New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Affordable Home Ownership Development Program

Affordable Housing Corporation
Homes and Community Renewal

Report 2013-S-31 October 2014

Executive Summary

Purpose
To determine whether Affordable Home Ownership Development Program (Program) grant managers are awarding grant monies to existing and prospective homeowners in compliance with Program criteria. Our audit covers the period February 2012 through October 2013, and focuses on grants awarded to eight metropolitan area-based development projects.

Background
The Program, which is administered by the New York State Affordable Housing Corporation (Corporation), was established to promote homeownership for low- and moderate-income individuals and families and to stimulate the development, stabilization, and preservation of New York communities. Individual grants of up to $40,000 per dwelling can be provided to eligible existing and/or prospective homeowners (Program recipients). Grant monies may be used for new construction, home improvements, or acquisition and repair projects. The grant monies are disbursed to Program recipients via their municipalities or community-based not-for-profit organizations (grant managers) that contract with the Corporation and are responsible for determining a recipient's eligibility. The annual income and liquid assets of recipients must be below the limits stipulated in the contracts between the Corporation and the various grant managers. These limits vary among grant managers based on several factors, including the value of the property in question and family size of the Program beneficiary. In recent years, the State Legislature has appropriated $25 million annually for this Program.

Key Findings
Most of the 69 Program recipients we reviewed met the Program's prescribed income and liquid asset eligibility criteria. However, two Program recipients were not eligible for their grants, which totaled $67,000. The liquid assets of the two recipients exceeded the limits prescribed for Program eligibility. One of the recipients exceeded the asset limit by $31,855. We also questioned an award of $28,000 to another Program recipient because it was unclear if the recipient exceeded the established annual income limit.

Key Recommendations
- Provide training to grant managers on assessing applicant eligibility, particularly related to liquid asset and annual income limits.
- Continue to periodically review grant managers' award files to verify applicants' compliance with Program eligibility requirements.
- Clarify requirements for determinations of applicants' annual incomes, including reasonable estimates of variable income, such as bonuses.

Other Related Audit/Report of Interest
New York State Affordable Housing Corporation: Homebuyer Selection and Approval (2008-S-100)

State of New York
Office of the State Comptroller

Division of State Government Accountability

October 6, 2014

Mr. Darryl C. Towns
Commissioner and CEO
New York State Homes and Community Renewal
641 Lexington Ave.
New York, NY 10022

Dear Mr. Towns:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the New York State Affordable Housing Corporation entitled *Affordable Home Ownership Development Program*. This audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

cc: Dominic A. Martello, V.P.
Affordable Housing Corporation

Table of Contents

State Government Accountability Contact Information:
Audit Director: Frank Patone
Phone: (212) 417-5200
Email: StateGovernmentAccountability@osc.state.ny.us
Address:
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

This report is also available on our website at: www.osc.state.ny.us

Background

The Affordable Home Ownership Development Program (Program) is one of a series of New York State-sponsored measures aimed at addressing the critical housing needs faced by communities throughout the State. A significant percentage of New Yorkers are increasingly challenged to find affordable housing in the face of stagnant or declining income and rising housing costs. As of 2012, the U.S. Census Bureau estimated that more than 50 percent of renters and 30 percent of homeowners in New York exceeded the U.S. Department of Housing and Urban Development's "home affordability threshold" of 30 percent (i.e., percentage of income spent on housing costs); and within those groups, about 1.5 million households spent more than half their income on housing and related costs.

The Program, administered by the New York State Affordable Housing Corporation (Corporation), was established to promote home ownership for low- and moderate-income individuals and families, and to stimulate the development, stabilization, and preservation of New York communities. Administratively, the Corporation is a subsidiary of the New York State Housing Finance Agency, which falls under the umbrella agency New York State Homes and Community Renewal.

