



Issue Date March 17, 2003

Audit Case Number 2003-FW-1003

TO: Katie S. Worsham
Director
Office of Community Planning and Development, 6AD

FROM: D. Michael Beard
Regional Inspector General for Audit, 6AGA

SUBJECT: City of Dallas' Mortgage Assistance Program
HOME Investment Partnerships Program
Dallas, Texas

INTRODUCTION

We performed an audit of the City of Dallas' (the City) HOME funded Mortgage Assistance Program. The City contracted with the nonprofit Enterprise Foundation (Enterprise) to administer its Mortgage Assistance Program.

Audit Objectives and Methodology

The overall audit objective was to ensure the City used HOME funds for its Mortgage Assistance Program for only eligible homebuyers. To meet this objective, we: (1) determined whether the City and Enterprise designed and implemented adequate eligibility verification procedures; (2) determined whether the City's contractual agreement with Enterprise was sufficient to ensure eligible use of funds and if the City performed adequate oversight of Enterprise's activities; and (3) evaluated Enterprise's agreements with participating lenders and its oversight thereof.

To obtain background information, we:

- Obtained and reviewed laws, regulations, and HUD handbooks relevant to the HOME Program and the City's HOME grant agreements for our audit period.
- Interviewed HUD staff in the Fort Worth Office of Community Planning and Development (CPD) regarding the City and its CPD program funding.

To accomplish our audit objectives, we:

- Obtained an understanding of the City's Mortgage Assistance Program and the City's internal controls over the program by interviewing City Housing Department staff.
- Obtained and reviewed the Enterprise Foundation's Mortgage Assistance Program Manual for fiscal year 2000-2001.
- Obtained a universe of 278 properties assisted with Mortgage Assistance Program funds during our audit scope and identified a statistical sample of case files for review. To ensure an unbiased representative sample, we used a random statistical sample with a confidence level of 95 percent and a precision level of 10 percent. This resulted in a sample size of 31 properties, or approximately 11 percent of the population.
- Reviewed case files in the statistical sample at the City and at Enterprise for documentation of eligibility and conflict of interest waivers, if applicable.
- Interviewed employees at Enterprise to gain an understanding of the process from intake to completion of a Mortgage Assistance Program loan.
- Reviewed the City's contracts with Enterprise to determine if they met the requirements for use of HOME funds and program requirements.
- Reviewed the City Auditor's monitoring activity for Enterprise and interviewed staff regarding their monitoring.
- Obtained and reviewed agreements between Enterprise and Mortgage Assistance Program participating lenders.

Audit Scope

The initial audit scope covered the Mortgage Assistance Program portion of the City's HOME grant for fiscal year 2001. Because the City's fiscal year and HUD's fiscal year differed, we refined our scope to include Mortgage Assistance Program transactions between October 1, 2000, and September 30, 2001. This corresponds with grant funds from HUD's fiscal year 2000 and the City's program year 2000-2001. Because the City contracted the administration of the Mortgage Assistance Program to Enterprise, the audit focused on performance by both the City and Enterprise. We conducted the audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Theresa A. Carroll, Assistant Regional Inspector General for Audit, at (817) 978-9309.

SUMMARY

We audited the City of Dallas' Mortgage Assistance Program, which it operated using funds from the HOME Investment Partnerships Program (HOME). The City contracted with Enterprise, a nonprofit organization, to run the program. The purpose of our audit was to ensure the City used HOME funds for its Mortgage Assistance Program for only eligible homebuyers.

Overall, the City and Enterprise operated the Mortgage Assistance Program within HUD HOME requirements. The contract between the City and Enterprise was sufficient to ensure eligible use of funds. However, Enterprise did not properly follow the more restrictive eligibility rules the City established for program participants. This occurred because Enterprise mistakenly relied on lenders to verify participant eligibility and did not verify information lenders provided. The City's monitoring did not identify this error. As a result, a significant number of participants received benefits in excess of what the City intended. Because the City and Enterprise targeted truly low-income homebuyers for assistance, the errors Enterprise made did not affect HUD eligibility rules and the majority of participants met HOME requirements.

During the audit, Enterprise took action to address problems OIG identified. We applaud Enterprise for its diligent work to improve its operations and to ensure future performance meets HOME requirements and City guidelines.

