Medical	Dental	\$ 462	\$12,112	Mortgage and Property Taxes	October 2014	January 2017
Other	House Repair	\$1,176	\$11,804	Property Taxes	December 2010	June 2019
Other	House Repair	\$ 550	\$11,717	Property Taxes	August 2014	September 2018
Divorce	Attorney Fees	\$2,500	\$ 4,685	Mortgage	March 2017	June 2017
Other	Home Appliance	\$ 200	\$ 4,365	Property Taxes	June 2015	May 2017
Other	Car Repair	\$1,000	\$ 3,974	Mortgage	November 2016	August 2017
Other	Car Repair	\$ 955	\$ 3,893	Property Taxes	October 2016	November 2018
Other	Car Repair	\$1,826	\$ 3,172	Mortgage	May 2017	November 2017

In addition, we analyzed data for the entire population of 4,004 homeowners' applications during our audit period and noted 16 instances in which homeowners reported having more in liquid assets than they had requested for assistance, as depicted in the following table:

Category of Hardship	Type of Expense Causing Hardship	Self-Reported Liquid Assets	Assistance Provided	Assistance Covered
Death	Loss of Income	\$8,598	\$6,975	Mortgage
Other	Auto Repair	\$6,500	\$5,446	Mortgage
Medical	Loss of Income	\$8,000	\$5,286	Property Taxes
Unemployment	Loss of Income	\$6,000	\$4,061	Mortgage
Unemployment	Loss of Income	\$3,800	\$3,509	Mortgage
Medical	Loss of Income	\$2,920	\$2,796	Mortgage
Medical	Medical Bill	\$2,500	\$2,263	Property Taxes
Other	Pest Control	\$3,000	\$2,168	Property Taxes
Medical	Medical Bill	\$1,867	\$1,790	Property Taxes
Other	Home Repair	\$2,035	\$1,738	Mortgage
Other	Auto Repair	\$1,500	\$1,466	Property Taxes
Other	Auto Repair	\$1,300	\$1,288	Property Taxes
Other	Home Repair	\$1,450	\$1,174	Property Taxes
Other	Auto Repair	\$1,472	\$1,096	Property Taxes
Other	Auto Repair	\$ 700	\$ 618	Property Taxes
Medical	Loss of Income	\$1,598	\$ 590	Property Taxes

MSHDA's eligibility considerations did not include the homeowners' ability to contribute toward the amount requested for assistance, the timing of their application in relation to the date of their hardship, or the amount of the expense that caused the qualifying hardship in relation to the amount requested for assistance.

MSHDA informed us that most applicants applying for assistance self-reported having very little in liquid assets, and its practice was to award any amount necessary to eligible homeowners to bring them out of delinquency, up to a maximum of \$30,000. MSHDA also advised that some mortgage companies did not accept partial payments and that this resulted in delinquency amounts that continued to build until paid in full to fully reinstate a homeowner.

MSHDA may be able to enhance its efforts to ensure that it awards program funds to those most in need by limiting the time frame to allow homeowners to apply for assistance after an unexpected hardship and giving more consideration to the homeowners' ability to contribute to the delinquency. Amendatory legislation may also be an option for limiting the time frame.

## SELECTED SECURITY AND ACCESS CONTROLS

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### BACKGROUND

Security and access controls\* limit or detect inappropriate access to computer resources, thereby protecting the resources from unauthorized modification, loss, and disclosure. This is important to ensure the availability\*, confidentiality\*, and integrity\* of data. For access controls to be effective, they should be properly authorized, implemented, and maintained.

The State of Michigan (SOM) adopted the security controls identified in the National Institute of Standards and Technology\* (NIST) Special Publication 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, as the set of controls for SOM information systems. The Department of Technology, Management, and Budget (DTMB) developed technical standards for each NIST security control group, which are modified in some cases for SOM implementation. DTMB technical standards are applicable to all SOM networks, systems, computers, data, databases, and applications and supersede all security standards that may conflict with them.

The Federal Information System Controls Audit Manual\* (FISCAM) is a methodology developed by the U.S. Government Accountability Office (GAO) for performing information system control audits of governmental entities in accordance with professional standards. The 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. SOM Technical Standard 1340.00.020.01 requires agencies to establish a process to control and document the assignment of access rights based on current job responsibilities and the principle of least privilege\* and to monitor privileged users' activity. Also, FISCAM indicates that access to sensitive or privileged accounts should be restricted to individuals having a legitimate need for business purposes.

