



DHCD Should Improve Management of the Housing Production Trust Fund to Better Meet Affordable Housing Goals

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Why ODCA Did This Audit

The Office of the District of Columbia Auditor (ODCA), as requested by D.C. Councilmember Jack Evans, examined compliance with the laws and regulations associated with the Housing Production Trust Fund (HPTF).

What ODCA Recommends

This audit identified 39 recommendations arranged into the following three sections:

- I. Creating affordable units**
 - Develop, distribute, and provide training on income certification; monitor sites to ensure they are complying.
 - Determine handling of tenant income increases; add language to loan agreements.
 - Enforce income and rent limits.
- II. Effectively managing loan repayments**
 - Amend the D.C. Code to include the amount of repayments due and paid in DHCD's annual/quarterly reports.
 - Conduct a cost benefit analysis on outsourcing repayments.
 - Develop standard operating procedures and create a tracking system for borrower compliance.
- III. Complying with requirements to manage the program**
 - Engage a CPA firm to conduct an annual audit; ensure that HPTF has sufficient staff.
 - Ensure that projects target extremely low- and very low-income households.
 - Develop, publish, and follow annual outreach plans.
 - Conduct annual housing needs assessments; use findings to target specific housing needs.
 - Develop standard operating procedures that address document retention and data reliability.

What ODCA Found

The Housing Production Trust Fund is D.C.'s highest profile and costliest initiative to increase affordable housing for low-income residents. Our audit, based on a small but diverse sample of HPTF projects, demonstrates the need for significant improvements in the management of the program by the Department of Housing and Community Development.

As has been the case with ODCA reviews of other government programs, we found that the agency had not developed procedures to implement policies required by law and/or regulation. The effect of this was most striking when we found that all of the properties we visited had different methods for certifying household income, which varied greatly in quality, and that DHCD had not developed any requirements on how to conduct income certification.

While we found it encouraging that most property managers indicated that they wished to comply with legal requirements and wanted more guidance from DHCD, the agency appeared to have a hands-off approach to projects once they had been selected for funding. The 39 recommendations in this audit include developing Standard Operating Procedures for the HPTF program and assuring that there is adequate staffing to enforce all program requirements.

Finally, there were issues that arose in this audit that we are continuing to explore. In "The District of Columbia Housing Production Trust Fund: Revenues and Expenditures and 5-City Comparison," we revealed that the funding data shared by DHCD in earlier reports was not accurate. Because our objectives included establishing total dollars spent through HPTF, and total number of affordable units constructed or renovated since 2001, we are continuing to work with DHCD and the Office of the Chief Financial Officer to build an accurate database that includes those tallies. We are also continuing to review the history of one of the projects in our sample, and one of the DHCD contracts, and if those efforts yield information useful to DHCD or the Council in its oversight role, we will issue additional reports.

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Background

The District has a well-documented need for affordable housing. According to the Department of Housing and Community Development (DHCD):

- 38 percent of all households spend more than 30 percent of their income on housing costs.
- More than 42,000 families are on the District of Columbia Housing Authority (DCHA) waiting list for assistance.
- More than 2,000 households lacked kitchen or plumbing facilities.
- There are approximately 7,500 homeless D.C. residents.

The Housing Production Trust Fund (HPTF) is one of the District's most powerful tools created to address the pressing need for affordable housing. The HPTF provides loans and grants to for-profit and non-profit developers who are seeking to build or preserve existing affordable housing. Authorized in 1988 by the Council of the District of Columbia, the HPTF is administered by DHCD, which had an agency-approved budget of approximately \$285 million and 170 full time employees in Fiscal Year (FY) 2016.

Housing production trust funds emerged in the mid-1980s in response to cutbacks to federal housing programs and have since grown popular among states, counties, and cities.¹ By 2011, 52 state housing trust funds operated in 42 states² and in 2013, 79 cities were operating city-level funds.³ Although they vary considerably, trust funds are generally defined as separate funds established by states or localities for the provision of a stable source of revenue solely for affordable housing.⁴

Although the District's HPTF was established in 1988, it did not receive funding until FY 2001. With the Housing Act of 2002, the Council allocated a portion of deed transfers and recordation taxes to the HPTF as an annual, dedicated funding source.⁵ The Fund has received more than \$1 billion as of September 30, 2016. The Fund had allocated more than \$692 million in District funds as of September 2016. It joins a host of other housing-related programs managed by DHCD with local and federal funds, including the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships program, the Housing Opportunities for Persons with AIDS (HOPWA) program, the National Housing Trust Fund (HTF), and the Emergency Solutions Grant (ESG) program.

¹ Charles E. Connerly, "A Survey and Assessment of Housing Trust Funds in the United States," *Journal of the American Planning Association*, 59:3 (1993).

² Housing Trust Fund Project, "The Status of State Housing Trust Funds," Center for Community Change, March 2013, 2.

³ Housing Trust Fund Project, "City Housing Trust Funds Dedicated Revenue Sources 2013 Summary," <http://housingtrustfundproject.org/wp-content/uploads/2013/09/City-htfund-revenue-sources-final-wodollars-2013.pdf>.

⁴ Affordable housing is defined by the United States Department of Housing and Urban Development (HUD) as "housing for which the occupant(s) is/are paying no more than 30 percent of his or her income for gross housing costs, including utilities." https://www.huduser.gov/portal/glossary/glossary_a.html

⁵ See D.C. Law 14-114, the "Housing Act of 2002," effective April 19, 2002, which made this requirement effective starting in October 2002. However, D.C. Law 14-190, the "Fiscal Year 2003 Budget Support Act of 2002" amended the date and began the funding requirement in October 2003. This requirement is currently codified at D.C. Code § 42-2802(c)(16).

The D.C. Code requires that at least 40 percent of HPTF funds disbursed annually provide housing for “extremely low income” households earning no more than 30 percent of Area Median Income (AMI)⁶, which was \$32,580 for a household of four in 2016,⁷ and at least 40 percent to “very low income” households earning 31 percent to 50 percent of AMI (\$54,300 for a household of four in 2016).⁸ In addition, a minimum of 20 percent of the units in funded-projects must be reserved as affordable, according to D.C. Municipal Regulations.

DHCD reported that 158 multi-family projects – 9,588 units – were funded from FY 2001 through FY 2015. This review found that data to be unreliable and we are not confident in the accuracy of the total number of projects and units. Below we will discuss our efforts to develop a more accurate count than that provided publicly by the agency.

Beginning in October 2003, 15 percent of both the District’s deed transfer taxes and recordation taxes was dedicated annually to fund the HPTF.⁹ That revenue from real estate taxes was approximately \$61 million in FY 2015 and approximately \$56 million in FY 2016. In addition, the Council approved the mayor’s request for total HPTF funding of \$100 million for both FY 2016 and FY 2017, including budgeted transfers from the general fund that totaled approximately \$50 million in FY 2016 and approximately \$55 million in FY 2017.

The FY 2016 HPTF fund balance was approximately \$250 million and was identified as a restricted fund balance in the District’s Comprehensive Annual Financial Report (CAFR). According to the Governmental Accounting Standards Board, amounts are considered restricted when there is a specific purpose and when constraints are placed on the use of resources. Constraints can include those that are externally imposed, such as debt covenants. While the balance of the Fund appears to be very high, the money has been restricted and therefore not available for alternative uses. HPTF funds are considered restricted at the point when an HPTF-funded project has gone through underwriting and loan documents have been signed.

This report is one of several work products related to the HPTF that the D.C. Auditor released over the last year following a request from Council Finance and Revenue Committee Chairperson Jack Evans (Ward 2). ODCA issued a Management Alert to the Director of DHCD on March 15, 2016, identifying two areas of noncompliance: DHCD had not implemented the requirement for an annual audit by a Certified Public Accounting (CPA) firm or a firm independent of DHCD; and DHCD had failed to publish annual reports of HPTF activity on a timely basis.

In addition, on June 30, 2016, ODCA released a report, “The District of Columbia Housing Production Trust Fund: Revenues and Expenditures and 5-City Comparison.” That report included total revenue and

⁶ The 2016 Washington-area AMI for a household of four was \$108,600.

⁷ These 2016 limits had an effective date of March 28, 2016.

⁸ See D.C. Code § 42-2802(b-1). See also D.C. Code § 42-2801 for definitions.

⁹ See D.C. Code § 42-2802(c)(16), which requires that “[b]eginning October 1, 2003, 15% of the real property transfer tax imposed by § 47-903 and 15% of the deed recordation tax imposed by § 42-1103” be deposited in the Fund. This requirement is contingent upon a balanced budget.

expenditures and the number of units produced through FY 2015, as reported by DHCD, and compared the District's HPTF with other major city-level trust funds in terms of the reliability of revenue, output, target populations, and other factors. This audit report includes the recommendations made in earlier reports.

ODCA will issue a final report with a detailed breakdown of the total amount of dollars spent through the HPTF, and the total number of units rehabilitated or built based on the contracts negotiated between 2001 and 2016. We hope that the database we publish will be regularly updated by DHCD with accurate information on both funds and units.

Objectives, Scope, and Methodology

The objective of this audit was to examine compliance with the laws and regulations associated with the HPTF and evaluate how efficient it has been in providing and creating affordable housing for District residents.

Our scope was 2001, when the HPTF started making loans, through September 2016.

We requested from DHCD copies of audits, strategic plans, quarterly and annual reports, community outreach plans, housing needs assessments, policies and procedures, and financial reports. We interviewed multiple DHCD staff to obtain an understanding of how HPTF funds were awarded, managed, monitored, and audited. In order to learn more about DHCD, and specifically the HPTF, we reviewed performance reports, action plans, information submitted to the Council for oversight hearings, flowcharts, organizational charts, handbooks, and checklists.

We spoke with three members of the HPTF Advisory Board who represented non-governmental organizations with HPTF knowledge and expertise. We reviewed several transcripts of the HPTF Advisory Board meetings and spoke with representatives of two non-governmental organizations who have HPTF knowledge and expertise.

In order to assess the internal controls of the HPTF program, we interviewed DHCD staff, requested and reviewed standard operating procedures (SOPs) when available, and assessed the reliability of program-related data.

To assess compliance with HPTF requirements, we selected a sample of 14 projects from DHCD's list of multi-family projects that included one project from each year beginning when the Fund started making loans in 2001 until 2015.¹⁰ These projects represented a mix of wards, types of projects (rental and home ownership units), types of developers (non-profit and for-profit), as well as funding purposes (acquisition, new construction, tenant purchase, etc.). We sought to exclude from our sample projects that also received Low-Income Housing Tax Credits (LIHTC), a federal government affordable housing program, since those projects are subject to different and additional federal oversight requirements.¹¹

For each of the 14 projects, we requested from DHCD the projects' submitted annual audited financial statements and annual income certifications, as well as loan agreements, covenants, and information about loan repayments. We analyzed the financial statements to determine if they were audited by an independent CPA and if the correct number had been submitted. We analyzed the loan repayments to determine if they were compliant with the terms outlined in the loan agreements and how effectively DHCD was monitoring them. We also compared the terms of the loan agreements to see if they were

¹⁰ A project was not selected from FY 2001 because there was only one project and it was a LIHTC project, which we sought to exclude from our sample. Two projects were selected from 2007. We did not select an FY 2016 project for the sample because not enough time had elapsed to measure compliance.

