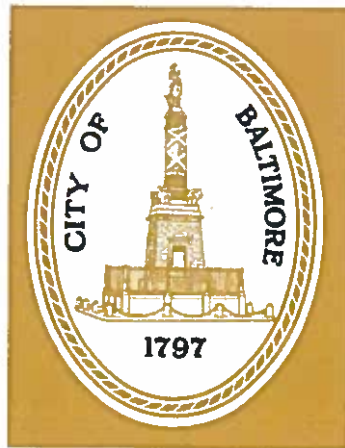


**PERFORMANCE AUDIT REPORT**

**DEPARTMENT OF HOUSING AND COMMUNITY  
DEVELOPMENT**

**AUDIT OF THE  
PROMOTE HOMEOWNERSHIP PROGRAM**

**For Fiscal Years Ended June 30, 2016 and 2015**



Department of Audits

CITY OF BALTIMORE

JOAN M. PRATT, CPA  
Comptroller



DEPARTMENT OF AUDITS

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December 29, 2017

Honorable Joan M. Pratt, Comptroller  
And Other Members of the  
Board of Estimates  
City of Baltimore, Maryland

We have conducted a performance audit of the performance measures reported by the Department of Housing and Community Development in the administration of the Promote Homeownership Program for fiscal years ended June 30, 2016 and 2015. The purpose of our audit of the Promote Homeownership Program was to examine the general administration of the Program in order to determine whether the agency met its target for the number of homeowners assisted. In addition, the purpose of our audit was to determine whether the agency's reported number of homeowners assisted was adequately supported by DHCD records.

Based on the work performed, we determined that DHCD did not meet its targets in 2016 and 2015 for the number of homeowners assisted. In addition, DHCD's reported number of homeowners assisted was not adequately supported by its records. We noted several discrepancies in the reported number of homeowners assisted. Our recommendations to ensure accurate performance statistics are included in the Findings Section of this report.

We appreciate the cooperation and assistance provided by the staff members of DHCD's Promote Homeownership Program while conducting this audit. Their knowledge and assistance were instrumental to the completion of this audit.

Audrey Askew, CPA  
Deputy City Auditor

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**Department of Housing and Community Development**  
**Background Information**  
**Fiscal Years Ended June 30, 2016 and 2015**

The Baltimore City Department of Housing and Community Development (DHCD) was established in 1968 to consolidate local community development efforts with housing and building code enforcement. The mission of the DHCD is to ensure that all citizens of Baltimore City have access to adequate and affordable housing opportunities in safe, livable and decent neighborhoods. DHCD is committed to expanding housing choices and promoting healthy neighborhoods for all the citizens of Baltimore.

The DHCD carries out its mission through various Service Centers. One of those service centers is Service 742 - Promote Homeownership. Promote Homeownership is administered by the DHCD Office of Homeownership. The Office of Homeownership promotes home ownership and neighborhood stability through grants used for down payments, home inspections and settlement expenses to low and moderate income homebuyers. The Office of Homeownership also provides classes, seminars, counseling and referrals to prevent foreclosures.

The Office of Homeownership administers several homeownership incentive programs that encourage homebuyers to purchase homes in Baltimore City. The following programs were administered during fiscal years 2015 and 2016:

- **Baltimore City Employee Homeownership Program**  
Employees of City agencies and quasi-City agencies with six months of experience are eligible for \$5,000 when purchasing their first home in Baltimore City.
- **Buying into Baltimore and City Living Starts Here Program**  
Buyers attending the Trolley Tours or City Living Starts Here event are eligible to be a recipient of the \$5,000 incentive.
- **Community Development Block Grant (CDBG) Homeownership Assistance Program**  
For first-time home buyers with total family income at or below 80% of area median income, \$5,000 in down payment and closing cost assistance is available.
- **Live Near Your Work Program**  
This is a partnership between participating employers and the City of Baltimore designed to encourage homeownership near place of employment. The City of Baltimore matches participating employers' contributions between \$1,000 and \$2,500.
- **Vacants to Value Program**  
Buyers purchasing an eligible Vacants to Value property are eligible to receive \$10,000 in down payment and closing cost assistance.