MSHDA uses a collection of IT systems for its administration of the single-family mortgage assistance and HHF Programs, as well as other functions, such as performance of financial and treasury activities, that are accessed by internal and external users. The MSHDA-IT systems that we reviewed were:

- Elite
- Emphasys Application Oriented Design (AOD)
- Lender Online
- MSHDA App Server (MAPPS)
- MSHDA Activity Tracking Tool (MATT)
- MSHDA Property Inspections (MPI)
- Treasury Edge

\* See glossary at end of report for definition.

<b>AUDIT OBJECTIVE</b>	To assess the effectiveness of MSHDA's security and access controls over selected systems.
<b>CONCLUSION</b>	Moderately effective.
<b>FACTORS IMPACTING CONCLUSION</b>	<ul style="list-style-type: none"> <li>• System and Organization Controls (SOC) 2 reports* for the applicable systems did not identify any significant risks to MSHDA.</li> <li>• One reportable condition related to improving security and access controls over IT systems (Finding #3).</li> </ul>

\* See glossary at end of report for definition.

### FINDING #3

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**Security and access controls over IT systems need improvement.**

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MSHDA needs to improve its access and security controls over its IT systems.

SOM Technical Standards 1340.00.020.01 and 1340.00.130.02 require agencies to establish a process to control and document the assignment of access rights based on current job responsibilities and the principle of least privilege, to monitor privileged users' activity, and to ensure that SOM IT resources are used to conduct SOM business and within acceptable use restrictions. Also, FISCAM recommends maintaining access authorization forms and restricting access to sensitive or privileged accounts to individuals having a legitimate need for business purposes.

Our review of MSHDA's security and access controls for 7 selected IT systems, 4 of which contained personally identifiable information (PII), disclosed opportunities for MSHDA to improve its controls, including:

- a. Documenting user role capabilities to support its utilization of the principle of assigning users the least privilege necessary to perform their jobs.

MSHDA informed us that its IT Division and security administrators primarily relied on supervisors to advise them of which role(s) to assign new users within the applicable systems. We determined that guidance describing the system's role capabilities was not always available for IT staff, security administrators, or the program managers and supervisors to review when assigning a role for a new user or to change an existing user's role assignment.

We reviewed the roles that MSHDA had assigned for 147 users and determined that for 73 (50%) of the users in 5 of the 7 systems, either the roles appeared incompatible with the employees' job functions or there was not sufficient information available to determine the capabilities of the assigned roles to ensure the role assignment was compatible with their job functions.

- b. Periodically reviewing user roles and user IDs to determine if access rights granted to users remained appropriate and should remain active.

FISCAM guidance recommends monitoring, maintaining, and adjusting access on an ongoing basis to accommodate new and departing employees and changes in users' responsibilities and related access needs.

In addition, we identified 3 systems with active generic user IDs that did not identify the individual whom the role belonged to. Malicious users often target these types of non-user accounts because the accounts may have passwords that are shared, do not expire, or cannot be

changed. Standards require that the information systems uniquely identify and authenticate system users.

MSHDA indicated that its software vendors had created the generic user IDs and MSHDA was working with the various vendors to deactivate any accounts that did not uniquely identify and authenticate the user when possible.

- c. Generating and monitoring user activity in its systems to ensure that users performed only authorized activities relevant to their respective job requirements.

For example, MSHDA assigned some users outside of its IT Division with the role of security administrator for 3 systems. The security administrator functionality provided individuals with administrative capabilities, including the ability to add, delete, and/or modify user roles. MSHDA informed us that some of its users required this role to perform their job responsibilities and MSHDA's previous policy before it created a centralized IT Division allowed for the assignment of this role to certain MSHDA employees.

Monitoring user activity audit logs will help ensure that employees are only accessing and using its systems for authorized MSHDA business purposes and will allow MSHDA to detect unauthorized browsing of confidential information.

- d. Disabling or deleting user accounts in a timely manner.

For 6 of the 7 IT systems reviewed, we identified:

- 17 (21%) of 80 user IDs were active at the time of our review for employees who had departed from employment or no longer required access to the applicable systems. The oldest accounts belonged to staff from a previous contractor whose contract terminated with MSHDA on March 31, 2017.
- 24 (17%) of 143 user IDs for departed employees were not always disabled in a timely manner. The 24 IDs remained active for more than 14 days after the employees' departure date. We calculated the average number of days for removal to occur to be 213 days and the longest was 1,931 days after the employee left.
- 24 additional departed employees that MSHDA was unable to provide the date that the inactivation of the user ID had occurred; therefore, it could not ensure that the access was removed in a timely manner.

