



STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

July 31, 1998

Mr. Stephen J. Hunt
Executive Director
New York State Affordable Housing Corporation
641 Lexington Avenue
New York, New York 10022

Re: Report 98-F-19

Dear Mr. Hunt:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 2, Section 8 of the State Finance Law, we have reviewed the actions taken by the State Affordable Housing Corporation, as of May 5, 1998, to implement the recommendations included in our audit "Affordable Home Ownership Development Program" (Report 95-S-9, issued May 23, 1996). That audit addressed the following questions concerning the Affordable Home Ownership Development Program for the period from January 1, 1992 through December 31, 1994:

- Are grants being given to eligible home buyers?
- Are homeowners meeting Program residency requirements?
- Is AHC monitoring grantee activities adequately?

Background

The New York State Affordable Housing Corporation (AHC), a subsidiary public benefit corporation of the New York State Housing Finance Agency (HFA), was created in April 1985 by Chapter 67 of the New York State Laws of 1985. AHC was established to administer the Affordable Home Ownership Development Program (Program). The overall purpose of the Program is to promote home ownership by persons of low- and moderate-income with the expectation that such ownership will bolster the development, stabilization, and preservation of neighborhoods. The financial assistance provided under the Program is expected to make home ownership and improvement affordable to persons who would be unable to purchase or improve a home by relying on private sources for financing.

The Program provides grants, which are used in conjunction with other private and public investment, for the acquisition, construction, rehabilitation, and improvement of projects such as owner-occupied, one- to four-family dwellings, including cooperatives and condominiums. AHC awards grants to municipalities, housing development fund companies, not-for-profit corporations, and charitable organizations.

Summary Conclusion

Our prior audit found that most of the homeowners in a judgmental sample of ten grant recipients from two large AHC projects could have afforded larger mortgages from either the participating bank or from the State of New York Mortgage Agency (SONYMA), and did not need an AHC grant to finance the purchase of their homes. We also found that the size of the grants awarded was not always based on the needs of the home buyer; some grantees awarded the same amount of money to each eligible buyer, regardless of the buyer's income.

Furthermore, we found that grantees did not use a uniform methodology for determining income eligibility. The New York City Housing Partnership (Partnership), which is both the single largest grantee under the Program and the administrator of New York City's portion of the Program, did not use the home buyer's gross income to determine eligibility. Instead, it deducted an applicant's annual debt payments from his or her income and used the difference for the income-eligibility test. Also, some grantees considered an applicant's assets in determining eligibility, while others did not.

Our prior audit also found that some recipients may not have been complying with AHC's requirement that they occupy their homes for at least ten years. In our sample of 61 homeowners, we were unable to confirm residency for seven homeowners who had received a total of \$97,500 in AHC grants. Furthermore, previous independent audits of grantees did not always assess the grantee's system for monitoring homeowner occupancy and we found limited evidence that AHC had followed up on deficiencies reported in this area.

In addition, we found that AHC needed to enforce its requirement that grantees establish criteria to ensure that their rental units are affordable to persons who otherwise would have been unable to rent such accommodations.

Our follow-up review found that AHC has made significant progress towards implementing the recommendations contained in our prior report. Specifically, both the 1997/98 and 1998/99 Requests for Proposals (RFP), which AHC uses to solicit grantees to participate in their Program, addressed several of the report's recommendations. In addition, AHC officials provided records to support their implementation of other recommendations.

Summary of Status of Implementation

Of the 11 prior report recommendations, 8 have been implemented, and 2 were partially implemented. AHC officials assert that the remaining recommendation was implemented, but documentation to support the reported action taken could not be located. Therefore, we cannot conclude that this recommendation has been implemented.

Follow-up Observations

Recommendation 1

Maximize available grant monies by having grantees give eligible home buyers the minimum amount of subsidy they need to purchase the AHC-assisted home.

Status - Partially Implemented

Agency Action - AHC officials advised us that they give preference to grantees that use a variable formula which provides higher-income applicants with less grant assistance. However, AHC officials acknowledged that grantees rarely submit proposals that vary the amount of subsidy according to the home buyer's income, and that the single largest grantee of the Program, the Partnership, does not use such a variable approach.

AHC officials also stated that they now conduct an Underwriting Analysis to determine whether the subsidy requested by the grantee is too high. This analysis involves calculating the affordability of the home based on the maximum income to be targeted. For areas outside of New York City, AHC officials explained that they target the maximum income for eligibility based on 80 percent of the area median income.