¹¹ We included one LIHTC project, Concord, in our sample because DHCD failed to identify it as a LIHTC project per our request.

consistent with each other, where applicable. Appendix I provides the list of the 14 projects in our sample, including ward, borrower name, number of units, and other information.

We selected 10 of the 14 projects for a detailed review of their income certification process, the affordable units produced, and the rent charged or sales price of the units.¹² This analysis included site visits, interviews with the staff responsible for income certification and recertification, and review of income certification procedures. We also reviewed tenant and home purchaser files, including the documentation used to certify and annually re-certify household income (paystubs, tax returns, bank statements, etc.). We then used the documentation to re-calculate household income to verify the certified income amount. We compared the household income and rent charged to HPTF limits for each applicable year, going back to 2011.

In addition, we requested from DHCD documents showing the tracking of funded units and the unit sizes (studio, three-bedroom, etc.). We obtained the rent rolls (amount charged for rent at each unit, including unit size) and buyer summaries (list of buyers and purchase price for home ownership projects) to ensure that the developer produced the number of units stipulated in the loan agreements.

We obtained the annual HPTF income and rent limits published by DHCD from 2011 to 2016 in order to see if they complied with legal requirements. We also used the Recorder of Deeds website to determine if covenants contained language about how to handle household income increases that exceeded the HPTF limits, as well as how units should be advertised.

Limitation of Scope

Because information provided by DHCD on total dollars and total units was not reliable, we have not yet been able to evaluate how efficient the HPTF has been in providing and creating affordable housing for District residents as originally intended. We found that information provided to the Council and to ODCA was different. Information such as the number of units, number of projects, and award amounts from DHCD changed throughout the course of our audit. DHCD also did not have an accurate and complete database of multi-family projects going back to inception, nor did it have a database of loans for single family homes that included HPTF funds.

We have requested loan agreements and documentation for all of the HPTF-funded projects (both multi-family and single family) in order to compare data therein with data in the System of Accounting and Reporting (SOAR), which is the official financial accounting system of record for the D.C. government. We plan to account for all projects, units, award amounts, and AMI requirements. As indicated above, this aggregated information will be provided in a separate work product to be released later this year.

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 objective.

¹² We determined that we had sufficient evidence for our findings after completion of 10 site visits.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results

The audit results that follow focus exclusively on the DHCD oversight of the HPTF. We write with the expectation that these findings and recommendations will be useful to District policymakers going forward as they continue to focus on efforts to increase affordable housing across the District.

The audit findings and recommendations are organized into the following three sections:

- I. DHCD did not ensure that HPTF projects were actually creating affordable units.
- II. DHCD did not effectively manage HPTF loan repayments.
- III. DHCD has not complied with requirements to manage the HPTF program.

I. DHCD did not ensure that HPTF projects were actually creating affordable units.

DHCD did not ensure that HPTF projects were adequately and consistently screening households for income certification and recertification.

D.C. Municipal Regulations require that HPTF-funded projects annually certify to DHCD that units are reserved for low-, very low- and extremely-low income households.¹³ The projects' loan agreements detail the number of units to be reserved as affordable, as well as the household AMI. Each of the 10 projects we reviewed required documentation in order to certify household income and recertify household income on an annual basis.

We found that all of the sites had *different* documentation requirements and review procedures, which varied in quality. For example:

- Only two sites required bank statements. Bank statements are necessary for adequate income certification because they can disclose income that the tenants do not report with their paystubs. For example:
 - Our review of bank statements identified that one tenant had an Etsy business (online sales) that earned approximately \$940 in one month, as well as other side jobs and PayPal transactions that totaled \$6,159 in deposits over three months that were not included in the tenant's certified income calculation. When these other sources of income were combined with what was reported on the paystubs, this tenant was not eligible for the affordable unit.
 - One of the sites that required bank statements, Buxton, contracted with Housing Counseling Services as income certifier and the firm did an exemplary job. For example,

¹³ D.C. Mun. Regs tit. §B4107.4: "The applicant shall certify to DHCD that the applicant shall rent all Reserved Units in the project exclusively to low, very low and extremely low income households, consistent with the requirements of §4112.5, and shall certify annually that such units have been rented exclusively to eligible households."

uncommon deposits and transfers from other accounts were flagged, and the individual being certified was required to furnish bank statements from those accounts or provide a certified explanation for the uncommon deposit.

- Five sites utilized third party verification in which the employer verified the tenant's reported income.
- There was a wide range in the number of paystubs required. Some sites required only two paystubs (which may represent only two weeks of income), while others required six months of paystubs (which could represent up to 26 weeks of income).
- Four sites did not have a form to certify either non-employment or zero income of adults in the household. Such a form is key for a property manager to ensure that another member of the household is not bringing in income that is not disclosed, thus not included in the household's certified income.
- Three sites were not conducting a recertification of tenants' household income on an annual basis. For example:
 - Channel Square's policy was to only certify household income upon move-in, but not on an annual basis.
 - Both Green Door and 1320 Mississippi had their recertifications conducted by the D.C. Housing Authority (DCHA), which conducted them every two years, not on an annual basis.

Appendix II shows the different documentation requirements used by the 10 sites.

Evaluating sites using their own criteria, we found that all but one had insufficient documentation, and/or inadequate review of, initial household income certification and annual recertification for households in our sample. These weaknesses included:

- Non-compliance with their own documentation requirements. For example:
 - Martin Luther King Latino Cooperative's (MLK) recertification guidelines required tenants' two most recent paystubs, but in almost all of the 18 units we reviewed, these paystubs were not provided for all of the years we reviewed, 2014 through 2016.
 - At Concord, 44 percent of the 18 units we reviewed did not have sufficient documentation to certify/recertify tenant income in 2015, which was the first year that documentation was required.
 - Pollin Place's home purchase certification process required two years of tax returns and the three most recent paystubs, but these were not available for 85 percent of the 20 households that we reviewed.
- Review of documentation was not thorough. For example:
 - While Progression Place had rigorous criteria for documents required for certification (bank statements, etc.), the documentation was not carefully reviewed by the staff who conducted the certification. One tenant was certified at a salary of \$55,000 as a medical resident. Yet we found additional income of \$5,000 when reviewing bank statements that was not included in the certified income. This would have brought the tenant's income to \$60,000, over the HPTF income limit for that unit.

- One Channel Square tenant listed income as \$60,000 but their paystubs showed an income of \$82,000. Channel Square certified this tenant's income as \$62,000 despite the documentation stating otherwise.
- At Concord, we found instances in which the paystubs did not match the third party verification, which shows the importance of property managers requiring both these documents to adequately certify income.

A detailed summary of the percentage of household income certifications that were sufficient can be found in Appendix III.¹⁴

In assessing why projects failed to adequately document and conduct certification and recertification, we determined that DHCD did not provide HPTF projects with income certification and recertification procedures, such as a standard form to use and a list of the types and quantities of documents required. One of the developers we spoke with stated that his company developed eight properties with DHCD funding and none of the loan agreements were clear about recertification including whether it was required annually. The loan agreements and the regulations were clear that projects must annually certify that the affordable units were filled with households who qualify, but it was not clear what process should be used to recertify tenants (that is, when it should occur, what documentation is needed, only new tenants or those who report increased income). Also, DHCD did not conduct monitoring and site visits to assess projects' certification processes.

Another cause for this problem was that the property managers who conducted the certifications did not have an incentive to do a thorough screening of tenant income; they actually have a disincentive to do rigorous screening because it slows the filling of a vacant unit, which causes them to lose money. The only site in which income certification was consistently and sufficiently supported and reviewed – Buxton Condominiums developed by Manna Inc. – hired the Housing Counseling Services, a third party with no financial stake in filling units, to conduct the certification.

Without a robust and consistent income recertification process, DHCD cannot ensure that the affordable units that the District invested in are actually filled with households that meet affordable housing requirements. This means that households that do not meet the requirements are getting the benefit of the affordable units and lower rent, and, more importantly, those with a true need for housing assistance are not receiving it.

Recommendations

1. DHCD should develop income certification procedures and distribute them to HPTF projects, including a standard form, a list of sufficient documentation, and guidance about when and how certification should be conducted, including the requirement for bank statement submission.
2. DHCD should develop a monitoring strategy that includes site inspections to ensure HPTF projects are complying with the procedures.
3. DHCD should coordinate periodic training on income certification procedures.

¹⁴ We did not summarize in an appendix the results of the recertification process due to the different years each loan covered.

DHCD did not provide projects with sufficient guidance about how to handle tenant income exceeding HPTF limits.

D.C. Municipal Regulations require that HPTF-funded units be *continuously* affordable to low-, very low- and extremely-low income households.¹⁵ However, when a household's income increased so that it no longer qualified, the rental property sites we visited had different protocols about what to do.¹⁶ For example:

- Three sites did not know how to handle this situation, including one who had instances of this happening and took no action;
- Two sites misunderstood DHCD communications to say that tenant income could increase to 140 percent of the limit and still qualify.
- One site let the tenant remain in the unit but charged market-rate rent. The management did not have the option to replace this affordable unit with a market-rate unit because all of the units on site were reserved as affordable.

Neither the D.C. Code nor DCMR provide clarity on how to handle tenant income when it exceeds HPTF limits. In addition, many sites participated in federal and other housing programs which have their own policies on how to handle this issue. As discussed in the previous finding, DHCD did not distribute income recertification procedures, nor was guidance provided in loan agreements or covenants to provide clarity. Also, because DHCD did not conduct site visits, property managers did not seek and obtain guidance on handling tenant income increases above HPTF limits.

Permitting individuals outside the income limits to occupy the units causes harm to those who qualify for the program and misrepresents the actual number of qualified households in the stock of reserved units. It is also unfair to taxpayers who essentially subsidize units for qualified households in order to alleviate the affordable housing crisis. The lack of a clear and consistent process was unfair to tenants, as policies varied from project to project. For example, Progression Place recertified households whose income increased to 140 percent of the limit after initial certification, that is, the income was permitted to go up to \$53,214 when the limit was \$38,010 for a reserved 50 percent AMI unit.¹⁷ As a result, several of their reserved units were filled by households that far exceeded the income limits. Finally, this resulted in confusion and concern about non-compliance among sites, many of which stated that they wanted DHCD to tell them how to be compliant.

Recommendations

4. As this is a policy issue that cuts across different affordable housing programs operating in the District, the D.C. Council should amend D.C. Code § 42-2802.02 to address how to handle tenant income increases above HPTF limits.