MSHDA primarily relied on its managers or human resource staff to inform the IT Division when a user or contractor no longer required access or an employee left MSHDA so that access could be removed in a timely manner.

**RECOMMENDATION**

We recommend that MSHDA improve its access and security controls over its IT systems.

**AGENCY  
PRELIMINARY  
RESPONSE**

MSHDA provided us with the following response:

*The MSHDA agrees with this finding.*

- 3a. *Agree. Upon review, the MSHDA's Technical Support Services (TSS) department has identified several systems in need of improved documentation regarding the user roles or profiles being assigned.*

*The MSHDA is currently conducting a user access audit of the systems, to document all user roles and profiles. This will provide an understanding of what each role or profile does within the respective system and ensure role assignments are compatible with job functions.*

- 3b. *Agree. The MSHDA agrees that the TSS department does not periodically review access to determine if a user's access is still appropriate. This issue is being addressed by the current initiative to centralize IT functions.*

*The MSHDA is also currently building a central database application that will outline what each user has access to, and the TSS department will be reviewing on an ongoing basis to verify access is still appropriate.*

- 3c. *Agree. DTMB actively monitors IT Resources, as outlined in the Acceptable Use of Information Technology Standard (1340.00.130.02), on the State of Michigan network. The MSHDA agrees that additional proactive monitoring of user activity in these systems is needed. We are in the process of evaluating these systems to incorporate monitoring activities where applicable.*

- 3d. *Agree. In the MSHDA's initiative to centralize IT functions within the TSS department, more stringent processes are being put in place to better monitor and review user access, and to ensure that accounts are disabled or deleted in a timely manner. The MSHDA IT staff will also be reviewing user accounts where possible, and they will follow-up on accounts not accessed within 30 days to ensure access is still needed.*

**Anticipated Completion Date**

*User Audit: 10/31/2021*

*Central Database: 10/31/2021*

*Activity monitoring: 10/31/2021*

**Responsible Individual(s)**

*User Audit: SaVille Hill, Dan Schafer, and Nikki Hartman of the  
Technical Support Services*

*Central Database: Mark Whitaker*

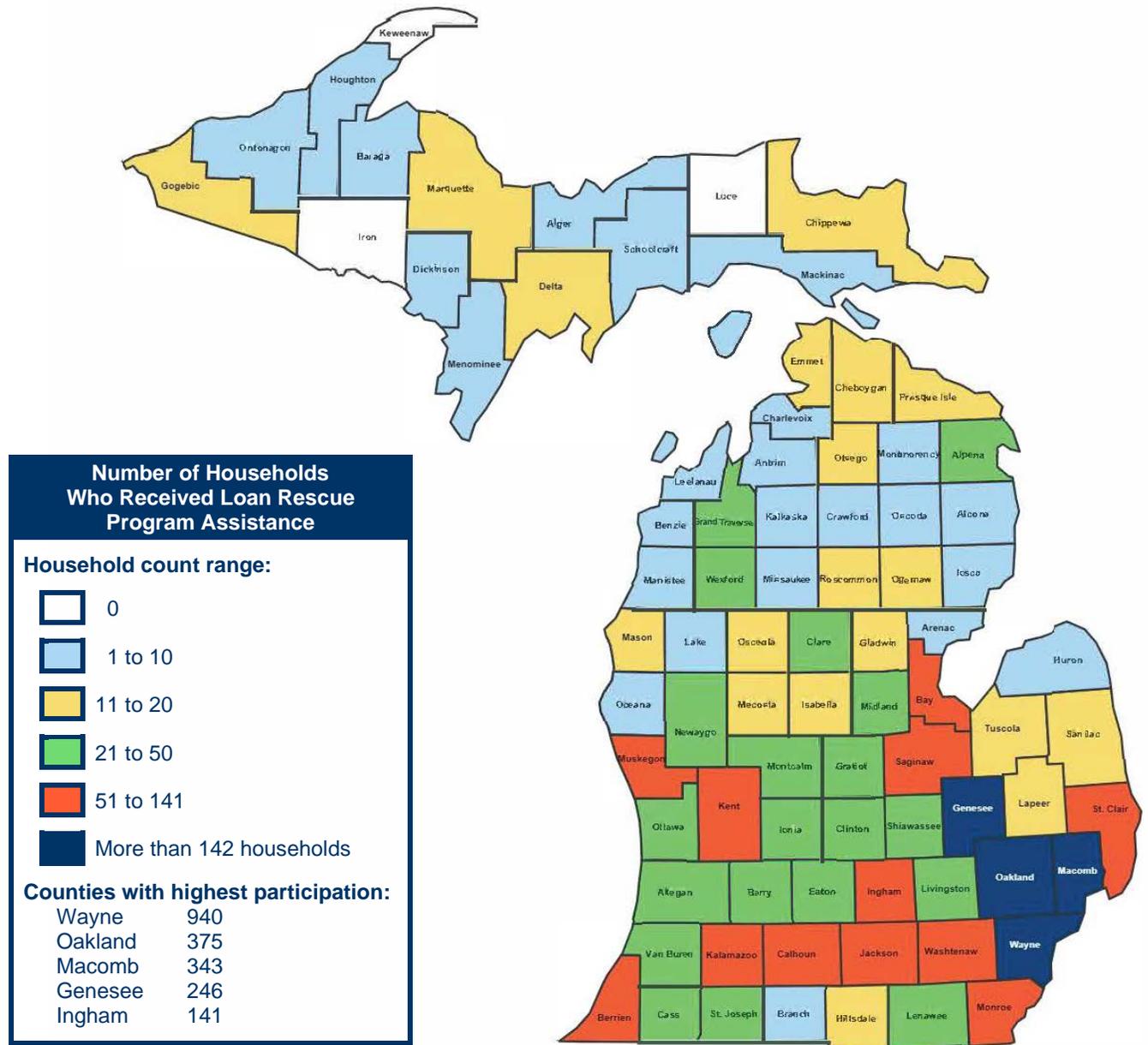
*Activity monitoring: SaVille Hill, Dan Schafer, and Nikki Hartman  
of the Technical Support Services*