**Department of Housing and Community Development**  
**Background Information (continued)**  
**Fiscal Years Ended June 30, 2016 and 2015**

In order to receive assistance from the homeownership assistance programs, prospective homebuyers must complete certain requirements. The homebuyer must submit a program application, homeownership counseling certificate from a City approved Homeownership Counseling Agency, contract of sale, loan commitment from a lending institution and a Home Quality Survey inspection report. Once all requirements have been met, the Office of Homeownership initiates the process for obtaining the appropriate incentive check for settlement.

According to DHCD's Office of Homeownership management, the primary documents that indicate a homeowner has met the criteria for receiving assistance are the program application, the homebuyer counseling certificate and the HUD-1 Settlement sheet. The HUD-1 Settlement sheet is the document used to record the settlement process and the actual settlement date. The Office of Homeownership uses the date of settlement recorded on the HUD-1 as the date a new homebuyer is considered to have been assisted. The HUD-1, program application, homeownership counseling certificate and other documents relevant to the purchase of the home are maintained in a file by homeowner name at the Office of Homeownership. The Office of Homeownership also maintains a database of the relevant information from the homeowner file (homeowner name, property address, settlement date, etc.) for reporting its performance measure of the actual number of homeowners assisted.

The DHCD, in coordination with the Bureau of Budget and Management Research (BBMR), established a target number of new homeowners to assist in Fiscal Years 2015 and 2016 of 600 and 850 respectively. A new homeowner is considered to have been assisted on the date recorded on the HUD-1 Settlement Sheet as the settlement date.

**Department of Housing and Community Development**  
**Audit Scope, Objectives and Methodology**  
**Fiscal Years Ended June 30, 2016 and 2015**

We have conducted a performance audit, for the periods ending June 30, 2016 and 2015, to determine whether the Department of Housing and Community Development's Promote Homeownership program met the target of certain performance measures as set forth by the City's Bureau of Budget and Management Research (BBMR).

Our audit was conducted in accordance with generally accepted *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

To accomplish our objectives, we interviewed personnel in DHCD's Office of Homeownership, to obtain an understanding of the procedures used to accomplish its performance measure target of "number of new homeowners assisted". We reviewed the policies and procedures of the Program and tested the database and homeowner files provided by the program that support the actual reported performance measure for fiscal years 2016 and 2015.

Our audit findings and recommendations, as well as DHCD's responses, are detailed in the Findings and Recommendations section of this report, which follows.

**Department of Housing and Community Development  
Findings and Recommendations  
Fiscal Years Ended June 30, 2016 and 2015**

**Finding #1**

**The Department of Housing and Community Development's Promote Homeownership Program's 2015 performance measure target changed in the fiscal year 2017 budget book.**

**Analysis**

The DHCD, in coordination with the Bureau of Budget and Management Research (BBMR) established a target number of 600 new homeowners to assist in Fiscal Year 2015. Both the 2016 and 2015 budget books reported a 2015 fiscal year target of 600 new homeowners. However, the 2017 budget book showed a 2015 performance measure target of 824. DHCD was unable to provide an explanation for the revision or that the revision was coordinated along with BBMR.

**Audit Recommendation**

**We recommend that performance measure targets that are revised include justification for such revisions as well as disclosures that such revisions were coordinated along with the BBMR.**

*DHCD Response*

Division Leadership changed in May of 2016 and it is unclear why the target was changed. Based on analysis, it could have been changed due to an influx of funding that would allow for more incentives to have been provided. The number of incentives provided is driven directly by the amount of funding available for those incentives. We don't know why, or who would have changed the target number.

**Finding #2**

**DHCD's reported actual number of new Homeowners assisted in fiscal years 2016 and 2015 was not supported by the records maintained by the DHCD and did not agree to the audited number of new homeowners assisted.**

**Analysis**

To determine the population of homeowners assisted in fiscal years 2016 and 2015, we requested the Homeowners Assistance Program provide the database that supported the reported number of homeowners assisted in the Budget Books. The database for both fiscal years consisted of homeowners assisted through the Baltimore City Employee Homeownership Program, Buying into Baltimore/City Living Starts Here Program, Community Development Block Grant (CDBG), Live Near Your Work (LNYW), and Vacants to Value (V2V) Program. The reported actual number of homeowners assisted in fiscal years 2016 and 2015 were 774 and 724, respectively. The databases provided by DHCD to support the reported amounts for fiscal years 2016 and 2015 were 759 and 652; a difference of 15 less than reported for fiscal year 2016 and 72 less than reported in fiscal year 2015. Additionally, the audited number of homeowners assisted in the DHCD databases for fiscal years 2016 and 2015 were 648 and 496; a difference of 126 and 228 less than reported for fiscal years 2016 and 2015, respectively.