Corporation grants are provided to municipalities and not-for-profit entities (grant managers) to help existing and prospective homeowners (Program recipients) pay for new construction, rehab projects, home improvements, or acquisitions and repairs. Each grant manager signs an agreement with the Corporation that stipulates the terms and conditions of how grant monies are to be used and the eligibility requirements for Program recipients. For example, Program recipients must meet certain income and asset requirements, which vary among grant managers based on such factors as family size and community location. Program recipients can receive as much as $40,000 per dwelling.

In recent years, the State Legislature has appropriated about $25 million annually for the Program. For the period January 1, 2009 through August 31, 2013, the Corporation awarded $138.9 million in grants to grant managers, which disbursed $85.1 million on behalf of Program recipients relating to 293 projects (i.e., developments, homes).

This audit is part of the Comptroller's initiative to assess a range of housing programs administered by various State agencies and public benefit corporations.

Audit Findings and Recommendations

We found that most of the 69 Program recipients we reviewed met the income and asset eligibility criteria for their specific Program grants. However, we did identify two instances of non-compliance, with corresponding grant awards totaling $67,000. We also questioned whether a third recipient, who received a grant of $28,000, was eligible for a grant. There is risk that the grants in question could have been awarded to individuals or families in greater need of Program funding. Given the $25 million in Program funding made available annually, if even a small percentage of grants are awarded improperly, the amounts of such awards could be material.

Compliance With Program Eligibility Requirements

To assess grant manager compliance with Program recipient eligibility requirements, we selected a sample of eight grant-funded projects, located in Nassau, Rockland, Suffolk, and Westchester Counties, that were awarded $6.4 million in funding via seven grant managers, listed in the table below. The eight sampled projects relate to 203 individual housing units.

Grant Manager	Project	Project Location	Grants Reviewed	
			Number	Amount
Community Development Corp. of Long Island	First Time Homebuyers Assistance Program	Nassau/Suffolk	7	$236,273
Community Housing Innovations	Long Island Home Ownership Program 2011	Nassau/Suffolk	9	213,000
	Long Island Home Ownership Program	Nassau/Suffolk	14	367,250
Housing Action Council	The Monarch at Ridge Hill	Westchester	6	217,500
Housing Help	Project Hope	Suffolk	1	40,000
Long Island Housing Partnership	Employer Assisted Housing Program	Nassau/Suffolk	16	345,600
Nassau County Office of Housing and Intergovernmental Affairs	Nassau County Neighborhood Stabilization Program	Nassau	7	280,000
Ramapo Local Development Corp.	Ramapo Commons	Rockland	9	360,000
Total			**69**	**$2,059,623**

We selected a judgmental sample of 69 Program recipients who were awarded a total of $2,059,623 during the period February 2012 through October 2013, and we reviewed the recipients' files to test compliance with their respective grant criteria. We concluded that 66 (96 percent) of the Program recipients met the income and asset eligibility criteria for their respective grants. However, two homebuyers, who received a total of $67,000 in awards from two grant managers, exceeded the prescribed asset limits for their grants. In addition, we questioned the award of a third grant (totaling $28,000) because it was unclear whether or not the recipient met the Program's limit on annual income.

Awards to Recipients Who Exceeded Asset Limits

In June 2012, the Housing Action Council (Council), a Westchester County-based grant manager, awarded a $40,000 grant to a Program recipient to purchase a condominium that cost $143,281. The recipient met the Council's annual income limit. Further, the Council required an applicant's pre-grant liquid assets (i.e., cash, stocks) to not exceed 25 percent of the cost of the property in question (or, in this case, about $35,820). However, the recipient's assets totaled $47,615 - almost $12,000 over the limit.

Council officials explained that they calculated the asset limit as 25 percent of the average sales price of all affordable units at the location of the recipient's condominium (or $56,236), rather than 25 percent of the price for the specific condominium in question ($35,820). Moreover, Corporation officials agreed that this homebuyer was not eligible for the grant.