# SUPPLEMENTAL INFORMATION

UNAUDITED  
Exhibit #1

## HOMEOWNERSHIP PROGRAMS Michigan State Housing Development Authority (MSHDA) Department of Labor and Economic Opportunity

Map of Households Who Received Loan Rescue Program Assistance  
From July 1, 2017 Through December 31, 2019

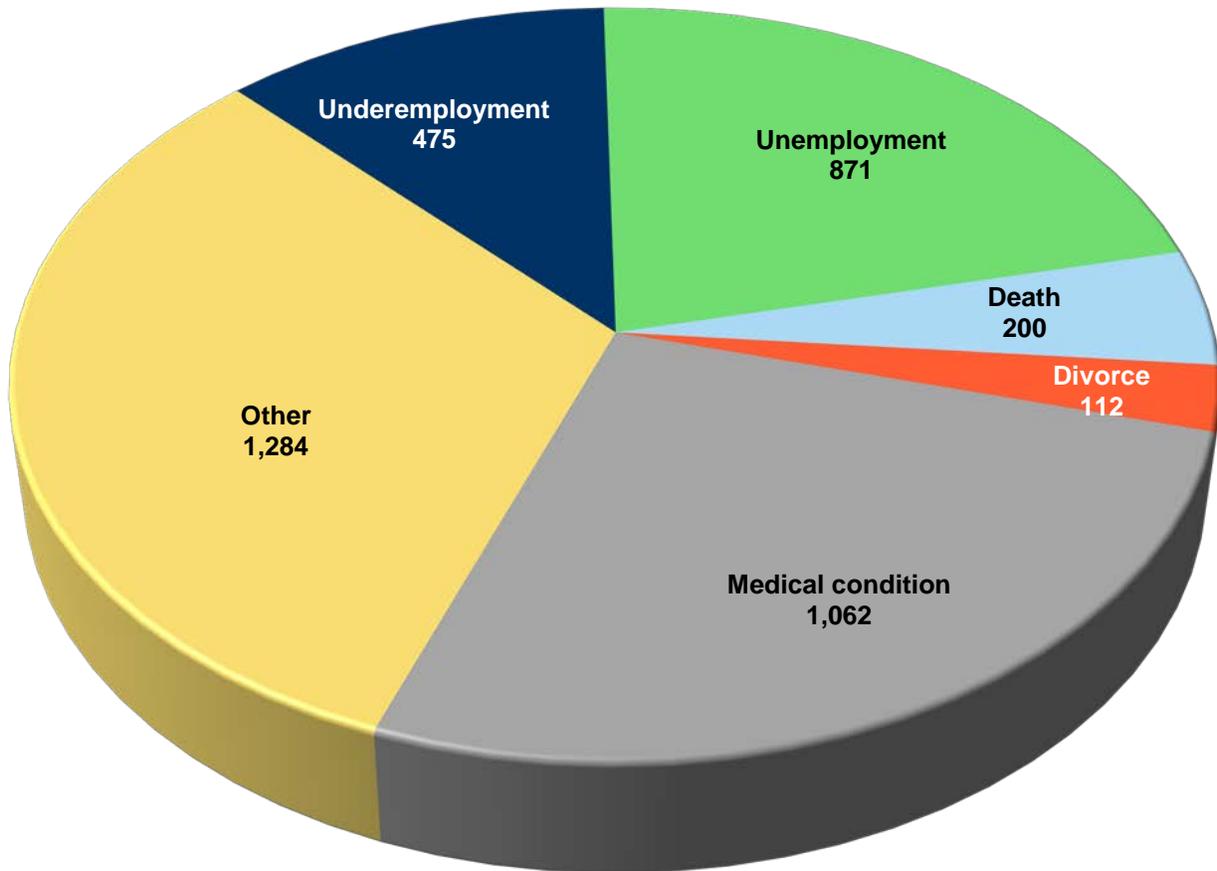


Note: To view an interactive map with more detail for each county, including the number of households by city, click the link here: [Homeownership Programs Interactive Map](#)

Source: The OAG prepared this exhibit based on data obtained from MSHDA.

**HOMEOWNERSHIP PROGRAMS**  
Michigan State Housing Development Authority (MSHDA)  