**Department of Housing and Community Development  
Findings and Recommendations  
Fiscal Years Ended June 30, 2016 and 2015**

**Audit Recommendation**

**We recommend DHCD maintain a database which supports the reported number of homeowners assisted performance measure. We also recommend procedures be implemented to monitor the database to ensure that it is accurate and consistent with the reported performance measures.**

*DHCD Response*

At the beginning of the audit process Staff informed the auditors that there had been confusion and misdirection from previous Division leadership about the Performance Measure. Staff had been counting and reporting “Number of Incentives Provided” not “Number of Homeowners Assisted”. Buyers are able to receive multiple incentives, but due to the nature of the existing Excel databases, staff capabilities, and unclear direction from management, calculating the number of homeowners was not possible – so staff and management reported on number of total incentives provided. In the Scorecard, it says that the source for this metric and data is both staff database and financial accounts. When reviewing financial records, which are recorded once the two party checks clears the bank and is recorded as an expense in the general ledger, it shows that in FY15 724 incentives were provided, FY16 872 incentives were provided, and in FY17 974 incentives were provided. These numbers show that we far exceeded performance benchmarks, and did exceptional work reviewing and processing an extremely large volume of cases.

*Audits response to DHCD’s Response*

As stated in the Audit Scope, Objectives and Methodology section of this report, our audit was performed based on the performance measure target as set forth by the City’s Bureau of Budget and Management Research in the Budget Book, which is stated as “number of new homeowners assisted”. This performance measure is not the same as “number of incentives provided” that DHCD staff counted and reported.

**Finding #3**

**The fiscal year 2016 and 2015 databases of actual Homeowners assisted included 45 Homeowners that were not actually assisted in the fiscal years in which they were reported.**

**Analysis**

DHCD uses the date of settlement as the date a new homebuyer is considered to have been assisted. To determine the accuracy of the number of homeowners assisted in the 2016 and 2015 databases, we examined the settlement dates recorded in the database to determine whether the settlement dates were within the applicable fiscal year. We noted five (5) with settlement dates in fiscal year 2017 that were incorrectly included in the number of homeowners assisted in fiscal year 2016 and 40 (19 with settlement dates in 2014 and 21 with settlement dates in 2016) incorrectly included in fiscal year 2015.



**Department of Housing and Community Development  
Findings and Recommendations  
Fiscal Years Ended June 30, 2016 and 2015**

**Audit Recommendation**

**We recommend DHCD review and monitor the databases of homeowners assisted to ensure that the number of homeowners assisted is accurately recorded in the proper fiscal year.**

*DHCD Response*

This is due to files that were opened or closed within several weeks of the beginning or end of the fiscal year and not having clarity around what year to count them in as well as Excel databases that were different and not organized in a streamlined manner across all incentive programs. As of July 2017, this has changed and a new database was developed that streamlines data across all incentive programs.

**Finding #4**

**The fiscal year 2015 database of actual homeowners assisted included 10 homeowners without settlement dates.**

**Analysis**

DHCD uses the date of settlement to determine the fiscal year in which a homeowner is reported as having been assisted. The database for fiscal year 2015 included ten (10) homeowners for which no settlement date had been recorded. We notified DHCD of missing settlement dates, but we were not provided additional information as to whether those were fiscal year 2015 settlements. As a result, we were unable to identify the settlement date and conclude that those ten (10) homeowners should not have been included in the number of homeowners assisted for fiscal year 2015.

**Audit Recommendation**

**We recommend DHCD review and monitor its database of homeowners assisted to ensure that all information to be included is complete and consistent with the actual reported number of homeowners assisted.**

*DHCD Response*

Due to the reorganization of the incentive programs, revitalized marketing, and influx of funds available for settlements, and the Office being short staffed, file maintenance may have some errors. We welcome the opportunity to better monitor and review the database, and are in process of creating a stronger database on a platform not in Excel.