Within New York City, however, the Partnership targets the maximum income for eligibility based on 142 percent of the area median income. We reviewed a recent Underwriting Analysis for a New York City project. Based on industry-wide affordability criteria, it appears that applicants with incomes at the upper limits of the Partnership's eligibility criteria, should be able to afford the carrying costs of the home without receiving an AHC subsidy. When we discussed this with AHC officials, they explained that the majority of home buyers earn substantially less than the maximum income level; but that allowing the higher maximum income is preferred by mortgage lenders, and is needed to provide greater flexibility in marketing the homes.

Auditors' Comments - While AHC has made progress in this area, based on the results of our review, it is not, in all cases, ensuring that home buyers are given the minimum amount of subsidy needed to purchase an AHC-assisted home.

Recommendation 2

Establish a uniform methodology for determining income eligibility of grant applicants.

Status - Implemented

Agency Action - AHC's RFP requires grantees to document the process they use for applicant income qualifications screening and selection, and establishes certain minimum criteria in this area. In addition, AHC officials stated that the Partnership no longer deducts the applicant's annual debt payments from his or her annual income when applying the income-eligibility test.

Recommendation 3

Establish appropriate asset limits to be considered when determining home buyer eligibility.

Status - Implemented

Agency Action - AHC's RFP for fiscal year 1998-99 requires grantees to establish an asset limit of no more than 25 percent of the unsubsidized sales price when determining Program eligibility.

Recommendation 4

Require grantees to verify home buyer claims of declines in income.

Status - Implemented

Agency Action - AHC's RFP for fiscal year 1998-99 requires grantees to obtain employer verification when applicants report that their income has declined from prior years.

Recommendation 5

Ensure that grantees maintain adequate record-keeping and oversight for Program activities.

Status - Partially Implemented

Agency Action - AHC officials explained that while they do not have sufficient staffing to ensure the adequacy of grantee records and oversight, some oversight is achieved through independent CPA audits, as well as occasional site visits by AHC staff.

Auditors' Comments - The CPA audits are conducted too late in the process to provide the nature of the oversight called for in our recommendation, and the CPA audits are not required to specifically address these oversight issues. Therefore, we believe that AHC should take

additional steps to ensure that grantees maintain adequate record-keeping and oversight for Program activities.

Recommendation 6

Ensure that the grantee's system for monitoring residency requirements is reported to AHC and found to be satisfactory.

Status - Implemented

Agency Action - The grantee's system for monitoring residency requirements is contained in the grant agreement and approved by AHC. Moreover, the sufficiency of the grantee's system for monitoring the occupancy of new homes is addressed in an independent CPA audit performed after a project is completed.

Recommendation 7

Require grantees to report on the results of their residency-monitoring efforts.

Status - Implemented

Agency Action - AHC's RFP for the 1998-99 fiscal year requires grantees to report annually on the results of their home owner occupancy monitoring and enforcement.

Recommendation 8

Ensure that the independent audits of grantees include a review of residency monitoring.

Status - Implemented

Agency Action - AHC's engagement letter requires the independent auditor to determine whether the grantee is monitoring the occupancy of the new homes. Our review of 11 such audit reports found that all addressed the adequacy of residency monitoring.

Recommendation 9

Follow up on independent audit report findings and document corrective actions taken.

Status - Implemented

Agency Action - AHC officials state that they routinely follow-up on audit exceptions. Exceptions were noted in three of the 11 audit reports we reviewed. For two of the three instances in which exceptions were noted, AHC officials provided us with documentation that indicates

AHC does follow-up on exceptions noted in the CPA reports. They were unable to locate the file related to the third report with exceptions.

Recommendation 10

Investigate the seven home owners for whom we were unable to establish residency.

Status - Not implemented

Agency Action - In AHC's response to Report 95-S-9, they asserted that follow-up was done on the seven households noted. However, the employee who performed this investigation is no longer employed by AHC, and documentation of this follow up could not be located.

Auditors' Comment - We provided AHC officials with a list of the seven home owners for whom we were unable to establish residency. AHC should ensure that appropriate follow-up action was taken.

Recommendation 11

Enforce the requirement that grantees establish criteria to ensure that rental units are affordable to persons who otherwise would have been unable to rent such accommodations.

Status - Implemented

Agency Action - AHC officials indicated a desire to implement this recommendation in a way that would not negatively impact the Program. The 1997-98 RFP required grantees to establish a maximum rental charge based on the area median income. The 1998-99 RFP expands this requirement by establishing the maximum monthly rent (limited to a 2 percent annual increase) that can be charged during the first ten years of ownership, and by requiring the homeowner to provide the tenant with a rent schedule statement disclosing this information.

Major contributors to this report were Cindi Frieder and Harold Maher.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report.

We also wish to thank officials at the New York State Affordable Housing Corporation for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

William P. Challice
Audit Director

cc: Stephen Choppey, AHC
Hector Del Toro, AHC
Robert L. King, DOB