Department of Labor and Economic Opportunity

Loan Rescue Program Approved Applicants' Identified Involuntary Hardship  
From July 1, 2017 Through December 31, 2019



Source: The OAG prepared this exhibit based on data obtained from MSHDA's MAPPS system.

HOMEOWNERSHIP PROGRAMS  
Michigan State Housing Development Authority (MSHDA)  
Department of Labor and Economic Opportunity

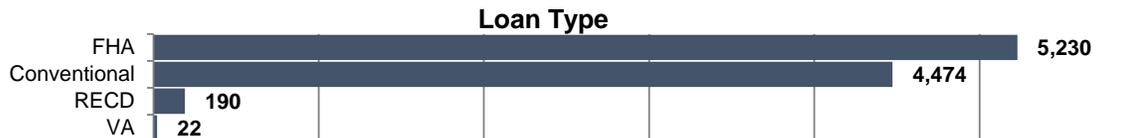
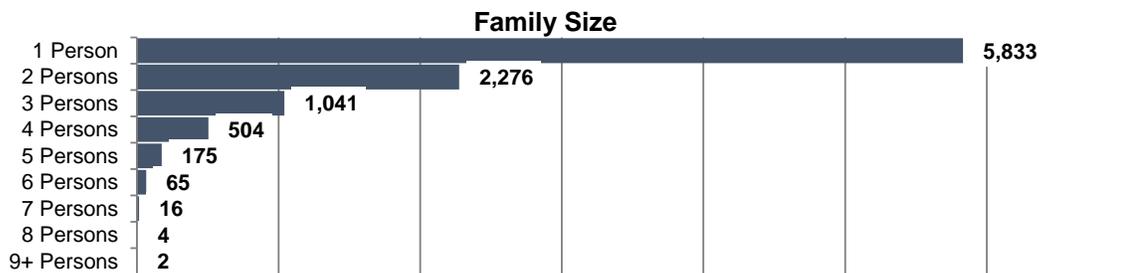
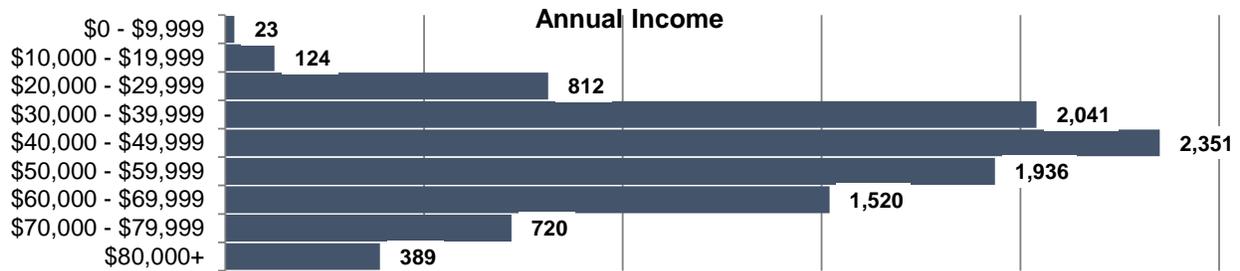
HHF Down Payment Assistance Program Top 15 Zip Codes  
From July 1, 2017 Through December 31, 2019