¹⁵ D.C. Mun. Regs tit. 10 §B4107.2 (c) "Reserved units shall be continuously affordable to low, very low and extremely low-income households as required by the Act..."

¹⁶ Two of the 10 sites we reviewed (Buxton and Pollin Place) were home ownership projects in which annually recertifying tenant income was not applicable.

¹⁷ DHCD confirmed with ODCA that this is not official policy or stipulated in the law or regulations.

5. Once the D.C. Council determines how to handle tenant income increases, DHCD should include this guidance in its procedures that are distributed to HPTF projects and language should be added to loan agreements.

DHCD did not enforce the requirement that projects submit annual household income certifications.

Loan agreements and covenants required HPTF projects to annually submit an accurate list of tenant incomes to DHCD. Home purchase projects had to submit a list until all units were sold. However, none of the 14 projects we initially reviewed submitted annual certifications. The requirement was vague and did not require rent amount, unit size, household size, and other items necessary to monitor compliance with HPTF requirements and the loan agreement.¹⁸

DHCD did not have clear and consistent requirements for annual certifications, such as a form, and did not have sufficient staff to enforce this requirement.

The lack of annual certification is an issue because it meant that DHCD did not have sufficient information about whether eligible households were in the affordable units or the rent complied with HPTF limits. This information could have helped DHCD monitor the reliability and integrity of its data, including the current inventory and unit sizes. Annual certifications could have been used to detect non-compliance and DHCD could have better focused its monitoring efforts.

Recommendations

6. DHCD should create a standard certification form for all HPTF projects to submit annually that requires valuable data, i.e. household income, household size, tenant information, unit size, unit #, rent amount for reserved units.
7. DHCD should include the annual certification form as an exhibit in the loan agreements.
8. DHCD should make the annual certification form available on DHCD's website.
9. DHCD's Portfolio and Asset Management Division should send this certification form annually to HPTF borrowers.

¹⁸ There was one exception: the Bethune loan agreement required the submission of rent amounts.

DHCD did not ensure that projects created or maintained all of the affordable units required.

Loan agreements stipulated the number of affordable units to be created and the targeted household AMI.¹⁹ The agreements generally required that rental units be maintained as affordable for 40 years and home purchase units be maintained as affordable for 15 years.²⁰ Seven out of the 10 sites that we reviewed did not continuously provide the required number of affordable units. For example:

- Kentucky Scott²¹ did not create 21 units of affordable housing, nor did it fill the units with senior citizens. None of the current tenants were income-certified.
- Sixteen of the 31 affordable units at Woodley House were crisis beds for short-term mental health treatment, which did not comply with the DCMR stipulation that hospitals, nursing homes, rest homes, and other similar facilities used for residential purposes are not eligible for HPTF funds.²²
- Progression Place recertified tenants who were 140 percent over the HPTF limit and did not replace those units with the next available vacant market-rate unit.
- 1320 Mississippi had two long-term vacancies, including one unit that had been vacant for 145 days.²³
- One unit at MLK was being used as the office for the property manager.
- Channel Square had a large number of vacancies and was housing tenants from a sister property.
- Green Door had one unit that for some years was occupied by a tenant who exceeded income limits yet was allowed to continue to live in the unit and pay market rate. As discussed previously, the management did not have the option to replace this affordable unit with a market-rate unit because all of the units on site were reserved as affordable.

Given that 70 percent of sites within our sample had compliance issues with the reserved unit requirement, it is likely a widespread issue among the other approximately 150 multi-family projects reported by DHCD that we did not review. For example, at Progression Place, in our sample of 12 households we found that 10 exceeded HPTF income limits.

The absence of sufficient monitoring by DHCD (i.e. site visits, enforcing the submission of annual certifications) to ensure that projects were complying with their loan agreements was partially due to a lack of staff, but also due to a lack of a developed strategy.

¹⁹ There was one exception to the loan agreement stipulating the number of units: the Trenton Park loan agreement did not include the number of units it was to create.

²⁰ There were some exceptions to the affordability periods: Green Door rental units' affordability period was 30 years, MLK rental units affordability period was 50 years and Pollin Place home purchase units affordability period was 30 years.

²¹ This project is also referred to as Kennedy Street Apartments.

²² D.C. Mun. Regs tit. 10 §B4107.7: "Property for which an eligible entity may receive a Fund assistance shall not include hotels, motels, dormitories, fraternity and sorority houses, hospitals, nursing homes, sanitariums, rest homes, trailer parks and other similar facilities used for residential purposes."

²³ This property manager does not have independent authority to fill the units, but relies on a partnership with the Department of Human Services to identify eligible tenants.

The lack of monitoring means the District did not receive the intended return on the investment in affordable units and unreliable or false data about the number of affordable units that have been created by the HPTF has been shared with the public. For example, even though Kentucky Scott was not in compliance, the 2007 HPTF annual report states that the project created 21 affordable units. At one site we visited, the property manager suspected that one of the tenants was using Airbnb to rent out their affordable unit. If DHCD had been conducting monitoring and site visits, such non-compliance could have been detected and the agency could have worked with the property manager to resolve the issue and to ensure that other properties knew how to properly respond to similar situations.

Recommendations

10. DHCD should enforce Kentucky Scott's loan agreement to create 21 units of affordable housing for senior citizens and work to bring the property in compliance with the agreement, without adversely impacting current tenants.
11. DHCD should enforce the requirement for properties to submit annual certifications.

DHCD did not publish annual rent and income limits consistently, nor were utility allowances published or included within the rent and income limits.

According to D.C. Municipal Regulations, DHCD is required to publish rent and income limits for HPTF-funded projects²⁴ and is also responsible for establishing utility allowances when rent does not include utilities.²⁵ The utility allowance is included when determining the rent limits.

ODCA determined that DHCD did not publish rent and income limits for 2014, but did for 2011, 2012, 2013, 2015, and 2016. The timeframe in which they were published varied greatly and the 2013 limits were published without an effective date. DHCD also did not establish utility allowances for 2011 through 2016 and therefore did not incorporate utility allowances within the rent and income limits. Figure 1 shows that the length of time the limits were in effect ranged from 261 to 448 days.

Figure 1: Length of Time DHCD’s HPTF Rent and Income Limits Were in Effect

Year	Effective Date	Number of Days in Effect	Effective Time Length
2011	5/31/2011	261	8 months and 15 days
2012	2/16/2012	299	9 months 24 days
2013	12/11/2012 ²⁶	367	1 year and 2 days
2014	12/13/2013 ²⁷	448	1 year and 83 days
2015	3/6/2015	388	1 year and 23 days
2016	3/28/2016	Still in use	Still in use

DHCD officials said the HPTF limits were based on the AMI determined by the U.S. Department of Housing and Urban Development (HUD), which published them on different dates in different years. However, in four out of the five instances since 2012, DHCD published the HPTF limits months before HUD published them. DHCD’s effective date for the 2016 limits was March 28, 2016, but HUD did not notify DHCD of the limits until August 11, 2016. DHCD did not develop a SOP to determine the time frame for publishing rent and income limits or the establishment and inclusion of a utility allowance. While DHCD officials said the properties must use the utility allowance calculator found on the DCHA website, D.C. regulations require DHCD to establish the allowance.

Without consistent publication of the annual rent and income limits, borrowers may have been non-compliant with the HPTF rent and income limits. For example, five out of eight of the rental properties we visited charged the tenants more than the regulated HPTF rent limit (Channel Square, Green Door, 1320 Mississippi, Kentucky Scott, and Woodley House). At the other three rental properties, utilities

²⁴ See D.C. Mun. Regs tit. 10 §B4107.3 (b) and (c).

²⁵ See D.C. Mun. Regs tit. 10 §B4107.3 (c): “ Where the provision of essential utilities is not included as part of the rent, a reasonable allowance for utilities as determined by DHCD shall be subtracted from the maximum allowable rent in determining compliance with affordable rent requirements.”[emphasis added]

²⁶ The published version did not have an effective date, so ODCA obtained the effective date from DHCD.

²⁷ As the 2014 limits were not published, ODCA obtained them directly from DHCD, which also provided an effective date.

were not included within the rental rate and we could not determine if they were above the HPTF rent limit (Concord, Progression Place, and MLK). Thus, more sites could have exceeded the HPTF rent limits. The lack of timely publishing contributed to sites not using the correct limits. For example, when the 2014 limits were not published, MLK used 2013's rent and income limits for 2014.

Recommendations

12. DHCD should determine the utility allowance annually and publish it with the rent and income limits.
13. The loan agreement between DHCD and the borrower should include information about the utility allowance and rent and income limits, as well as a website link to find the limits.
14. DHCD Portfolio and Asset Management Division should establish a system of communication to inform borrowers and property management companies when the updated rent and income limits and utility allowance have been posted.

DHCD was not enforcing the HPTF rent limits.

D.C. Municipal Regulations require annual rent limits on the HPTF units by unit size, household size, and AML.²⁸ At half of the sites we reviewed,²⁹ we found instances in our sample of tenants with rent amounts exceeding the HPTF rent limits, which are detailed in Appendix IV. For example:

- Kentucky Scott rent exceeded the HPTF limits for a range of 17 percent to 42 percent of the tenants in our sample in 2011 through 2016. There may have been more instances of excessive rent due to the fact that rent did not include any utilities, and DHCD did not include utilities in the rent limit as required.
- Channel Square rent, which included utilities, exceeded the HPTF limits for 20 percent of the tenants in our sample in 2015-2016.
- Green Door, 1320 Mississippi, and Woodley House rents exceeded the HPTF limits for 100 percent of tenants in our sample in 2011-2016. However, rent included other services such as mental health counseling and, in some cases, utilities.

As the previous finding stated, because DHCD did not establish a utility allowance, we could not determine if tenant rent exceeded the limits at sites where utilities were not included in the rent and the number of sites that exceeded rent limits could have been greater.

There were several reasons why we found rent exceeding limits. Three of the sites had HPTF loan agreements to provide housing for vulnerable tenants (those experiencing homelessness and/or mental illness) in which the rental costs included the costs of social services and the actual housing costs could not be separated. In these cases, however, the loan agreements did not exempt the projects from the rental limits that are required per D.C. regulation. Another reason, as discussed previously, was that DHCD was not monitoring the projects by inspecting rent rolls or requiring that projects submit rent amounts with their annual certifications.

Affordable housing tenants were negatively affected by being overcharged for rent, and the District taxpayers' investment in affordable housing was weakened when projects did not comply with the rent limits.

Recommendations

15. DHCD should include methods for checking borrower compliance with rent limits in the monitoring strategy it should implement per Recommendation 2.
16. DHCD should add language to the loan agreements when projects are expected to exceed rent limits due to their participation in other local and federal programs.

²⁸ See D.C. Mun. Regs tit. 10 §B4107.3 (b).