BACKGROUND

Criteria

HUD allocates HOME funds by formula among eligible State and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income families. Homeownership affordability, which includes assistance to homebuyers, is an eligible use of HOME funds.

HOME requires income targeting for homeownership assistance. Specifically, homeownership funds must be invested in dwelling units occupied by low-income families. HOME regulations also require the City to follow specific income determination guidelines and to maintain records demonstrating each assisted family is income eligible.

The City's Fiscal Year 2000 HOME Grant

HUD awarded the City over \$6.9 million in HOME funds from its fiscal year 2000 appropriation. The City Council adopted a budget for program year 2000-2001 which allocated 41 percent of its HOME funds for the Mortgage Assistance Program, the largest single portion the City's HOME budget for that year.

The Enterprise Foundation and the Mortgage Assistance Program

The City contracted with the Enterprise Foundation, a non-profit organization, to run its Mortgage Assistance Program.¹ The City defined its program guidelines in the Enterprise Foundation's Mortgage Assistance Program manual. The program provided a forgivable loan² to assist low-income families to purchase single-family homes, condominium units, or town houses for use as their primary residence. The City's guidelines required that families be first-time homebuyers and not have more than \$3,500 plus one month's gross income after closing. The program provided tiered levels of assistance, depending on family size and income, based on HUD's HOME income limits. For program year 2000-2001, homebuyers could qualify for up to \$16,000 in assistance. The City used the following guidelines to determine income qualifications.

ANNUAL HOUSEHOLD INCOME			
INCOME RANGE*	50% or below	51% - 67%	68% - 80%
MAXIMUM SUBSIDY	up to \$16,000	up to \$12,000	up to \$8,000
FAMILY SIZE			
1	\$22,540	\$30,204	\$36,064
2	\$25,760	\$34,518	\$41,216
3	\$28,980	\$38,833	\$46,368
4	\$32,200	\$43,148	\$51,520
5	\$34,776	\$46,600	\$55,642
6	\$37,352	\$50,052	\$59,763
7	\$39,928	\$53,504	\$63,885
8	\$42,504	\$56,955	\$68,006

**Based on HOME income limits published May 2001*

Table 1

Through Enterprise, the City also operated a home repair program to help homebuyers offset some or all of the costs needed to make properties meet Housing Quality Standards. The City provided eligible homebuyers a grant of up to \$1,500 in addition to the mortgage assistance amount for this purpose.

FINDING 1

ENTERPRISE DID NOT PROPERLY DETERMINE HOMEBUYER ELIGIBILITY

Enterprise did not ensure all homebuyers met HOME requirements and City guidelines. Enterprise relied on lenders to determine eligibility and did not verify the accuracy of lenders' assertions. Enterprise was unaware the lenders did not observe HOME eligibility requirements. As a result,

¹ Before contracting with Enterprise in 1998, the City's Housing Department ran the program.

² The City forgave the loan after the expiration of the affordability period required by HOME, usually 5 or 10 years, depending on the amount of assistance.

Enterprise and the City provided assistance to homebuyers contrary to the City's guidelines and might have provided assistance to homebuyers who did not qualify based on HOME requirements.

Criteria

HOME required the City to maintain records demonstrating each family was income-eligible and determine if each family was income-eligible by:

- examining source documents evidencing annual income;
- projecting the family's income at the time it determined the family was income eligible; and
- including annual income for all family members.

HOME allowed the City to contract administration of its Mortgage Assistance Program to Enterprise. Enterprise and the City properly designed the program to ensure homebuyer eligibility. The City's guidelines, as defined in Enterprise's Mortgage Assistance Program manual, included definitions of terms essential to compliance with HOME regulations and outlined specific methods and documents required to support homebuyer eligibility. Enterprise's contract with the City required it to comply with HOME regulations and administer the program in accordance with the City's guidelines.

Enterprise Relied on Lenders to Determine Eligibility

Responsibility for determining eligibility in accordance with the Mortgage Assistance Program lay with Enterprise. Enterprise contracted with FHA-approved lenders to perform this task. Enterprise relied on lenders to determine eligibility and did not verify the accuracy of lenders' assertions. Enterprise mistakenly assumed that because lenders were approved to provide FHA-insured loans, they would provide the correct income figures for HOME-assisted activities. However, lenders computed homebuyer eligibility based on FHA or other underwriting guidelines, which are not consistent with HOME. Lenders typically analyzed historical income figures and only considered the borrowers' income. In contrast, HOME required projection of current income to an annual income figure and required disclosure of all income sources from all family members. In some cases, the differences in calculating income could affect a homebuyer's eligibility.