Community Housing Innovations (Innovations), a Long Island grant manager, required a recipient's pre-grant liquid assets to be less than 25 percent of the cost of the property to be purchased. In July 2013, Innovations awarded $27,000 to a recipient who met the grant's annual income limitation.

However, the recipient's liquid assets materially exceeded the Program's limit. The sales price of the home in question was $152,000. Thus, the recipient's liquid assets could not exceed $38,000 ($152,000 times 25 percent). Based on the available documentation, we determined that the recipient's liquid assets totaled $69,855 - or $31,855 above the prescribed limit. Here, too, Corporation officials agreed that this Program recipient should not have been awarded Program grant monies.

Questionable Award to Recipient Who Might Have Exceeded Income Limit

In September 2013, Innovations awarded a $28,000 grant to a Program recipient for a home that cost $280,000. The recipient's liquid assets did not exceed 25 percent of the home's sales value (or $70,000). However, the income limit for this applicant was $67,469, and his reported income for calendar year 2012 was $68,249 - or $780 above the limit. The recipient's income included base salary as well as bonus income.

According to Innovations officials, they estimated the recipient's annual income for 2013 based on a pay stub and a statement from the recipient's employer; and the recipient's estimated income was less than the Program's established limit. However, the employer's statement only included the amount of the recipient's base salary. While it noted that the recipient earns bonus income, it did not specify the amount. Thus, the amount of the recipient's total annual income was unclear, and therefore, the recipient's eligibility for the award was questionable.

Recommendations

1. Provide training to grant managers on assessing applicant eligibility, particularly related to liquid asset and annual income limits.

2. Continue to periodically review grant managers' award files to verify applicants' compliance with Program eligibility requirements.

3. As warranted, take actions with grant managers that do not ensure full compliance with prescribed Program requirements.

4. Clarify requirements for determinations of applicants' annual incomes, including reasonable estimates of variable income, such as bonuses.

Audit Scope and Methodology

Our objective was to determine whether grant managers were awarding grant monies to Program recipients in compliance with Program requirements.

To accomplish our objective, we reviewed the governing statutes and rules and regulations, and interviewed relevant Corporation officials and selected grant managers. We also examined Corporation reports related to grant manager activities and selected eight Corporation-funded projects to assess compliance with Program requirements. The projects selected for review had signed agreements with the Corporation between October 2009 and May 2013, and made disbursements on behalf of homeowners from February 2012 through October 2013. We also reviewed 69 judgmentally selected program recipient files from the sampled projects.

We conducted our performance audit in accordance with generally accepted government auditing standards. These 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. We believe that the evidence obtained for our audit provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution.

Reporting Requirements

We submitted a draft copy of this report to Corporation officials for their review and comment. Their comments were considered in preparing this report and are attached in their entirety at the end of it. Corporation officials generally concurred with our recommendations and noted certain actions to address them. For example, officials indicated that Corporation staff is prepared to train grant managers by offering technical seminars at housing conferences across the State.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of New York State Homes and Community Renewal shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

Contributors to This Report

Frank Patone, CPA, Audit Director
Cindi Frieder, CPA, Audit Manager
Gene Brenenson, CPA, Audit Supervisor
Nicholas Angel, Examiner-in-Charge
Trina Clarke, Staff Examiner
Ryan Wendolowski, Staff Examiner

Division of State Government Accountability

Andrew A. SanFilippo, Executive Deputy Comptroller
518-474-4593, asanfilippo@osc.state.ny.us