²⁹ There were eight rental properties in our sample of 10. The remaining two were home ownership projects, which included a sales price cap. We verified that the projects did not exceed these sales price caps.

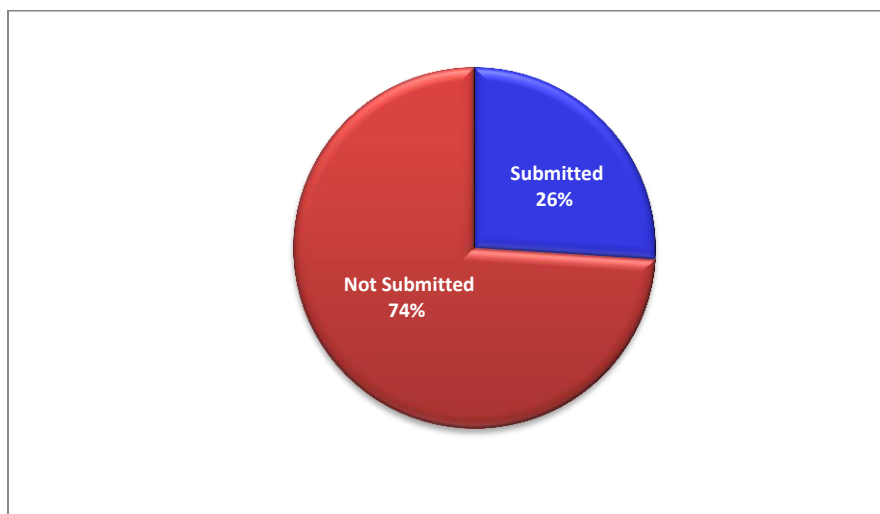
II. DHCD did not effectively manage HPTF loan repayments.

DHCD did not enforce the requirement for HPTF borrowers to submit annual financial statements.

Individual loan agreements require the HPTF borrower to provide DHCD with independent CPA-audited financial statements on an annual basis. Financial statements allow DHCD to determine the financial position of a developer, a borrower's ability to pay back a loan and, in some cases, to determine the amount due to repay loans. D.C. Code requires DHCD to monitor compliance with written agreements between the Department and developers.³⁰

There were a total of 99 financial statements due from the 14 borrowers in our sample. DHCD was only able to provide 26 out of the 99 (26 percent) of the financial statements, as shown in Figure 2.

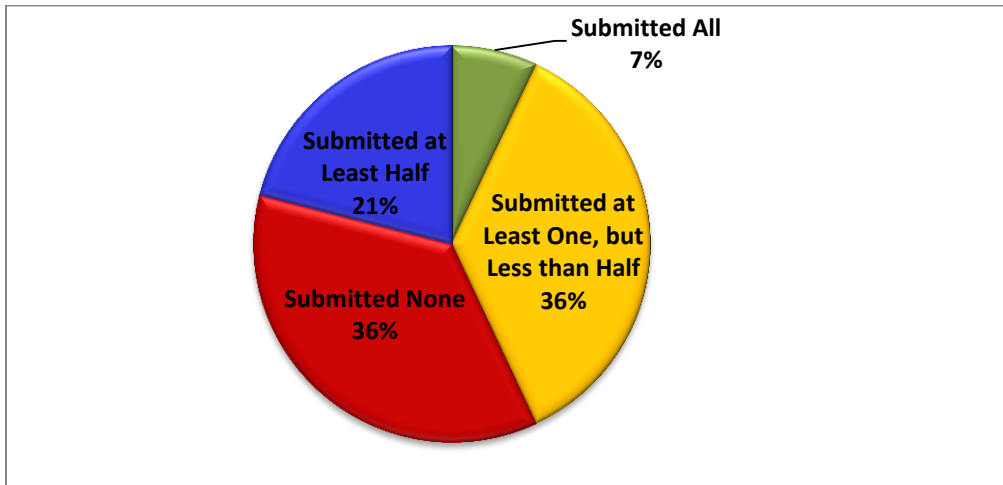
Figure 2: Percentage of Financial Statements HPTF Borrowers Submitted



DHCD also did not provide any financial statements for five borrowers (36 percent). For example, Kentucky Scott did not submit any financial statements for 2007-2015 and Trenton Park did not submit any from 2002-2015. Another borrower, Amber Overlook, failed to submit any financial statements for 2006-2015. Only one borrower, Channel Square, submitted the necessary financial statements due, though we note that only one statement was due. Figure 3 shows the compliance percentage of the 14 borrowers.

³⁰ See D.C. Code § 42-2802(d)(4).

Figure 3: Percentage of HPTF Borrowers Compliance with Submission of Financial Statements



Detailed testing results of the 14 projects' submission of financial statements are included as Appendix V.

DHCD did not have adequate staff to enforce the requirement to submit all financial statements. Failure to ensure that financial statements were received weakened DHCD's ability to monitor borrowers' compliance with loan agreements, including loan repayments, which are often based on the cash flow statement that is included in the financial statements. By not having historical financial information, DHCD could not monitor financial health. Having historical financial statements is necessary for DHCD to be able to detect fiscal stress that could impede the borrowers' ability to comply with loan requirements. One of the projects that failed to file any financial statements, Amber Overlook, was unable to complete the construction of all the units required in the loan agreement by the five-year completion period. In some cases, annual payments were not required due to a lack of cash flow, but would be due at the end of the loan period. For example, DHCD did not have the financial statements for Concord, thus we could not determine the amount due for their loan repayments.

Recommendation

17. DHCD should ensure adequate staffing for the HPTF program to enforce the submission of all required financial statements.

DHCD did not ensure that all of the loans were being repaid per requirements. As a result, HPTF is due millions of dollars from borrowers who were not repaying their loans.

D.C. Code requires that the HPTF is partially funded by the repayments of principal and interest on loans it provides.³¹ For many years DHCD has had a contract with AmeriNat, formerly AmeriNational Community Services, Inc., to provide loan services, loan collection, lease services, lease collection, and foreclosure services for a number of its loans, including the HPTF. AmeriNat was to collect a fee of 19.9 percent of collections in 2015 through 2016.

From our sample of 14 loans, we found that the HPTF was due approximately \$1.1 million from nine loans as of September 2016.³² For example:

- Trenton Park was not being tracked by AmeriNat, the loan servicer, and owed \$553,211. Neither AmeriNat nor DHCD had information about Trenton Park's loan repayments, which were due beginning in 2012.
- Woodley House owed \$64,703, not because it did not pay regularly, which it did, but because unlike other loan agreements we reviewed, its agreement had a provision that repayments were based on debt coverage ratio. This ratio was a needlessly complicated calculation that neither the borrower nor DHCD used to calculate repayments, but when ODCA did use it, we found that funds were due to the HPTF.
- MLK owed \$270,571.
- Channel Square had not yet paid \$74,000 in interest that was due January 1, 2016.

One factor in the underpayments was that DHCD's Portfolio and Asset Management Division (PAMD) was understaffed prior to September 2016, thus was not able to conduct proper monitoring of outstanding HPTF loans, the AmeriNat contract, or the submission of financial statements. The fact that DHCD did not have its own database of loan information for each borrower contributed to the problem as well. Our sample is less than 10 percent of the approximately 158 multi-family projects that DHCD reported. The amount due for the entire HPTF portfolio is likely much greater and represents funds that could have been used for additional projects.

Recommendations

18. The D.C. Council should amend D.C. Code § 42-2803.01 to require that DHCD include the amount of HPTF loan repayments due and paid in the HPTF's annual and quarterly reports.
19. DHCD should conduct a cost benefit analysis to determine if outsourcing repayments of HPTF loans is beneficial.

³¹ See D.C. Code § 42-2802(c)(5).

³² That number is approximate because it is based only on the loans where ODCA could determine the amount of repayment due. Therefore, the amount due to the HPTF could be greater. Of the 14 loans we reviewed, four did not have to repay (Green Door, Buxton, Pollin Place, and Amber Overlook), and one the borrower's amount due could not be determined because financial statements were not provided (Concord).

20. DHCD should designate staff to conduct specific procedures for reconciliation of AmeriNat remittances.

DHCD monitoring of HPTF loan repayments was insufficient and led to at least \$6.4 million being incorrectly recorded as owed to the District.

D.C. Code requires that DHCD monitor written agreements, such as loan agreements.³³ We found several instances in which DHCD was not properly monitoring loan agreements. For example:

- DHCD delayed transferring approximately \$6.4 million in subordinate loan information to the loan servicer, AmeriNat. This was a problem for three of the loans for home purchase projects we reviewed. These loan agreements stipulated that the loan amount is transferred from the borrower to the home purchasers as subordinate loans when the units are sold, as detailed below:
 - Manna received a \$1.5 million HPTF loan for the creation of 24 condominiums at Buxton. The agreement stipulated that upon sale of a unit, the owner would take on a loan of approximately \$63,000, which was the total loan amount divided by the 24 units in the project. We verified that all 24 units were sold, yet the loan tracker sheet created and maintained by AmeriNat showed the transfer from the developer for only 10 subordinate loans, even though most of the units were sold in 2015.
 - Similarly, Pollin Place received two loans for a total of approximately \$5.2 million for the creation of 60 homes in which the purchasers would take on subordinate loans. We confirmed that Pollin Place sold all 60 units, yet the AmeriNat tracker reflected the transfers from the developer for only 38 subordinate loans, even though most sales were completed by 2015.
 - We have documentation that Amber Overlook sold 52 units around 2007 but the AmeriNat tracker sheet reflected no subordinate loans.
- Of the nine loans in our sample that had interest due, none of the AmeriNat tracker sheets reflected the total balance of the loan with the amount of accrued interest due. This means that DHCD did not separately track the balance due for both principal and interest of its loans. DHCD relied exclusively on AmeriNat's tracker sheets for reporting information for the Comprehensive Annual Financial Report (CAFR).
- DHCD did not detect errors in AmeriNat data. For example:
 - AmeriNat mistakenly recorded \$80,473 in interest when only \$18,630 was due for the entire loan, which resulted in an inaccurate statement of principal due for 1029 Perry. The AmeriNat tracker sheet showed a principal balance due of \$85,357 when only \$23,514 was outstanding.
 - The AmeriNat tracker sheet for 1320 Mississippi reflected that no payments had been made, but the borrower reported to both ODCA and DHCD that it had made partial payments.

According to DHCD's Portfolio and Asset Management Division, DHCD has had some internal inefficiencies that have caused delays in getting subordinate loan information to AmeriNat. In addition,

³³ See D.C. Code § 42-2802(d)(4).

DHCD officials expressed confidence in the work of AmeriNat and did not independently track loan repayments or develop a comprehensive system to reconcile the loan repayment amounts reported by AmeriNat. Without a HPTF monitoring program in place, errors and inconsistencies went undetected.

