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STATE COMPTROLLER



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February 3, 1999

Mr. Joseph Lynch  
Acting Commissioner  
Division of Housing and Community Renewal  
Hampton Plaza  
38-40 State Street  
Albany, NY 12207

Re: Report 98-F-20

Dear Mr. Lynch:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the New York State Division of Housing and Community Renewal as of September 3, 1998 to implement the recommendations included in our prior audit *Selecting Housing Projects For Funding* (Report 95-S-119, issued March 28, 1997).

**Background**

The Division of Housing and Community Renewal (Division) is charged with supervising, maintaining and developing decent, affordable housing for low- and moderate-income individuals and families in New York State. To this end, the Division and the Housing Trust Fund Corporation (Corporation) approve and administer various loan and grant funds for the development of housing. Among the housing programs administered by the Division are the Low Income Housing Trust Fund, Low Income Housing Tax Credit, and Federal HOME Investment Partnership programs.

The Division and Corporation approve and administer funding through the Unified Funding Process, which is the method that organizations, municipalities, and individuals use when applying for capital project funding, technical assistance, seed money and tax credits. Applications undergo a series of reviews by Division staff, the extent of which depends upon the specific program and the type of assistance requested. Although they accept applications continuously, the Division divides its funding cycles into a series of "rounds" organized around specific dates when applications are due. During funding round eight of the Unified Funding Process, which had application due dates between January and April 1998, the Division recommended for award more

than \$117 million for the following programs.

<b>Program</b>	<b>Number of Projects</b>	<b>Award Recommendation</b>
Housing Trust Fund (HTF) Project Awards	22	\$ 22,252,985
HTF-Tax Exempt Bond Financing Initiatives	5	9,030,000
HTF-Tax Exempt Bond Credit Initiatives	11	30,213,400
HTF-Program Awards	1	1,800,000
HOME- Project Awards	22	14,202,120
HOME-Awards To Local Program Administrators	78	23,278,590 (a)
Low-Income Housing Credit (LIHC)	55	16,623,617
Restore Awards	16	400,000
Totals	210	\$117,800,712

(a) This includes 18 projects totaling \$7,595,717 for disaster relief.

### **Summary Conclusions**

In our prior audit, we determined that the Division's Unified Funding Process did not necessarily ensure that projects selected for funding best met the housing needs of New York State. The Division did not have a process to identify the specific housing priorities of individual communities. As a result, the Division was unable to determine whether funding applications addressed a community's greatest housing needs. In addition, the Division did not always follow its established criteria for selecting projects and, in some cases, awarded projects funding despite recommendations from its technical staff that they not be funded. We had found no justification as to why these projects were selected over others that had been recommended by the technical unit.

In our follow-up review, we found that Division officials have implemented our recommendations for improvement. Division officials have improved the Unified Funding Process and are now better able to identify and fund those projects that best address the housing needs of individual communities. In addition, the Division has published and provided to all applicants the criteria used to guide their funding decisions. Division officials noted that, besides these criteria, they also have the flexibility to award funds for projects that address unanticipated needs.

### **Summary of Status of Prior Audit Recommendations**

All four of the prior audit recommendations have been implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Utilize data which identifies and prioritizes the housing needs of the localities throughout the State.*

Status - Implemented

Agency Action - Division officials have changed the application process and how they score applications for funding. The criterion for scoring applications now addresses the extent that proposed projects will address localities' identified housing needs. When scoring applications, the Division considers the community's housing needs, their strategies for addressing that need and the measures taken to carry out their strategy. Applicants for funding must also submit evidence from local government leaders verifying that the proposed project will address the community's housing needs.

#### **Recommendation 2**

*Evaluate applications for funding based on their ability to address the greatest housing priorities for the locality proposed.*

Status - Implemented

Agency Action - Division staff do an initial completeness and eligibility review of each project application. They score and rank projects determined to be eligible using criteria included in the Request for Proposal derived from the statutory, regulatory and policy considerations of the applicable program(s). The criteria used to rank projects consider several factors. For HTF and HOME projects, the Division's criterion considers the extent that proposed projects target households with incomes below the statutory maximum for the program and measures the need for the proposed project within the community.

According to Division records, it received 96 applications requesting about \$99.7 million of HTF funds in January 1998. The Division recommended 22 applications for awards totaling more than \$22 million. We reviewed Division records to determine if these 22 applications had the highest ranking of all the applications received from their respective counties. We found that the Division awarded funds appropriately.

### **Recommendation 3**

*Adhere to the criteria designed to guide funding decisions so that projects selected for funding will most efficiently provide low-income New Yorkers with quality affordable housing opportunities in a timely and cost-effective manner.*

Status - Implemented

Agency Action - The Division has implemented several procedures to address this recommendation.

Division managers follow criteria published in the Request for Proposal when selecting projects for funding. Unlike in the past, the Division now publicizes the criteria and process for selecting projects for funding in the Request for Proposal and on the Internet. In addition, the Division's documentation for the scoring and ranking of each project is also available for review by all applicants. We reviewed Division records to determine if they scored and ranked applications according to published criteria and gave awards to those projects that scored the highest. Our review showed that the Division followed their established criteria.

Division officials also stated that they retain the right to award funds for projects that do not meet the published criteria. For example, the Division awarded about \$7.6 million to fund repairs of existing projects damaged by the natural disasters that occurred in 1998. These disasters included the northern New York ice storm in January 1998 and tornadoes that caused significant damage during May and June 1998.

### **Recommendation 4**

*Document the reasons for any executive staff decisions to fund projects which do not adhere to established criteria at the time of funding award.*

Status - Implemented

Agency Action - As stated above, the Division awarded about \$7.6 million to fund repairs of existing projects damaged by natural disasters that occurred in 1998. Summary sheets for these projects clearly documented that the Division used these funds for disaster relief.

Major contributors to this report were Howard Feigenbaum, Jack Dougherty, Wayne Bolton and Kevin Connolly.

We thank Division management and staff for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,



William P. Challice  
Audit Director

cc: Robert L. King, DOB  
Judith Calogero, DHCR

Jack Solodow, DHCR