Tina Kim, Deputy Comptroller
518-473-3596, tkim@osc.state.ny.us

Brian Mason, Assistant Comptroller
518-473-0334, bmason@osc.state.ny.us

Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments

NEW YORK STATE
Homes & Community Renewal

ANDREW M. CUOMO
GOVERNOR

DARRYL C. TOWNS
COMMISSIONER/CEO

NEW YORK STATE DIVISION OF HOUSING & COMMUNITY RENEWAL

HOUSING TRUST FUND CORPORATION

STATE OF NEW YORK MORTGAGE AGENCY

NEW YORK STATE HOUSING FINANCE AGENCY

NEW YORK STATE AFFORDABLE HOUSING CORPORATION

STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY

TOBACCO SETTLEMENT FINANCING CORPORATION

July 31, 2014

Mr. Frank Patrone, CPA Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street
New York, New York 10038-3804

Re: Audit Report 2013-S-31

Dear Mr. Patrone:

This letter will serve as the response of the New York State Affordable Housing Corporation ("AHC") to the draft Audit Report 2013-S-31 (the "Audit") of July 1, 2014, with respect to the Affordable Home Ownership Development Program (the "Program").

Background

The audit focused on grants made by AHC to eight metropolitan area-based development Projects covering the period between February 2012 through October 2013.

Management Responses

We have reviewed the Audit report and, with regard to the recommendations that were made, management submits the following responses:

1. Provide training to grant managers on assessing applicant eligibility, particularly related to liquid asset and annual income limits.

The Program is predominantly Grantee driven. As such, when a Project application is submitted to AHC for review, the Applicant/Grantee proposes the methods by which it will achieve its goals. However, all Grantees must abide by certain limitations, e. g., income limits which are published on the Agency website as well as by asset caps which are set, unless otherwise proposed and approved by AHC, in the application phase. AHC then tries to ensure that the methods proposed

641 Lexington Avenue, 4th Floor, New York, NY 10022
nyshcr.org

July 31, 2014
Page 2

are followed, based upon documentation submitted by the Grantees. To further assist Grantees in understanding AHC policies, AHC staff is prepared to train grant managers as needed by offering technical seminars at various housing conferences across the State. To emphasize the importance of the asset limitations, there is also a new certification that needs to be submitted with the requisition documents in which the grant managers must certify the respective homebuyer/homeowner's asset amount.

2. Continue to periodically review grant managers' award files to verify applicants' compliance with Program eligibility requirements.

A sample of 5 or 6 AHC Projects is selected annually for compliance audits by independent CPA firms. Based upon the audit reports, AHC follows up on any issues found to be of interest or in violation of applicable AHC statutes, regulations, or policies.

3. As warranted, take actions with grant managers that do not ensure full compliance with prescribed program requirements.

When grant managers do not comply with Program requirements during the active life of a Project, AHC has several courses of action. If the award for the Project has not been disbursed or has not been fully disbursed, the remaining funds will be held until the Grantee is in full compliance. If a non-compliant Project is past the disbursement stage, then, in AHC's discretion, based on the circumstances and the nature of the violation, such non-compliance may result in processing of other applications of the Grantee being held up, or in other Projects of the Grantee being subjected to special scrutinized, unless and until the non-compliance has been corrected; if AHC deems such measures appropriate, other Projects of the Grantee may be terminated because of non-compliance. AHC, in its discretion based on its evaluation of the circumstances, may also pursue legal remedies to seek the recapture or repayment of grant funds from a Grantee or homebuyer/homeowner in violation of program requirements and contractual obligations.

4. Clarify requirements for determinations of applicants' annual incomes, including reasonable estimates of variable income, such as bonuses.

AHC will review and revise the RFP sections that refer to homebuyer/homeowner incomes to further assist Applicants/Grantees in proper wording of their Project proposals. However, as previously stated, AHC is open to Applicant proposals in determining/calculating income, so long as the Applicant does not violate any AHC statutes or regulations.

On behalf of our management team at AHC, we thank the staff of OSC for the professional manner in which they have conducted their examination of the Program.

If you have any questions, please feel free to call Dominic A. Martello, Vice President, at 212 872-0553, in our offices at 641 Lexington Avenue, New York, New York 10022.

Sincerely,

Darryl C. Towns
Commissioner and Chief Executive Officer