



**Department of Housing and
Community Development**

**Biennial Performance Audit for Fiscal
Years Ended June 30, 2022 and 2021**

**City Auditor, Josh Pasch
December 29, 2023**



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Office of the Comptroller
Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

Honorable Bill Henry, Comptroller
and Other Members
of the Board of Estimates
City of Baltimore

EXECUTIVE SUMMARY

The Department of Audits (Audits) conducted a *Biennial Performance Audit of the Department of Housing and Community Development for the Fiscal Years Ended June 30, 2022 and June 30, 2021*. The objective of our performance audit was to assess controls and procedures of Homebuyer Incentive programs (incentive programs), including: (1) tracking what was awarded and payout; (2) when is it forgiven; (3) recovery when the homebuyer did not meet the criteria.

The Department of Audits did not find any exceptions when evaluating the effectiveness of the internal controls over the incentive programs with the exception of the following. A security-related issue was identified and was communicated to the appropriate personnel in the *Confidential Management Comment Limited Use Letter: Housing and Community Development Biennial Audit for Fiscal Years 2022 and 2021*. The security related issue was omitted from this public report. The decision to exclude this information was based on *Government Auditing Standards, 2018 Revision Technical Update April 2021*, Sections 9.64 - 9.66, Reporting Confidential or Sensitive Information.

There were no prior findings that required follow-up.

We wish to acknowledge Department of Housing and Community Development's (DHCD) cooperation extended to us during our audit.

Respectfully,

Josh Pasch, CPA
City Auditor, City of Baltimore
December 29, 2023

BACKGROUND INFORMATION

The DHCD work to improve the quality of life for City of Baltimore (City) residents by revitalizing and redeveloping communities and promoting access to quality affordable housing opportunities in safe and livable neighborhoods. The DHCD was created in 1968 to consolidate local community development efforts with housing and building code enforcement.

Among DHCD's multiple divisions and offices, the DCHD Office of Homeownership is the scope of our audit. The Office of Homeownership offers a variety of incentive programs to homebuyers purchasing in City. These incentives can make buying a home more affordable by lowering closing cost and boosting downpayments. All incentives are provided as five-year forgivable loans except for Live Near Your Work, which is offered as a grant.

There are five incentive programs offer by the Office of Homeownership that fall under the Home Purchase Assistance Program:

- Baltimore City Employee Homeownership Program - \$5,000 for employees of City and quasi-City agencies that have been employed at least six months.
- Buy Into Baltimore - \$5,000 awarded by lottery to people who attend a Live Baltimore Trolley Tour and meet other conditions.
- First-Time Homebuyers Incentive Program - Base incentive amount is \$10,000 for first-time homebuyers with a household income at or below 80 percent of the area median income. An additional \$5,000 bonus is available to homebuyers who: (i) purchase the house they have rented and occupied for six months; or (ii) have a disability or have a household member with a disability. Also, an additional \$10,000 bonus is available to homebuyers purchasing properties within one of Baltimore City's Impact Investment Areas.
- Live Near Your Work - This partnership with participating employers encourages homeownership near places of employment. The City matches 100% of employers' contributions between \$1,000 and \$2,500 for total incentives of \$2,000 or greater, depending on the employer.
- Vacants to Value Booster - \$10,000 incentive for properties that were subject to a City-issued Vacant Building Notice for at least one year prior to (a) rehabilitation of the property by a developer, or (b) sale of the property to a homebuyer who intends to renovate the property using an acquisition / rehabilitation loan. A Certificate of Occupancy for the property must be submitted at the time of application.

OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted our performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusion based on our audit objective. The objective of our performance audit was to assess controls and procedures of home buyer incentive programs (incentive programs), including: (1) tracking what was awarded and payout; (2) when is it forgiven; (3) recovery when the homebuyer did not meet the criteria.

The scope of our audit is for the periods of FY 2022 and FY 2021. However, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

To accomplish our objective, we:

- Interviewed key individuals from DHCD and conducted walkthroughs to obtain an understanding of: (i) the system¹ used; (ii) loan application review and approval process; (iii) loan forgiveness process; and (iii) loan recovery processes;
- Identified the related risks and evaluated the design of certain internal controls, processes and procedures;
- Judgmentally selected samples to test the effectiveness of loan application review and approval process, loan forgiveness process, and loan recovery processes;
- Confirmed that duties are segregated; and
- Validated that: (i) only current and authorized personnel have access to the system; and (ii) those personnel have appropriate access to the system.

¹ Neighborly software is utilized to process applications and records payment information.

CURRENT FINDINGS AND RECOMMENDATIONS

None.