Enterprise relied on lenders' income verifications and used the family size contained in homebuyers' mortgage applications to qualify families for the program. Enterprise did not recalculate income figures supplied by lenders in all of the loan files we reviewed. Fourteen loan files (45 percent) contained evidence the homebuyer had additional income, such as overtime, bonuses and unexplained deposits which the lender did not include in calculating income. However, Enterprise did not question or adjust the homebuyer's income to include these amounts.

In 22 cases (71 percent), Enterprise did not verify the family size lenders reported. In fact, in ten cases (32 percent), Enterprise did not corroborate the family size claimed on mortgage applications, even when tax returns in the loan files clearly showed a different number of dependents. Enterprise used the number of dependents reported on the mortgage application to determine family size because the homebuyer certified the information was true. As demonstrated in Table 1, a change in family size could affect the amount of assistance a homebuyer received. Enterprise's Mortgage Assistance Program Manual stated supporting documentation for dependents may be required for the loan package, but it did not collect such documents to support reported family size.

Although the City and Enterprise properly designed the Mortgage Assistance Program, neither established or implemented control procedures to ensure they projected income under HOME requirements and maintained documentation supporting the calculation (see Finding 2). Enterprise's loan files contained sufficient information to disclose that it provided six homebuyers \$32,999 in assistance they were ineligible to receive according to the City's guidelines. Since the City's program was more restrictive than HOME, these six homebuyers were still eligible for HOME assistance. Had Enterprise provided the appropriate amounts of assistance to these six homebuyers, the City could have put HOME funds to better use by helping an additional two to four low-income or very low-income families achieve the American dream of homeownership.

Enterprise provided another two homebuyers a total of \$34,890 in assistance when their loan files indicated the homebuyers might have been ineligible. These homebuyers' loan files contained evidence they may have had additional income which could make them ineligible. Enterprise and the City need to provide documentation to support these homebuyers' eligibility or repay the City's HOME account \$34,890.

Corrective Action

Throughout the audit, Enterprise was receptive to suggestions for improvement and expressed a desire to become a model program for downpayment assistance. During the audit, Enterprise identified problems in its work process and took steps to correct them, including hiring a consultant who reviewed each loan file, verified eligibility in accordance with HOME regulations, and followed up on questionable items. We applaud Enterprise for its diligent work to improve its operations and to ensure future performance meets HOME requirements and City guidelines.

AUDITEE COMMENTS

The City asserts the Enterprise Foundation, not the lender, ensures that the calculations for each homeowner meet HOME and City of Dallas program eligibility requirements and all included income in determining eligibility follows the "Technical Guide for Determining Income and Allowances for the HOME Program." Before the City reimburses Enterprise Foundation, additional eligibility checks are performed through the Housing Department staff that calculate income eligibility according to HOME and City of Dallas program guidelines. Throughout the sample audit, there were no ineligible cases found. The City believes those results demonstrate the system for determining eligibility works.

The City claimed cases found by OIG to contain evidence of additional income, overtime, bonuses and unexplained deposits were determined to fall under the definition for income exclusions contained in the Technical Guide or were simply explained on an established form. The City provided explanations for why it considered two homebuyers eligible when OIG found evidence in the file showing they may have had additional unreported income. The City therefore disagrees with recommendation 1B that would call for paying back \$34,890 due to ineligibility.

The City maintains there are no formal HUD/HOME policies for documentation to verify family size and it considers the reported size on the application, the number claimed on income tax, and any formal written statement denoting the family membership as adequate.

With regard to recommendation 1A, the City stated it revised the Mortgage Assistance Program procedures to call for Enterprise Foundation to submit a more detailed income calculation sheet with each loan package sent to the City of Dallas for reimbursement and included a procedure that would require the source documents for those calculations to be included in the loan package sent to the City of Dallas for reimbursement.