Zip Code	Number of Approved Borrowers	Amount of Assistance	City	County
48180	135	\$2,009,774	Taylor	Wayne
48066	108	\$1,604,846	Roseville	Macomb
48910	93	\$1,382,589	Lansing	Ingham
48146	87	\$1,293,857	Lincoln Park	Wayne
48239	70	\$1,044,048	Redford	Wayne
49203	61	\$ 907,215	Jackson	Jackson
48021	60	\$ 894,584	Eastpointe	Macomb
48135	60	\$ 890,402	Garden City	Wayne
48911	55	\$ 817,615	Lansing	Ingham
48195	48	\$ 715,254	Southgate	Wayne
48192	46	\$ 686,007	Wyandotte	Wayne
48198	46	\$ 685,648	Ypsilanti	Washtenaw
48030	45	\$ 669,593	Hazel Park	Oakland
48240	44	\$ 653,693	Redford	Wayne
49442	43	\$ 637,955	Muskegon	Muskegon

Source: The OAG prepared this exhibit based on data obtained from MSHDA's MAPPS system.

**HOMEOWNERSHIP PROGRAMS**  
Michigan State Housing Development Authority (MSHDA)  
Department of Labor and Economic Opportunity

**Bond-Financed Single-Family Mortgage Statistics**  
From July 1, 2017 Through December 31, 2019



Source: The OAG prepared this exhibit based on data from the Emphasys AOD Demographic Report.

## DESCRIPTION

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MSHDA was established by Public Act 346 of 1966 and is an autonomous entity within the Department of Labor and Economic Opportunity (LEO), except for budgeting, procurement, and related functions. In 2015, MSHDA underwent an executive reorganization that transferred MSHDA from the Michigan Strategic Fund to the Department of Talent and Economic Development (TED). This was effective until 2019 when MSHDA underwent another executive reorganization that transferred MSHDA from TED to LEO.

MSHDA's mission\* is to partner to provide homes and preserve places for the people of Michigan.

MSHDA's Homeownership Division is responsible for delivering homeownership products, education, and technical assistance to empower its customers and strengthen and sustain Michigan communities. MSHDA tries to work with its partners to provide solutions that maximize existing resources and preserve homeownership opportunities for future generations. MSHDA's Homeownership Programs are designed to provide eligible low- and moderate-income residents with safe, affordable homeownership opportunities.

MSHDA provides a variety of programs and products for both homebuyers and homeowners, including MI Home Loan Mortgage Program, MI Home Loan Flex Mortgage, Mortgage Credit Certificate, and Property Improvement Program, along with housing educational and counseling programs.

\* See glossary at end of report for definition.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the records and processes related to the administration of MSHDA's Homeownership 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 audit objectives.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined that all components were significant.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered July 1, 2017 through December 31, 2019.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of MSHDA's processes and internal control in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed MSHDA management and staff regarding their job functions and responsibilities.
- Reviewed applicable State laws and departmental policies, procedures, and guidance.
- Obtained an understanding of MSHDA's Homeownership and HHF Programs' key processes, systems, and related key internal control significant to the potential audit objectives.
- Obtained and analyzed single-family mortgage program data for the period July 1, 2017 through December 31, 2019.
- Obtained and analyzed HHF data for the period July 1, 2017 through December 31, 2019.
- Performed limited preliminary testing of the Mortgage Credit Certificate and Property Improvement Programs.

\* See glossary at end of report for definition.

## OBJECTIVE #1

To assess the effectiveness of MSHDA's efforts in providing financing to Michigan residents with low and moderate income for the purchase of single-family homes.

To accomplish this objective, we:

- Randomly selected a sample of 25 of 8,572 single-family mortgages that MSHDA approved between July 1, 2017 and December 31, 2019 to determine if the mortgage applicants and properties met select MSHDA and HUD eligibility requirements. Our samples were randomly selected to eliminate bias and enable us to project the results to the entire population.
- Randomly selected a sample of 5 of 242 single-family mortgage applications that were declined between July 1, 2017 and December 31, 2019 to ensure that applicants were appropriately declined and that MSHDA documented its rationale for denial. Our samples were randomly selected to eliminate bias and enable us to project the results to the entire population.
- Identified active and departed employees and conducted the following audit procedures:
  - Randomly selected a sample of 12 of 114 active MSHDA employees as of December 4, 2019 to review completed conflict of interest forms for calendar years 2017 through 2019 to ensure compliance with MSHDA's code of ethics and conflict of interest policies.
  - Randomly selected a sample of 5 of 34 MSHDA employees who departed from select divisions between July 1, 2017 and November 30, 2019 to ensure compliance with MSHDA's code of ethics and conflict of interest policies.