The absence of rigorous DHCD loan repayment monitoring resulted in unreliable information about the amount owed by borrowers. We looked at four home ownership projects and none of their tracker sheets reflected the accurate principal balance due to the District. Therefore other home ownership projects funded by the HPTF may have had their borrowing status incorrectly reported as well. We were told by one of the sites we visited that they received a DHCD monitoring letter for a loan that they had repaid in-full several years prior.

This, combined with the other examples of inaccurate loan repayment information, leaves us concerned about the accuracy of the HPTF notes receivable captured in the CAFR because DHCD relied solely on the information that was provided by AmeriNat. The issue of inadequate controls over the recording of HPTF loan activity was raised by the auditors of the District's FY 2014 CAFR.

Recommendations

21. DHCD should create an accurate system to track borrower compliance with loan agreements, including loan repayments.
22. DHCD should immediately provide information about subordinate loans to AmeriNat.
23. DHCD should develop SOPs for the timely transfer of subordinate loan documentation to AmeriNat and tracking borrower compliance with loan agreements.

III. DHCD has not complied with requirements to manage the HPTF program.

DHCD did not commission a Certified Public Accountant for annual HPTF audits.

The D.C. Code requires DHCD to conduct annual audits.³⁴ The corresponding regulation included in DCMR is more specific, stating that DHCD shall commission an annual HPTF audit by a CPA firm or a firm independent of DHCD.³⁵ DHCD has not complied with the requirement since the Fund's inception but has shared with ODCA its recent efforts to secure this audit.

The absence of HPTF SOPs may have contributed to the failure to meet the requirement. DHCD officials stated that they had relied on the CAFR to satisfy this legal requirement. The CAFR, however, examines the District's entire finances, whereas an independent audit would exclusively examine the HPTF's activities. The required audit would have reduced risk to the HPTF, and promoted transparency and oversight.

Recommendations

24. DHCD should engage a CPA firm or an independent firm to annually conduct an audit of the Fund, starting with an FY 2016 audit.
25. DHCD should develop a system to ensure that audits are completed going forward.
26. DHCD should ensure that these audits are publicly accessible on its website.

³⁴ D.C. Code § 42-2802 (d)(3): DHCD shall "[c]onduct annual audits, publish annual reports, hold public hearings, and make annual assessments of the continued housing needs of targeted populations".

³⁵ D.C. Mun.Reg. tit. 10 §B4102.9(d) requires that DHCD shall be responsible for "commissioning an annual audit report of the Fund by a Certified Public Accountant or firm of public accountants independent of DHCD in accordance with generally acceptable government auditing standards covering financial and compliance audits which sets forth the amount of deposits in the Fund, the aggregate amount of all loans or grants issued by the Fund, and the number and amount of Fund loans in default."

DHCD did not comply with requirements to submit quarterly and annual reports on a timely and consistent basis.

D.C. Code and Municipal Regulations require DHCD to file quarterly and annual reports with the D.C. Council.³⁶ The last quarterly report DHCD submitted was in 2011. In addition, DHCD has been late in filing the annual reports that are due each April 1. The FY 2011 through FY 2015 reports had been published between two and 24 months late.

As noted earlier, the HPTF program has suffered from a staff shortage. There has been just one Program Manager, who has multiple other responsibilities. According to an organizational chart provided by DHCD, there were three HPTF reporting analyst vacancies. HPTF SOPs should contain procedures about the timely completion of these reports.

The absence of timely and consistent publishing of these reports weakens Council oversight, management review, and public access to information about HPTF operations and projects.

Recommendations

- 27. DHCD should ensure that the HPTF program has sufficient staff for the timely and consistent publishing of quarterly and annual reports.
- 28. DHCD should create detailed SOPs that address the compilation of the quarterly and annual reports, that include: retention of back-up information and calculations to support the reported figures; explanations for any adjustments after the fiscal year closes; and reconciliation of the annual report information with SOAR data prior to report release.
- 29. DHCD should make these quarterly and annual reports publicly accessible on its website.

³⁶ D.C. Code § 42-2802(d) states in part that DHCD shall: “[f]ile with the Chairperson of the Committee on Economic Development quarterly reports on activities and expenditures” and “[c]onduct annual audits, publish annual reports, hold public hearings, and make annual assessments of the continued housing needs of targeted populations”. It should be noted that under the current Council organization, there is no Committee on Economic Development. The Committee on Housing and Neighborhood Revitalization has oversight responsibility for DHCD and is therefore the appropriate Council committee with whom DHCD should submit the quarterly reports required in D.C. Code § 42-2802(d)(2).

DHCD did not comply with annual spending requirements for projects targeting extremely low-income and very low-income households in 2013, 2014, and 2015.

D.C. Code requires that at least 40 percent of HPTF funds disbursed annually be for the purposes of assisting in the provision of housing opportunities for “extremely low-income” households and at least 40 percent of HPTF funds disbursed annually be for providing the same to “very low-income” households.³⁷ In February 2016, DHCD reported to the Council that its spending on affordable housing units for extremely low- and very low-income households was out of compliance with the 40 percent spending thresholds in FYs 2013 through 2015, as seen in Figure 4.³⁸

Figure 4: DHCD Spending per AMI, FYs 2013-2015, as reported to the D.C. Council

	Extremely Low-Income (0-30% AMI)	Very Low-Income (31-50% AMI)	Low-Income (51-80% AMI)
Required %	At least 40%	At least 40%	Up to 20%
FY 2013	59%	32%	9%
FY 2014	13%	19%	68%
FY 2015	36%	13%	50%

The HPTF Request for Proposals (RFPs) that DHCD issued from 2012 to 2014 did not specifically target projects to extremely low- and very low-income households. In addition, DHCD’s delay in submitting annual reports could have obscured this lack of compliance from DHCD management and Council oversight.

This lack of compliance could have worsened the housing prospects for households who already have major challenges locating affordable housing. A study by the Urban Institute, a social and economic policy research institute, found that the District faced a severe shortage in units (22,100 units) for extremely low-income households between 2009 and 2011.³⁹

Recommendations

- 30. DHCD should ensure that future HPTF Requests for Proposals (RFPs) target projects to extremely low- and very low-income households.
- 31. DHCD should develop a compliance plan to ensure that future obligations do not deviate from the required 40 percent for both extremely low income and very low income households.

³⁷ See D.C. Code § 42-2802(b-1). See also D.C. Code § 42-2801 for definitions.

³⁸ DHCD, “Questions for Performance Oversight Hearing,” Council of the District of Columbia Housing and Community Development Committee, page 29. http://dccouncil.us/files/user_uploads/budget_responses/DHCDPOHFY16FINAL224.16.pdf.

³⁹ Leah Hendey, Peter A. Tatian, and Graham MacDonald, “Housing Security in the Washington Region,” Urban Institute, July 2014, 36.

DHCD had not been conducting an annual community outreach plan.

D.C. Code requires DHCD to create an annual community outreach plan, which shall promote maximum visibility of HPTF and full participation by the District, developers, lenders, and District residents seeking assistance.⁴⁰ DHCD has not completed an annual community outreach plan since the creation of the HPTF.

DHCD officials stated that the agency did not create and implement outreach plans because they believed they provided adequate outreach through other sources, such as participating in community engagement meetings, promoting the Requests for Proposals (RFPs), and testifying before the D.C. Council.

Our own review pointed to the need for additional outreach. Failure to produce annual outreach plans likely contributed to inadequate and inconsistent advertising for HPTF-funded projects. For example:

- Of the 14 loan agreements reviewed, Woodley House was the only agreement that contained language requiring that vacancies be advertised through the D.C. Housing Authority.
- When reviewing covenants for the 14 projects, only five contained guidelines for property vacancy advertisements.
- When we searched DCHousingSearch.org, which is a free online housing locator service partially funded by DHCD, for 140 HPTF-funded projects, we only found 18 listed. Of these 18, only 4 had the targeted AMI listed.⁴¹
- Many of the sites we visited were not using D.C. government websites to advertise their vacant units and instead were relying on Craigslist and word of mouth. As a result, outreach and visibility for the units was not as widespread as it should have been. Progression Place had a significant population (58 percent) of graduate students as residents, who were mainly from the same college and did not represent a cross-section of the District's targeted households.
- There were also two instances at 1320 Mississippi in which affordable units were vacant for extended time periods (145 days and 47 days). This example shows that those who need affordable housing do not have easy access to identify reserved units.

Recommendations

32. DHCD should develop, publish, and follow annual outreach plans.
33. DHCD should incorporate requirements into both the loan agreements and covenants about where, and how, to advertise vacant units and waitlists when there are no vacancies.

⁴⁰ See D.C. Code § 42-2803(c).

⁴¹ While many of the properties were not found on DCHousingSearch.org it did not mean the property was not advertised when vacancies occurred because we only searched the website during a week-long period and not all properties would have had vacancies. However, as a DHCD-funded site that displays vacancies, HPTF projects should be required to post their vacancies here. Additionally, some properties posted waiting lists, thus all HPTF properties should be required, or encouraged, to maintain a waiting list that can be accessed through this site.

34. DHCD should make information easily accessible on its website about the HPTF-funded projects including their names, locations, number of units, and AMI requirements.

DHCD did not consistently conduct annual housing needs assessments.

D.C. Code requires that DHCD make annual assessments of the housing needs of targeted populations.⁴² ODCA determined that DHCD was not conducting annual assessments on a regular and timely basis.

DHCD did not conduct an annual needs assessment from 2001 through 2004 or 2006 through 2016. Fannie Mae conducted a housing needs assessment for 2005 on behalf of DHCD that projected housing needs for 2006 through 2020. The Urban Institute also conducted an assessment of housing needs for 2008 through 2012 for DHCD that was published in 2015. Additional assessments would need to be conducted annually in order to address the actual affordable housing needs for those years.

DHCD had a lack of adequate staff and did not have SOPs specifying how and when annual needs assessments were to be conducted. Conducting annual needs assessments would bring DHCD into compliance with legal requirements, and potentially help in addressing housing needs including developing a more targeted HPTF RFP.

Recommendations

35. DHCD should conduct annual housing needs assessments as required by D.C. Code § 42-2802(d)(3).
36. DHCD should ensure adequate staff is in place to conduct annual needs assessments.
37. Prior to the development of the RFP, DHCD should use the data determined by the annual needs assessment to target the RFP to specific housing needs.
38. DHCD should ensure that all needs assessments, even those conducted by other vendors, are accessible on the DHCD website.

⁴² See D.C. Code § 42-2802(d)(3).

DHCD record management was weak and HPTF data was unreliable.

D.C. Municipal Regulations require that records of continuing historical or other significance can be located when needed.⁴³ This was not the case as it related to HPTF loan agreements. It took three months for DHCD to provide ODCA with 14 loan agreements. It took approximately four months to provide ODCA with all loan agreements (single family and multi-family). This occurred because DHCD did not retain digital copies of many loans before transferring them off-site for archiving.