OIG EVALUATION OF AUDITEE COMMENTS

Our testing clearly showed Enterprise did not ensure income calculations met HOME requirements. Enterprise's files showed lender's income figures contained historical income, not income expected to be received in the coming year, as required by HOME and the City's guidelines. In fact, OIG explained repeatedly to Enterprise's Single Family Program Director that HOME required income calculations that differed significantly from the calculations used in mortgage underwriting. The Director replied that Enterprise relied on the lenders because they were HUD-approved lenders. Only when we spoke with Enterprise's new consultant at the end of audit fieldwork did we get acknowledgment that the requirements for HOME and FHA differed. Therefore, we maintain our assertion that Enterprise did not recalculate the lenders' income figures during the scope of our audit.

There was no evidence in the City's files that it verified income for any homebuyer. The City's files contained no source documents evidencing income or any other document showing how income was calculated. The City could not have calculated income eligibility according to HOME with the information available in its files.

The fact that the audit did not identify any homebuyers ineligible under HOME does not demonstrate the system for determining eligibility worked. OIG identified several homebuyers who received more assistance than they should have under the City's program. We did not find any homebuyers over 80 percent of median income because the City and Enterprise provided assistance primarily to homebuyers with income below 50 percent of area median income.

The City provided no documents to demonstrate the homebuyers in question were eligible. OIG contends the use of an established form containing a homebuyer's written explanation is insufficient when the issue should be supported by documents. If the City provides reasonable documentation to support its claim these homebuyers were eligible, it will be sufficient to clear recommendation 1B. Until such time, the recommendation stands.

While there are no formal HUD policies for documentation to verify family size, OIG maintains Enterprise and the City should take steps to verify family size when tax returns in the case file indicate a different number of dependents than reported on the mortgage application. Our testing clearly showed Enterprise did not perform such steps, even though the City's guidelines said documentation may be required. Again, a homebuyer's written explanation is insufficient to support family size that can be supported by documents.

The City provided nothing to demonstrate it revised its program as stated. It appears the procedures the City stated it enacted would serve as valuable controls for Enterprise to ensure it provides assistance to only eligible homebuyers.

RECOMMENDATIONS

We recommend HUD require the City of Dallas to:

- 1A. Require Enterprise to revise control procedures to scrutinize income and family size information to ensure homebuyers meet HOME requirements and City guidelines.
- 1B. Repay its HOME account \$34,890 unless it can provide documentation to support the eligibility of the two homebuyers who may have been ineligible for assistance.

FINDING 2

CITY'S MONITORING DID NOT DETECT ENTERPRISE'S ERRORS

The City's monitoring program did not ensure Enterprise provided mortgage assistance only to eligible homebuyers. Both the City's Housing Department (Housing) and City Auditor's Grants/Contract Compliance Group (City Auditor) monitored Enterprise. However, neither discovered that Enterprise provided assistance contrary to the City's guidelines and potentially provided assistance contrary to HOME requirements. Thus, both entities need to revise their monitoring programs to ensure they include testing to adequately cover homebuyer eligibility.

Criteria

The City was responsible for managing the day-to-day operations of its HOME Program, ensuring that HOME funds were used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arose. The use of contractors did not relieve the City of this responsibility.³

The City contracted with Enterprise to manage the day-to-day operations of the Mortgage Assistance Program. As outlined in its contract with the City, Enterprise managed and coordinated the program, provided information and education to homebuyers, implemented a marketing plan, and provided general administrative services such as planning, document preparation, deed restricting, closing, and enforcement. Enterprise closed loans using its own funds and submitted claims for reimbursement to the City along with a loan file.

City Housing Department Monitoring

Although Housing regularly monitored Enterprise, it did not discover Enterprise provided assistance contrary to the City's guidelines. Housing monitored Enterprise by performing site visits and reviewing each loan file submitted for reimbursement. Housing's site visits, which occurred two to three times per year, consisted of technical assistance and spot checks. Housing's loan file review, which consisted of a checklist, appeared to focus on securing numerous legal documents rather than ensuring homebuyer eligibility. Housing did not require Enterprise to submit source documents to support homebuyer eligibility or demonstrate how it calculated homebuyers' annual income. Housing

³ 24 CFR §92.504(a).

relied on Enterprise's representation of eligibility based on summary information in the loan file. As a result, Housing staff never detected Enterprise's misplaced reliance on lenders.