Our samples were randomly selected to eliminate bias and enable us to project the results to the entire population.

- Obtained an understanding of the Ethics Committee's resolution process for employees' self-disclosed potential conflicts of interest.
- Obtained and reviewed contracts with MSHDA's loan subservicer and quality control contractors that MSHDA utilized for its single-family mortgage programs.
- Obtained an understanding of MSHDA's process to monitor its loan subservicer. We conducted the following audit procedures to determine the loan

subservicers' compliance with payment and reporting requirements:

- Randomly selected a sample of 10 of 623 daily remittance reports prepared by MSHDA's loan subservicer from July 1, 2017 through December 31, 2019 to determine if payments were remitted to MSHDA timely in compliance with contractual requirements.
- Randomly selected a sample of 10 of 30 monthly reports prepared by MSHDA's loan subservicer from July 1, 2017 through December 31, 2019 to assess the timeliness of the receipt of the reports that are necessary for MSHDA's monthly reconciliation of its accounting records.

Our samples were randomly selected to eliminate bias and enable us to project the results to the entire population.

- Performed a review of MSHDA's policies and procedures developed for its loan subservicer to implement to ensure compliance with contractual requirements.
- Obtained and reviewed MSHDA's loan subservicer's contractually required documentation, such as the calendar year 2019 audited financial statements and the applicable SOC report, and gap letter\* on its operating effectiveness of controls.
- Performed a trend analysis of MSHDA's single-family loan receivable balances from fiscal years 2010 through 2019 and analyzed changes in balances to determine the potential impact on the single-family mortgage program by its strategic goal to increase MSHDA's fund reserves balance.
- Obtained MSHDA's historical mortgage interest rates and compared them with national averages for similar mortgage programs.
- Obtained and reviewed HUD's Mortgagee Approval Handbook to obtain an understanding of HUD's requirement for MSHDA to implement a quality control plan for its mortgage origination and loan subservicing functions. We conducted the following audit procedures to ensure that MSHDA's quality control contractor met HUD quality control requirements:
  - Obtained and reviewed the contract between MSHDA and its quality control contractor for

\* See glossary at end of report for definition.

performing quality control reviews of MSHDA's mortgage origination and loan subservicing processes.

- Randomly and judgmentally selected a sample of quality control review reports to ensure compliance with HUD quality control requirements for:
  - 6 of 30 mortgage origination quality control review reports prepared by the quality control contractor from July 1, 2017 through December 31, 2019.
  - 15 of 40 loan servicing quality control review reports prepared by the quality control contractor from July 1, 2017 through December 31, 2019.

Our samples were randomly and judgmentally selected. Therefore, we could not project the results to the entire population.

## **OBJECTIVE #2**

To assess the effectiveness of MSHDA's efforts in providing assistance to Michigan homeowners under the HHF Programs.

To accomplish this objective, we:

- Obtained and reviewed MSHDA's participation agreement with the U.S. Treasury to administer programs utilizing HHFs.
- Reviewed MSHDA guidance related to the Loan Rescue and DPA Programs.
- Met with HHF Program staff to gain an understanding of the processes related to administering the HHF Programs.
- Randomly and judgmentally selected samples of approved and declined Loan Rescue Program applications from July 1, 2017 through December 31, 2019 and conducted the following audit procedures:
  - Determined if applicants in 40 of 4,004 approved applications met eligibility requirements and assessed the sufficiency of documentation MSHDA maintained to support the individuals' eligibility.
  - Determined if MSHDA documented its rationale to support the appropriateness of 25 out of 5,413 declined applications.

Our samples were randomly and judgmentally selected. Therefore, we could not project the results to the entire population.

- Randomly selected samples of approved and declined DPA Program applications from October 1, 2018 through December 31, 2019 and conducted the following audit procedures:
  - Randomly selected 25 of 1,724 approved applications to determine if applicants met eligibility requirements and to assess the sufficiency of documentation maintained to support the individual's eligibility.
  - Randomly selected 5 of 28 declined applications to determine if MSHDA documented its rationale to support the appropriateness of the declined applications.

Our samples were randomly selected to eliminate bias and enable us to project the results to the entire population.

- Randomly selected 5 of 39 active MHA employees as of December 4, 2019 and 5 of 33 MHA employees who departed between July 1, 2017 and November 30, 2019 to determine compliance with MHA's conflict of interest policy requiring the completion of conflict of interest forms.