We also found that information provided to the Council and to ODCA differed, and information (i.e. number of units, number of projects, and award amounts) from DHCD was constantly changing. Figure 5 provides some examples of the inconsistency of HPTF data provided by DHCD for FYs 2011-2015.

Figure 5: Summary of DHCD Reported HPTF Data on Units and Amount Spent, FYs 2011-2015

Year	Number of Units Reported to ODCA	Number of Units Reported in Annual Report	Number of Units Reported to Council	Amount Spent Reported to ODCA	Amount Spent Reported in Annual Report	Amount Spent Reported to Council
2011	485	472	Could not determine	\$22,079,944	\$22,088,944	Could not determine
2012	223	348	Could not determine	\$5,470,000	\$5,470,000	Could not determine
2013	241	209	236	\$16,616,023	\$16,616,023	\$16,616,023
2014	829	854	826	\$40,252,380	\$40,293,059	\$40,252,380
2015	1,046	1,342	1,342	\$63,079,526	\$73,010,000	\$60,349,526

DHCD did not have an accurate and complete database of all projects, including single family homes that have received HPTF funds. DHCD was also not consistently tracking unit size (e.g. studio, one-bedroom) which is critical data for the needs assessment discussed above, and for compliance with legal

⁴³ D.C. Mun. Regs tit. 1 §1503.1 Maintenance and Use of Records: “Agency heads shall establish controls over the maintenance and use of records in accordance with these regulations, and shall ensure that records of continuing historical or other significance can be located when needed and that they are preserved in good condition for eventual transfer to the Archives.”

requirements to incentivize the development of larger family size units (three- and four-bedroom).⁴⁴ DHCD did not have HPTF SOPs which could have addressed document retention and data reliability.

When copies of active loan agreements are not easily accessible it impedes monitoring for compliance with the terms of the loans.

Recommendation

39. DHCD should develop SOPs for the HPTF, which should address document retention and data reliability.

⁴⁴ D.C. Mun. Regs tit. 10 §B4107.8: “The following types of housing developments shall receive priority consideration for Housing Production Loans, provided they also meet other eligibility requirements: (a) Developments in which at least fifteen (15%) of the total units contain three (3) or more bedrooms and will be available for rental or sale to low, very low and extremely low income households consisting of four (4) or more persons....”

Audit Results Summary

Our audit identified 39 recommendations that could improve DHCD management of the HPTF and ensure compliance with legislative requirements. We recommend:

Finding	Recommendation
DHCD did not ensure that HPTF projects were adequately and consistently screening households for income certification and recertification.	1. DHCD should develop income certification procedures and distribute them to HPTF projects, including a standard form, a list of sufficient documentation, and guidance about when and how certification should be conducted, including the requirement for bank statement submission.
	2. DHCD should develop a monitoring strategy that includes site inspections to ensure HPTF projects are complying with the procedures.
	3. DHCD should coordinate periodic training on income certification procedures.
DHCD did not provide projects with sufficient guidance about how to handle tenant income exceeding HPTF limits.	4. As this is a policy issue that cuts across different affordable housing programs operating in the District, the D.C. Council should amend D.C. Code § 42-2802.02 to address how to handle tenant income increases above HPTF limits.
	5. Once the D.C. Council determines how to handle tenant income increases, DHCD should include this guidance in its procedures that are distributed to HPTF projects and language should be added to loan agreements.
DHCD did not enforce the requirement that projects submit annual household income certifications.	6. DHCD should create a standard certification form for all HPTF projects to submit annually that requires valuable data, i.e. household income, household size, tenant information, unit size, unit #, rent amount for reserved units.
	7. DHCD should include the annual certification form as an exhibit in the loan agreements.
	8. DHCD should make the annual certification form available on DHCD's website.
	9. DHCD's Portfolio and Asset Management Division should send this certification form annually to HPTF borrowers.
DHCD did not ensure that projects created or maintained all of the affordable units required.	10. DHCD should enforce Kentucky Scott's loan agreement to create 21 units of affordable housing for senior citizens and work to bring the property in compliance with the agreement, without adversely impacting current tenants.
	11. DHCD should enforce the requirement for properties to submit annual certifications.
DHCD did not publish annual rent and income limits consistently, nor	12. DHCD should determine the utility allowance annually and publish it with the rent and income limits.

were utility allowances published or included within the rent and income limits.	13. The loan agreement between DHCD and the borrower should include information about the utility allowance and rent and income limits, as well as a website link to find the limits.
	14. DHCD Portfolio and Asset Management Division should establish a system of communication to inform borrowers and property management companies when the updated rent and income limits and utility allowance have been posted.
DHCD was not enforcing the HPTF rent limits.	15. DHCD should include methods for checking borrower compliance with rent limits in the monitoring strategy it should implement per Recommendation 2.
	16. DHCD should add language to the loan agreements when projects are expected to exceed rent limits due to their participation in other local and federal programs.
DHCD did not enforce the requirement for HPTF borrowers to submit annual financial statements.	17. DHCD should ensure adequate staffing for the HPTF program to enforce the submission of all required financial statements.
DHCD did not ensure that all of the loans were being repaid per requirements. As a result HPTF is due millions of dollars from borrowers who were not repaying their loans.	18. The D.C. Council should amend D.C. Code § 42-2803.01 to require that DHCD include the amount of HPTF loan repayments due and paid in the HPTF's annual and quarterly reports.
	19. DHCD should conduct a cost benefit analysis to determine if outsourcing repayments of HPTF loans is beneficial.
	20. DHCD should designate staff to conduct specific procedures for reconciliation of AmeriNat remittances.
DHCD monitoring of HPTF loan repayments was insufficient and led to at least \$6.4 million being incorrectly recorded as owed to the District.	21. DHCD should create an accurate system to track borrower compliance with loan agreements, including loan repayments.
	22. DHCD should immediately provide information about subordinate loans to AmeriNat.
	23. DHCD should develop SOPs for the timely transfer of subordinate loan documentation to AmeriNat and tracking borrower compliance with loan agreements.
DHCD did not commission a Certified Public Accountant for annual HPTF audits.	24. DHCD should engage a CPA firm or an independent firm to annually conduct an audit of the Fund, starting with an FY 2016 audit.
	25. DHCD should develop a system to ensure that audits are completed going forward.
	26. DHCD should ensure that these audits are publicly accessible on its website.
DHCD did not comply with requirements to submit quarterly and annual reports on a timely and consistent basis.	27. DHCD should ensure that the HPTF program has sufficient staff for the timely and consistent publishing of quarterly and annual reports.
	28. DHCD should create detailed SOPs that address the compilation of the quarterly and annual reports, that include:

	retention of back-up information and calculations to support the reported figures; explanations for any adjustments after the fiscal year closes; and reconciliation of the annual report information with SOAR data prior to report release.
	29. DHCD should make these quarterly and annual reports publicly accessible on its website.
DHCD did not comply with annual spending requirements for projects targeting extremely low-income and very low-income households in 2013, 2014, and 2015.	30. DHCD should ensure that future HPTF Requests for Proposals (RFPs) target projects to extremely low- and very low-income households.
	31. DHCD should develop a compliance plan to ensure that future obligations do not deviate from the required 40 percent for both extremely low income and very low income households.
DHCD had not been conducting an annual community outreach plan.	32. DHCD should develop, publish, and follow annual outreach plans.
	33. DHCD should incorporate requirements into both the loan agreements and covenants about where, and how, to advertise vacant units and waitlists when there are no vacancies.
	34. DHCD should make information easily accessible on its website about the HPTF-funded projects including their names, locations, number of units, and AMI requirements.
DHCD did not consistently conduct annual housing needs assessments.	35. DHCD should conduct annual housing needs assessments as required by D.C. Code § 42-2802(d)(3).
	36. DHCD should ensure adequate staff is in place to conduct annual needs assessments.
	37. Prior to the development of the RFP, DHCD should use the data determined by the annual needs assessment to target the RFP to specific housing needs.
	38. DHCD should ensure that all needs assessments, even those conducted by other vendors, are accessible on the DHCD website.
DHCD record management was weak and HPTF data was unreliable.	39. DHCD should develop SOPs for the HPTF, which should address document retention and data reliability.

Conclusion

The Housing Production Trust Fund is the District of Columbia's highest profile and costliest initiative to increase affordable housing for low-income residents. Our audit, based on a small but diverse sample of HPTF projects, demonstrates the need for significant improvements in the management of the program by the Department of Housing and Community Development.

As has been the case with ODCA reviews of other government programs, we found that the agency had not developed procedures to implement policies required by law and/or regulation. The effect of this was most striking when we found that all of the properties we visited had different methods for certifying household income, which varied greatly in quality, and that DHCD had not developed any requirements on how to conduct income certification. While we found it encouraging that most property managers indicated that they wished to comply with legal requirements and wanted more guidance from DHCD, the agency appeared to have a hands-off approach to projects once they had been selected for funding. The 39 recommendations in this audit include developing Standard Operating Procedures for the HPTF program and assuring that there is adequate staffing to enforce all program requirements.

Improving the overall management of the program will require time and likely will require the allocation of additional resources to compliance tasks. Making certain that properties that were renovated or built to be affordable are actually housing those who meet the income requirements and are complying with rent limits is DHCD's responsibility to the District residents whose tax dollars fund the HPTF. DHCD manages federally-funded programs as well as locally supported initiatives like the HPTF. We found a distinction between oversight of federal and local programs similar to what we have found in other District agencies. We were told by DHCD officials that they lack resources to oversee many aspects of the HPTF program because they must devote resources to the federally-funded housing programs, and that they allocate resources to ensure compliance with federal guidelines because federal housing programs are audited every year and they do not want to risk the loss of federal funds.

This was an extensive audit and a long process, and we appreciate that DHCD remained responsive and supportive throughout. The recommendations in this report were developed in collaboration with DHCD officials and the agency has already begun addressing some of the shortcomings noted. This includes efforts to contract for a financial audit of the HPTF as required by District law and regulation. Our performance audit is the first audit of any kind of the HPTF since its inception and underscores the importance of comprehensive and regular oversight to ensure that program goals can be met. This is especially true at a time when the HPTF has experienced significant increased investment of both dollars and expectations of policy makers and the public to address the pressing need for affordable housing in the District.

Finally, there were issues that arose in this audit that we are continuing to explore. In "The District of Columbia Housing Production Trust Fund: Revenues and Expenditures and 5-City Comparison," we revealed that the funding data shared by DHCD in earlier reports was not accurate. Because our objectives included establishing total dollars spent through HPTF, and total number of affordable units constructed or renovated since 2001, we are continuing to work with DHCD and the Office of the Chief

Financial Officer to build an accurate database that includes those tallies. This has required retrieving paper files from department archives and seeking to reconcile conflicting funding reports. We anticipate concluding this effort within the next two months. We are also continuing to review the history of one of the projects in our sample, and one of the DHCD contracts, and if those efforts yield information useful to DHCD or the Council in its oversight role, we will issue additional reports.