**Finding #5**

**Fiscal years 2016 and 2015 databases used to support the reported actual number of homeowners assisted included homeowners counted multiple times. This resulted in the reported actual number of homeowners assisted being overstated in 2016 and 2015 in the amounts of 106 and 105, respectively.**

**Department of Housing and Community Development**  
**Findings and Recommendations**  
**Fiscal Years Ended June 30, 2016 and 2015**

**Analysis**

We requested and received from DHCD the database of new homeowners assisted that would support its reported number of new homeowners assisted for fiscal years 2016 and 2015. Our review of the database revealed that some homebuyers' names appeared more than once. The explanation from DHCD was that some homebuyers received multiple incentives and therefore the names would appear and be counted under each incentive received.

We have determined that this method of recording the homebuyer for each incentive received overstates the performance measure as it is worded which is "number of homeowners assisted". The number of incentives received is not relevant to the performance measure, as stated.

**Audit Recommendation**

**We recommend that DHCD record each homebuyer only once in its performance measure of number of homeowners assisted without regard for the number of incentives the homeowner has received.**

*DHCD Response*

At the beginning of the audit process Staff informed the auditors that there had been confusion and misdirection from previous leadership about the Performance Measure. Staff had been counting and reporting "Number of Incentives Provided" not "Number of Homeowners Assisted". Buyers are able to receive multiple incentives, but due to the nature of the existing databases and staff capabilities, and unclear direction from management, calculating the number of homeowners was not possible – so staff and management reported on number of total incentives provided. In the Scorecard, it says that the source for this metric and data is both staff databases and financial accounts. When reviewing financial records, which are recorded once the two party checks clears the bank and is recorded as an expense in the general ledger, it shows that in FY15 724 incentives were provided, FY16 872 incentives were provided, and in FY17 974 incentives were provided. These numbers show that we far exceeded performance benchmarks, and did exceptional work reviewing and processing an extremely large volume of cases.

*Audits Response to DHCD's Response*

As stated in the Audit Scope, Objectives and Methodology section of this report, our audit was performed based on the performance measure target as set forth by the City's Bureau of Budget and Management Research in the Budget Book, which is stated as "number of new homeowners assisted". This performance measure is not the same as "number of incentives provided" that DHCD staff counted and reported and resulted in the number of homeowners assisted being overstated in 2016 and 2015 in the amounts of 106 and 105, respectively.

**Department of Housing and Community Development  
Findings and Recommendations  
Fiscal Years Ended June 30, 2016 and 2015**

**Finding #6**

The original fiscal year 2016 and 2015 databases to support the reported actual number of homeowners assisted for the Baltimore City Employees Program (BCEP) was not consistent with the homeowner files examined. The corrected database and testing resulted in determining that one (1) homeowner reported as assisted in fiscal year 2016 was actually assisted in fiscal year 2015 and two (2) homeowners reported as assisted in fiscal year 2015 were actually assisted in fiscal year 2014.

**Analysis**

We obtained the database of the population of new homeowners assisted and the homeowner files that support the data recorded in the database. Upon examination of the selected homeowner files, we found that the addresses of the homes purchased, did not match the addresses recorded in the databases for the BCEP incentive program for fiscal years 2016 and 2015. DHCD reviewed the database provided and determined that the information provided had shifted so that correct addresses did not match the right homeowner names. The corrected database included one (1) homeowner reported as assisted in fiscal year 2016, but was actually assisted in fiscal year 2015 and two (2) homeowners reported as assisted in fiscal year 2015, but were actually assisted in fiscal year 2014.

**Audit Recommendation**

We recommend DHCD develop procedures to ensure the databases that support performance measures are accurate and remain consistent with its reported performance measures.

*DHCD Response*

This is due to a total of three files that were opened or closed within several weeks of the beginning or end of the fiscal year and not having clarity around what fiscal year to include them in for reporting purposes.

**Finding #7**

Sixteen of the twenty-five files tested (64%) for homeowners assisted in fiscal year 2016, did not include HUD-1 settlement sheets.

