



STATE OF MICHIGAN

GRETCHEN WHITMER  
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LANSING

GARY HEIDEL  
ACTING EXECUTIVE DIRECTOR

December 1, 2021

Office of Internal Audit Services, State Budget Office  
Rick Lowe, Chief Internal Auditor  
111 S. Capitol Avenue  
Lansing, MI 48922

Dear Mr. Lowe,

Please accept this letter as an update to the Michigan State Housing Development Authority's (MHSDA) '60-day response' to the Performance Audit of Homeownership Programs, issued May 19, 2021, and to the Corrective Action Plan.

Sincerely,

A handwritten signature in blue ink that reads "Gary Heidel".

Gary Heidel  
Acting Executive Director

Cc: Jonathan Hilliker  
Geoffrey Ehnis-Clark  
Jeff Sykes  
Mary Townley  
Katy Twining  
Teena Briggs  
Mark Whitaker  
SaVille Hill  
Allen Williams (LEO)  
Amanda Feldpausch (OAG)  
Office of Internal Audit Services

*Enclosure*



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**Summary:**

<b>Finding</b>	<b>Status</b>	<b>Estimated date of Completion</b>
<b>1a.</b>	Complied	Completed
<b>1b.</b>	Complied	Completed
<b>2a.</b>	Will not Comply	N/A
<b>2b.</b>	Will partially comply	12/31/2021
<b>2c.</b>	Has partially Complied	Completed
<b>3a.</b>	Will comply	1/31/2022
<b>3b.</b>	Will comply	1/31/2022
<b>3c.</b>	Will comply	1/31/2022
<b>3d.</b>	Will comply	1/31/2022

**Finding #1**

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

**Agency Response and Planned Corrective Action:**

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.



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### **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

### **Finding #2**

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

#### **Agency 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.



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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



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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.

### **Finding #3**

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

#### **Agency Response and Planned Corrective Action:**

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.



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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: **1/31/2022**

Central Database: **1/31/2022**

Activity monitoring: **1/31/2022**

**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