Agency Comments

On February 3, 2017, we sent a draft copy of this report to the Department of Housing and Community Development for review and written comment. The Department responded on February 24, 2017 and provided the written comments included below in their entirety.



GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



RECEIVED

FEB 28 2017

OFFICE OF THE DC AUDITOR

February 24, 2017

Ms. Kathleen Patterson, Auditor
Office of the District of Columbia Auditor
717 14th St, N.W., Suite 900
Washington, DC 20005

Re: DHCD Response to draft report entitled *“To Better Meet Affordable Housing Goals DHCD Should Improve Management of the Housing Production Trust Fund”*

Dear Ms. Patterson,

The Department of Housing and Community Development (“DHCD”) is in receipt of the draft letter report from the **Office of the District of Columbia Auditor (“ODCA”)** entitled *“To Better Meet Affordable Housing Goals DHCD Should Improve Management of the Housing Production Trust Fund.”* DHCD appreciates the opportunity to constructively examine compliance with the laws and regulations associated with the implementation of the Housing Production Trust Fund (“HPTF”) and its efficiency in providing and creating affordable housing for District residents.

I would like to highlight that an unrepresentative sample of DHCD projects were selected for the audit review. The selection included one project per year since 2001, each of which was solely funded with HPTF. The vast majority of the projects and units that DHCD funds leverage various other housing finance tools, such as federal funds and Low Income Housing Tax Credits (“LIHTC”), which require significant compliance and asset management. Limiting the sample to projects that only received HPTF funding does not capture the complete view of the how DHCD manages the compliance of these funds. When federal funds were involved in project funding, internal monitoring was better and regulated throughout this timeframe. In addition to addressing the audit findings, DHCD looks forward to collaboratively working with ODCA to address any issues identified by the review.

While DHCD acknowledges there is always room for improvement to the HPTF program, the program boasts numerous successes that have contributed to homeownership opportunities and improved quality of life for DC residents. Additionally, DHCD has worked to improve systems and processes to the administration of the HPTF program by automating the application process

and streamlining RFP requirements. This program ensures that citizens who want to live in the District can afford to call the District home.

Since taking office in January 2015, the Bowser Administration has produced and preserved over 3,100 units of affordable housing in the District. Additionally, as part of Mayor Muriel Bowser's commitment to affordable housing, more than \$100 million in financing from the HPTF helped to produce or preserve more than 1,400 affordable housing units in FY 2016. The HPTF is just one tool the District government uses to provide gap financing for affordable housing projects. In October 2016, Mayor Bowser celebrated the unprecedented investment of over \$100 million from HPTF. The \$106.3 million supports 19 projects that will produce or preserve more than 1,200 affordable housing units in all eight wards. Within the first five months of FY 2017, DHCD has already expended \$50 million in HPTF loans for affordable housing.

In response to the issues and recommendations offered by the ODCA, DHCD offers the attached chart which outlines the Summary Findings, Auditor Recommendations and DHCD's Responses. Thank you again for the opportunity to provide comments to the draft letter report. Please do not hesitate to contact Latrena Owens, Chief of Staff, at 202-442-6972 if you have questions or require additional information.

Sincerely,



Polly Donaldson
Director

cc: Allison Ladd, Deputy Director, DHCD
Betsy Cavendish, Mayor's General Counsel
Brian Kenner, Deputy Mayor, Planning and Economic Development

SUMMARY FINDINGS	RECOMMENDATIONS		DHCD RESPONSE
FINDING 1- DHCD did not ensure that HPTF projects were adequately and consistently screening households for income certification and recertification.	1	DHCD should develop income certification procedures and distribute them to HPTF projects, including a standard form, a list of sufficient documentation, and guidance about when and how certification should be conducted, including the requirement for bank statement submission.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	2	DHCD should develop a monitoring strategy that includes site inspections to ensure HPTF projects are complying with the procedures.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	3	DHCD should coordinate periodic training on income certification procedures.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
FINDING 2 - DHCD did not provide projects with sufficient guidance about how to handle tenant income exceeding HPTF limits.	4	As this is a policy issue that cuts across different affordable housing programs operating in the District, the D.C. Council should amend D.C. Code § 42-2802.02 to address how to handle tenant income increases above HPTF limits.	DHCD, working with colleagues in the Executive Branch, is considering how best to handle the thorny issues surrounding what to do when low income tenants – happily – achieve greater income. We do not want to destabilize those with fragile improvements in their income by removing them from housing, but at the same time, we want to house those in the target low income populations. We believe legislation would likely not be able to take into account the nuances of this problem, and thus would be premature, unnecessary and perhaps in some cases, detrimental to the various goals being sought.
	5	Once the D.C. Council determines how to handle tenant income increases, DHCD should include this guidance in its procedures that are distributed to HPTF projects and language should be added to loan agreements.	Once the Executive Branch formulates guidance, it will be circulated to HPTF projects.
FINDING 3 - DHCD did not enforce the requirement that projects submit annual household income certifications.	6	DHCD should create a standard certification form for all HPTF projects to submit annually that requires valuable data, i.e. household income, household size, tenant information, unit size, unit #, rent amount for reserved units.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	7	DHCD should include the annual certification form as an exhibit in the loan agreements.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	8	DHCD should make the annual certification form available on DHCD's website.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	9	DHCD's Portfolio and Asset Management Division should send this certification form annually to HPTF borrowers	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.

SUMMARY FINDINGS		RECOMMENDATIONS	DHCD RESPONSE
FINDING 4 - DHCD did not ensure that projects created or maintained all of the affordable units required.	10	DHCD should enforce Kentucky Scott's loan agreement to create 21 units of affordable housing for senior citizens and work to bring the property in compliance with the agreement, without adversely impacting current tenants.	DHCD acknowledges the recommendation and will work with our Portfolio and Asset Management Division to address.
	11	DHCD should enforce the requirement for properties to submit annual certifications.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
FINDING 5 - DHCD did not publish annual rent and income limits consistently, nor were utility allowances published or included within the rent and income limits.	12	DHCD should determine the utility allowance annually and publish it with the rent and income limits.	ODCA has indicated in its draft audit findings that DHCD did not publish rent and income limits for 2014 and that the timeframe in which they were published varied greatly. DHCD does not concur with this audit finding, since DHCD publishes the annual rent and income limits in accordance with the official release of the HUD limits.
	13	The loan agreement between DHCD and the borrower should include information about the utility allowance and rent and income limits, as well as a website link to find the limits.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	14	DHCD Portfolio and Asset Management Division should establish a system of communication to inform borrowers and property management companies when the updated rent and income limits and utility allowance have been posted.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
FINDING 6 - DHCD was not enforcing the HPTF rent limits.	15	DHCD should include methods for checking borrower compliance with rent limits in the monitoring strategy it should implement per Recommendation 2.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	16	DHCD should add language to the loan agreements when projects are expected to exceed rent limits due to their participation in other local and federal programs.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
FINDING 7 - DHCD did not enforce the requirement for HPTF borrowers to submit annual financial statements.	17	DHCD should ensure adequate staffing for the HPTF program to enforce the submission of all required financial statements.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.

SUMMARY FINDINGS		RECOMMENDATIONS	DHCD RESPONSE
FINDING 8 - DHCD did not ensure that all of the loans were being repaid per requirements. As a result HPTF is due millions of dollars from borrowers who were not repaying their loans.	18	The D.C. Council should amend D.C. Code § 42-2803.01 to require that DHCD include the amount of HPTF loan repayments due and paid in the HPTF's annual and quarterly reports.	<p>Since March 2016, DHCD has published annual reports for FY13 and FY14 and they are posted on the DHCD website. Additionally, the FY15 report is under final approval and the FY16 report is due on April 1, 2017.</p> <p>Additionally, it is important to note that the sample selected for the audit review, included one project per year since 2001, and that sample only included projects that were solely funded with HPTF, excluding other housing finance tools. Limiting the sample to projects that only received HPTF funding does not capture the complete view of the how DHCD manages the compliance of these funds.</p>
	19	DHCD should conduct a cost benefit analysis to determine if outsourcing repayments of HPTF loans is beneficial.	DHCD is currently evaluating the loan servicing contract to ensure that the services meet the needs of the Agency.
	20	DHCD should designate staff to conduct specific procedures for reconciliation of AmeriNat remittances.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
FINDING 9 - DHCD monitoring of HPTF loan repayments was insufficient and led to at least \$6.4 million being incorrectly recorded as owed to the District.	21	DHCD should create an accurate system to track borrower compliance with loan agreements, including loan repayments.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	22	DHCD should immediately provide information about subordinate loans to AmeriNat.	Prior to the audit, DHCD was working on a system to transmit loan information to AmeriNat. The system is currently being adjusted to meet the Agency needs.
	23	DHCD should develop SOPs for the timely transfer of subordinate loan documentation to AmeriNat and tracking borrower compliance with loan agreements.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.

SUMMARY FINDINGS		RECOMMENDATIONS	DHCD RESPONSE
FINDING 10 - DHCD did not commission a Certified Public Accountant for annual HPTF audits.	24	DHCD should engage a CPA firm or an independent firm to annually conduct an audit of the Fund, starting with an FY 2016 audit.	DHCD recognizes the need for improvement in this area and in FY16, DHCD hired an independent auditing firm to ensure compliance with HPTF audit requirement. The entrance meeting with the auditor was held on January 24, 2017.
	25	DHCD should develop a system to ensure that audits are completed going forward.	DHCD recognizes the need for improvement in this area and in FY16, DHCD hired an independent auditing firm to ensure compliance with HPTF audit requirement. The entrance meeting with the auditor was held on January 24, 2017.
	26	DHCD should ensure that these audits are publicly accessible on its website.	DHCD recognizes the need for improvement in this area and in FY16, DHCD hired an independent auditing firm to ensure compliance with HPTF audit requirement. The entrance meeting with the auditor was held on January 24, 2017.
FINDING 11 - DHCD did not comply with requirements to submit quarterly and annual reports on a timely and consistent basis	27	DHCD should ensure that the HPTF program has sufficient staff for the timely and consistent publishing of quarterly and annual reports.	Since March 2016, DHCD has published annual reports for FY13 and FY14 and they are posted on the DHCD website. Additionally, the FY15 report is under final approval and the FY16 report is due on April 1, 2017.
	28	DHCD should create detailed SOPs that address the compilation of the quarterly and annual reports, that include: retention of back-up information and calculations to support the reported figures; explanations for any adjustments after the fiscal year closes; and reconciliation of the annual report information with SOAR data prior to report release.	DHCD recognizes the need for additional resources and human capital to implement the recommendation outlined in the report.
	29	DHCD should make these quarterly and annual reports publicly accessible on its website.	DHCD concurs with the finding and has made the FY13 and FY14 report available on the DHCD website.