Our samples were 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 security and access controls over selected systems.

To accomplish this objective, we:

- Identified 16 IT systems used by MSHDA and determined that we would review 7 systems related to Homeownership and HHF Programs used for program and finance functions.
- Interviewed applicable IT staff to gain an understanding of the selected systems.
- Obtained and reviewed listings of active and inactive users as of December 4, 2019. We performed the following audit procedures:
  - We randomly and judgmentally selected samples of users to determine if users had appropriate level of access based on their position in the

organization and if access was properly approved for the following systems:

- Elite - 16 from a population of 159 users.
- Emphasys AOD - 64 from a population of 295 users.
- Lender Online - 30 from a population of 6,877 users.
- MAPPS - 42 from a population of 262 users.
- MATT - 25 from a population of 3,809 users.
- MPI - 5 from a population of 21 users.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. We selected other samples judgmentally and, therefore, could not project those results to the respective populations.

- We performed a 100% review of users for the Treasury Edge system to determine if users had appropriate access based on their position in the organization and if MSHDA management properly approved the users' access.
- We performed a 100% review of users with the assigned role of "security administrator" or "role not found" within the Emphasys AOD system to determine the appropriateness of the assignments.
- Obtained and compared listings of departed MSHDA and MHA employees from July 1, 2017 through November 30, 2019 with the user listings to determine if MSHDA removed user access timely for each of the following applicable IT systems:
  - Elite
  - Emphasys AOD
  - Lender Online
  - MAPPS
  - MATT
  - MPI
  - Treasury Edge
- Reviewed SOC reports prepared by service auditors for 5 externally hosted systems to determine the sufficiency of the vendors' controls applicable to MSHDA and MSHDA's follow-up on any identified weaknesses.

## CONCLUSIONS

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

\* See glossary at end of report for definition.

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 2 recommendations and partially agrees with 1 recommendation.

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 Office 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 April 2014 performance audit of the Homeownership Programs, Michigan State Housing Development Authority, Michigan Strategic Fund (271-0205-13):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Quality Control Reviews of Single-Family Mortgages	Rewritten*	1
2	HHF Program Eligibility Review Process	Rewritten	2
3	HHF Program System Access Controls	Rewritten	3

**SUPPLEMENTAL INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 through #4. Our audit was not directed toward expressing a conclusion on this information.

\* See glossary at end of report for definition.

## 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.
AOD	Application Oriented Design.
auditor's comments to agency preliminary response	Comments that the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
availability	Timely and reliable access to data and information systems.
confidentiality	Protection of data from unauthorized viewing.
DPA	down payment assistance.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
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 <i>Government Auditing Standards</i> .
FHA	Federal Housing Administration.
gap letter	A document made available by the service organization to cover a period of time between the reporting period end date of the current SOC report and the release of a new SOC report.
HFA	housing finance agency.

HHF	Hardest Hit Fund.
HUD	U.S. Department of Housing and Urban Development.
ID	identification.
integrity	Accuracy, completeness, and timeliness of data in an information system.
IT	information technology.
LEO	Department of Labor and Economic Opportunity.
MAATT	MSHDA Activity Tracking Tool.
MAPPS	MSHDA App Server.
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.
MHA	Michigan Homeowner Assistance Nonprofit Housing Corporation.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
MPI	MSHDA Property Inspections.
MSHDA	Michigan State Housing Development Authority.
National Institute of Standards and Technology (NIST)	An agency of the Technology Administration, U.S. Department of Commerce. NIST's Computer Security Division develops standards, security metrics, and minimum security requirements for federal programs.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.

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.
principle of least privilege	The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people with the lowest level of user access rights that they can have and still do their jobs. The principle is also applied to things other than people, including programs and processes.
qualifying involuntary hardship	An unexpected event beyond of a homeowner's control that caused a delinquency or has impacted their ability to maintain payments. Allowable hardships include a medical event, job loss, underemployment, receipt of Michigan unemployment benefits, death, divorce, or one-time critical out-of-pocket expenses, such as household repairs.
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: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.
security	Safeguarding an entity's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity.
SOM	State of Michigan.
subservicer	A qualified outsourcing partner that performs all administrative, compliance, and financial servicing activities related to a mortgage loan for a monthly fixed per-loan fee.
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:

- 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:

- 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.
- 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.

TARP

Troubled Asset Relief Program.

TED

Department of Talent and Economic Development.

U.S. Treasury

U. S. Department of the Treasury.











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