**Analysis**

The HUD-1 Settlement sheet is used to record the settlement process and the actual settlement date. The Homeownership Assistance program uses the date of settlement recorded on the HUD-1 as the date a new homebuyer is considered to have been assisted. Of the 25 files examined, sixteen did not include HUD-1 settlement sheets.

**Department of Housing and Community Development**  
**Findings and Recommendations**  
**Fiscal Years Ended June 30, 2016 and 2015**

**Audit Recommendation**

**We recommend DHCD develop procedures to ensure all documents required to support the number of homeowners assisted are properly maintained in its files and that a periodic review of the files be performed to ensure completeness and accuracy.**

*DHCD Response*

If a buyer applied for a mortgage on or before October 3, 2015, they would have received a HUD-1 statement. Since October 2015, buyers began receiving a form called the Closing Disclosure instead of a HUD-1. We would ask if the files were reviewed for the Closing Disclosure form, and not the HUD-1 form. In addition, the Office of Homeownership requires that the Title Company return the Closing Disclosure to the Office after a settlement has occurred. In some instances, we do not get this back from the Title Company in a timely manner and due to the reorganization of the incentive programs, revitalized marketing, and influx of funds available for settlements, and the Office being short staffed, file maintenance after settlement did not occur and the Closing Disclosures are in the Office, but not filed. The Office of Homeownership is evaluating policies and procedures and working with Division leadership to create streamlined electronic processes that make it easier for title companies, lenders and buyers to submit necessary paperwork, and to ensure that paperwork is properly filed and stored.

**Finding #8**

**DHCD did not provide a homeowner file to support its fiscal year 2015 database of homeowners assisted.**

**Analysis**

The homeowner file provided by DHCD did not have the same address that was included in the database of homeowners assisted. According to the homeowner file, the property address in the file did not proceed to settlement. However, DHCD did not provide a homeowner file for the address recorded in the database.

**Audit Recommendation**

**We recommend DHCD implement procedures to ensure the database of homeowners assisted are supported by homeowner files. We also recommend DHCD perform periodic reviews of the database and homeowner files for uniformity.**

*DHCD Response*

Due to the extremely high volume of cases in 2015 and 2016 due to the reorganization of the incentive programs, revitalized marketing, and influx of funds available for settlements, staff was overworked and overall the program was short staffed. It is possible that this file was mistakenly placed in an archive box, and we are examining our procedures for file maintenance. The Office of Homeownership welcomes the opportunity to strengthen procedures with the understanding that sometimes mistakes are made.

**Department of Housing and Community Development  
Findings and Recommendations  
Fiscal Years Ended June 30, 2016 and 2015**

**Finding #9**

**DHCD did not consistently maintain homeowner counseling certificates in the fiscal year 2016 homeowner files.**

**Analysis**

We examined 25 homeowner files for fiscal year 2016 to determine that homeowners assisted met the requirement of obtaining a homeowner counseling certificate. Two of the twenty-five files did not include the homeowner counseling certificates.

**Audit Recommendation**

**We recommend DHCD develop procedures to ensure that all documents required to support the number of homeowners assisted be properly maintained in its files and that a periodic review of the files be performed to ensure completeness and accuracy.**

*DHCD Response*

Two of the 25 homeowner files reviewed for fiscal year 2016 were missing the homeowner counseling certificate. The Office of Homeownership started in July of 2017 to restructure its Excel database, and to include additional check points for document collection. In December 2017, The Office of Homeownership has started process to develop an online application system where buyers, agents and lenders would electronically upload documents as part of the application process and then would be automatically populated into a central database and electronic file system.

Before the audit report was issued, we have taken steps to address some of these audit results. The Office of Homeownership now has a central database that is used by all of the incentive programs, and we are working toward an online application and document file management system. We are also collaborating with BBMR to change the name of the performance measure so that it accurately reflects what we are able to count and track, ensuring that calculations are performed in a consistent manner from year to year.

The Office of Homeownership continues to be short staffed, and with that some errors will occur. Staff has been instructed to maintain adequate documentation and will do their best to maintain file documents while simultaneously providing services in a timely manner to meet strict deadlines set by private real estate contracts.