SUMMARY FINDINGS		RECOMMENDATIONS	DHCD RESPONSE
FINDING 12 - DHCD did not comply with annual spending requirements for projects targeting extremely low-income and very low-income households in 2013, 2014, and 2015.	30	DHCD should ensure that future HPTF Requests for Proposals (RFPs) target projects to extremely low- and very low-income households.	Since January 1, 2015, DHCD RFPs have been focused on the creation and preservation of affordable units. DHCD has prioritized projects that target 50% AMI and below.
	31	DHCD should develop a compliance plan to ensure that future obligations do not deviate from the required 40 percent for both extremely low income and very low income households.	Since January 1, 2015, DHCD RFPs have been focused on the creation and preservation of affordable units. DHCD has prioritized projects that target 50% AMI and below.
FINDING 13 - DHCD had not been conducting an annual community outreach plan.	32	DHCD should develop, publish and follow annual outreach plans.	<p>DHCD recognizes that it does not develop plans in accordance with the statute, however the community outreach plan is geared to meet the needs of the residents we serve. Moving forward the agency will augment the current plan to adhere to statutory requirements.</p> <p>Since January 1, 2015, DHCD has conducted numerous Ward by Ward community outreach activities to engage and inform district residents about services offered by DHCD. In partnership with the Greater Washington Urban League DHCD hosts an Annual DC Housing Expo/Home Show in June of each year. The Expo provides invaluable resources and information for all current and potential renters and homeowners in Washington, D.C. The all-day event provides homeownership information and guidance for residents facing foreclosure, small business owners and community leaders. Additionally, DHCD submitted a 5 year consolidated plan to HUD in August 2016 outlining how the Agency plans to send federal funds.</p>
	33	DHCD should incorporate requirements into both the loan agreements and covenants about where, and how, to advertise vacant units and waitlists when there are no vacancies.	Since FY11, DHCD loan documents requires that all projects post vacant units on dchousingsearch.org
	34	DHCD should make information easily accessible on its website about the HPTF-funded projects including their names, locations, number of units, and AMI requirements.	Since March 2016, DHCD has published annual reports for FY13 and FY14 and they are posted on the DHCD website. Additionally, the FY15 report is under final approval and the FY16 report is due on April 1, 2017.

SUMMARY FINDINGS		RECOMMENDATIONS	DHCD RESPONSE
FINDING 14 - DHCD did not consistently conduct annual housing needs assessments.	35	DHCD should conduct annual housing needs assessments as required by D.C. Code § 42-2802(d)(3).	DHCD submitted 5 year consolidated plan to HUD in August 2016 and included in the plan and the annual action plans are DC priorities and "needs assessment" details.
	36	DHCD should ensure adequate staff is in place to conduct annual needs assessments.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	37	Prior to the development of the RFP, DHCD should use the data determined by the annual needs assessment to target the RFP to specific housing needs.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
	38	DHCD should ensure that all needs assessments, even those conducted by other vendors, are accessible on the DHCD website.	DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.
FINDING 15 – DHCD record management was weak and HPTF data was unreliable.	39	DHCD should develop SOPs for the HPTF, which should address document retention and data reliability.	DHCD recognizes the need for additional resources and human capital to implement the recommendation outlined in the report.

Auditor's Response to Agency Comments

ODCA greatly appreciates the Department's response to our recommendations. We are also pleased to learn that DHCD has already taken action to implement some of them.

We appreciate the point made by DHCD that our sample was not representative of the full population of HPTF-funded projects, as our sample explicitly excluded those with federal funding. While DHCD states in its response that the vast majority of HPTF-funded projects receive federal funding and Low Income Housing Tax Credits, this conflicts with information DHCD provided at the start of this audit, which was that approximately half of the projects did not receive federal support. The projects that did not participate in federal programs, and consequently were not part of DHCD's regular monitoring, represented an area of significant risk. As auditors we target our resources toward higher risk and devise our audit methodology to determine if controls are in place to mitigate risk. It is crucial that DHCD establish its own standards, monitoring, and strategies to ensure that the local dollars we invest bring us the highest return on our investment.

In its response, DHCD stated that since FY 2011, loan documents require that all vacant units be posted on dchousingsearch.org. We found this requirement was not met in a majority of the FY 2011-2015 loan agreements in our sample, nor was it included in the recorded deeds and covenants. Most tellingly, the property managers we spoke with did not regularly list dchousingsearch.org as an outlet they advertised vacant units. We hope DHCD takes special care to require and promote the use of this search engine.

Appendix I: ODCA Sample of 14 HPTF Projects for Testing Compliance with Loan Agreements

#	Project Name	Ward	Borrower Name	# of Units	AMI (or less)	Special Population, if Applicable	Rental or Ownership	Award Amount	Date of Award
1	Green Door	4	Green Door	4	30%	Homeless Mentally Ill	Rental	\$368,504	4/13/2004
2	Martin Luther King Jr. Latino Cooperative	2	Martin Luther King Jr. Latino Cooperative	74	80%	n/a	Rental	\$8,398,000	9/18/2006
3	Kentucky Scott	4	Kentucky- Scott LLC	21	50%	Seniors	Rental	\$2,003,641	7/30/2007
4	Woodley House	3	Woodley House Inc.	31	30%	Mentally Ill	Rental	\$1,016,750	9/25/2008
5	1320 Mississippi Ave. SE	8	1320 Mississippi Avenue LLC	19	30%	Homeless families, and Mentally Ill	Rental	\$4,026,684	9/1/2010
6	Pollin Place	8	Pollin Memorial Community Development LLC	19	8 @ 75% 4 @ 65% 7 @ 40%	n/a	Ownership	\$2,227,600	8/4/2011
				41	17 @ 75% 23 @ 65% 1 @ 40%			\$2,940,900	8/5/2011
7	Progression Place	2	Broadcast Residential Partners LLC	51	80%	n/a	Rental	\$2,700,000	6/20/2012
8	Buxton	8	Manna Inc.	24	14 @ 80% 10 @ 50%	n/a	Ownership	\$1,525,000	3/6/2013
9	Concord Apartments	4	Hampstead Brightwood Partners LP	123	80%	n/a	Rental	\$10,813,334	6/18/2014
10	Channel Square	6	Channel Square Housing LLC	147	80%	n/a	Rental	\$7,400,000	1/26/2015

Site visits not conducted for the properties listed below, but testing was done of their compliance with terms of the loan agreement (repayments, financial statements, etc.).									
11	Trenton Park	8	Trenton Park Apartments Limited Partnership c/o Banc of America	38 ⁴⁵	80%	n/a	Rental	\$1,750,000	12/2/2001
12	Amber Overlook	7	Ameridream Amber Overlook, LLC	106	80%	n/a	Ownership	\$1,200,000	7/31/2006
13	Bethune	7	Crawford Associates	44	50%	n/a	Rental	\$3,477,659	11/16/2006
14	1029 Perry Street	5	Manna Inc.	16	80%	n/a	Ownership	\$600,000	8/4/2009

⁴⁵ Both Trenton Park's loan agreement and rent regulatory agreement did not include the number of units it was to create. This number of units was reported by DHCD to ODCA.

Appendix II Testing Results of 10 Projects: Documents Required for Income Certification

Project Name	# of Paystubs	Third Party Verification	# of Tax Returns	Bank Statements	Proof of Government Referral/ Assistance	Form to Certify Non-Employment/ Zero Income
Green Door	4-6				X	X
MLK	2-4	X	X (one year)			
Kentucky Scott ⁴⁶						
Woodley House	n/a (serves homeless clients)				X	X
1320 Mississippi	2-6	X			X	X
Pollin Place	3		X (2 years)			
Progression Place	6 months	(planned to start in 2016)		X (6 months of checking account)	X	
Buxton	3 months	X	X (one year)	X (6 months from all bank accounts)	X	X
Concord Apartments	2 months	X	X (2 years)		X	X
Channel Square	6	X			X	X

⁴⁶ Two paystubs were required as part of the rental application process, but they were not used to determine income eligibility for affordability purposes.

Appendix III: Testing Results of 10 Projects: Percentage of Sampled Household Income Certifications That Were Sufficient

Project Name	Sampled Household Income Certification was Sufficient (Properly Supported/Reviewed)
Green Door	83%
MLK	5%
Kentucky Scott	0%
Woodley House	44%
1320 Mississippi	12%
Pollin Place	15%
Progression Place	17%
Buxton	100%
Concord Apartments	64%
Channel Square	28%

Appendix IV: Testing Results of 10 Projects: Sampled Tenants' Rent Amount Compliance with HPTF Limits, 2011-2016

Project Name	% of Sampled Tenants in which Rent Amount Exceeded HPTF Limits						Notes on Utilities	Additional Notes, if applicable
	2011	2012	2013	2014	2015	2016		
Green Door	100%	100%	100%	100%	100%	100%	As tenants paid electricity, the rent exceeded the limits even more.	Rent included social services. Also participated in DCHA housing voucher program in which tenants were responsible for paying a portion of the rent.
MLK	Could not determine		0%	0%	0%	0%	As tenants paid electricity, we cannot fully conclude that the rents were in compliance.	
Kentucky Scott	n/a	40%	17%	25%	22%	42%	There may have been additional instances due to the fact that rent did not include any utilities.	
Woodley House	100%	100%	100%	100%	100%	100%	Utilities were included in rent.	Rent included social services. Tenants responsible for paying only a portion of the rent.
1320 Mississippi	100%	100%	100%	100%	100%	100%	Utilities were included in rent.	Rent included services. Also participated in DCHA housing voucher program in which tenants were responsible for paying a portion of the rent.
Pollin Place	n/a - home ownership, no rents							We determined that sales price complied with price stipulated in loan agreements.
Progression Place	n/a	0%	0%	0%	0%	0%	As utilities were not included in the rent, we cannot fully conclude that rents were in compliance.	
Buxton	n/a - home ownership, no rents							We determined that sales price complied with price stipulated in loan agreements.
Concord Apartments	n/a	n/a	n/a	n/a	0%	0%	As utilities were not included in the rent, we cannot fully conclude that the rents were in compliance.	
Channel Square	n/a	n/a	16%	20%	20%	20%	Utilities were included in rent.	

Appendix V: Testing Results of 14 Projects: Borrower Submission of Financial Statements Due

Sample #	Project Name	Number of Financial Statements Due (as of Sept. 2016)	Number of Financial Statements Submitted (as of Sept. 2016)	Percent Submitted
1	Green Door - 14th Street	12	5	42%
2	MLK Latino Coop	9	5	56%
3	Kentucky Scott	9	0	0%
4	Woodley House	8	4	50%
5	1320 Mississippi	6	3	50%
6	Pollin Place	5	2	40%
7	Progression Place	4	0	0%
8	Buxton	3	1	33%
9	Concord	2	0	0%
10	Channel Square	1	1	100%
11	Trenton Park	14	0	0%
12	Amber Overlook	10	0	0%
13	Bethune	10	3	30%
14	1029 Perry Street	6	2	33%
	Total	99	26	26%