City Auditor's Office Monitoring

The City Auditor's monitoring did not discover that Enterprise's work did not meet HOME requirements for income determination. The City Auditor performed periodic monitoring reviews, including one in June 2001, and did not identify any noncompliance issues. The City Auditor reviewed lender information and compared it to supporting documentation in Enterprise's loan file to test for accuracy. However, this review process did not appear to test the method used to calculate income to ensure it met HOME requirements. Thus, the City Auditor also did not detect that Enterprise improperly relied on lenders to calculate income in accordance with HOME.

As explained in Finding 1, Enterprise provided assistance contrary to the City's guidelines and potentially contrary to HOME requirements. To prevent this from occurring in the future, both entities need to revise their monitoring programs to ensure they include testing to verify income calculations and family size.

AUDITEE COMMENTS

With regard to recommendation 2A, the City stated it included a revision in the Mortgage Assistance Program procedures this year that would call for Enterprise Foundation to submit a more detailed income calculation sheet with each loan package sent to the City of Dallas for reimbursement. The City stated it also included a procedure that would require the source documents for those calculations to be included in the loan package sent to the City of Dallas for reimbursement.

In reviewing the findings, there were no cases determined to be ineligible according to HOME rules. As previously mentioned, the City's MAP has additional guidelines for determining the amount of assistance to be provided to each homebuyer. However, we are not aware of any federal rule violations if a homebuyer receives additional subsidy based on differing calculations of income within the City guidelines, provided the homebuyer is eligible according to HOME guidance. Additionally, over the last year, two federal audits have been conducted for this program, as well as one single audit, and no citing related to ineligible recipients was found. We believe those audits support that the system works in determining HOME eligibility. We believe that revisions to the monitoring programs will not be necessary given the above noted changes to the MAP procedures.

OIG EVALUATION OF AUDITEE COMMENTS

The City provided nothing to demonstrate it revised its program as stated. It appears the procedures the City stated it enacted would serve as valuable controls for Enterprise to ensure it provides assistance to only eligible homebuyers. However, this explanation does not address deficiencies we noted in the City's monitoring program. As such, recommendation 2A remains unchanged.

It is troubling that the City contends the absence of a federal rule against the practice allows it to provide a homebuyer additional subsidy based on differing calculations of income. In such cases, the

City may have reported homebuyer income to HUD that was not calculated as required. The City designed its program with specific guidelines in place and should be held to implementing that program as stated. We question why the City would bend its program rules to provide homebuyers more subsidy than its program allowed.

HUD performed a limited review in April 2002 of the City's block grant, HOME, and Section 108 Programs. HUD looked at only two loan files at Enterprise and found the files did not contain sufficient documentation of eligibility, specifically income and family size. HUD did not include this issue in its monitoring review report because OIG addressed the issue in this audit. Regarding the single audit, an auditor from the City contacted OIG requesting information on our audit. The auditor attended the exit conference for this audit and stated he also found problems with income calculations in the files he reviewed at Enterprise. Therefore, the City's conclusion that these audits support that the system works is inaccurate. The issue at hand is not whether participants were eligible but how Enterprise and the City calculated income and verified family size in determining eligibility. OIG contends the City should include steps in its monitoring process to verify Enterprise calculated participant income by including all income anticipated to be received by the family in the coming year, as required by HOME. Until such procedures are placed into practice, the City has no assurance all program participants qualify for the assistance provided.

RECOMMENDATION

We recommend HUD require the City's Housing Department and Office of the City Auditor to:

- 2A. Revise their monitoring programs to include testing to ensure homebuyers' income and family size meet HOME regulations.

MANAGEMENT CONTROLS

In planning and performing our audit, we obtained an understanding of management controls relevant to the audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls were relevant to our audit objectives:

- Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe the following items are significant weaknesses:

- Enterprise lacked controls to properly determine homebuyer income and family size in accordance with HOME regulations and City guidelines (Finding 1).
- The City's controls were insufficient to ensure Enterprise provided mortgage assistance to only eligible homebuyers in accordance with HOME and City requirements (Finding 2).

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Unsupported ^{1/}</u>	<u>Funds Put to Better Use ^{2/}</u>
1B	\$34,890	\$32,999

^{1/} Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

^{2/} Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented.



March 5, 2003

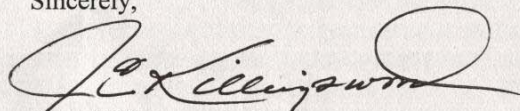
D. Michael Beard
Regional Inspector General for Audit
819 Taylor Street, Room 13A09
Ft. Worth, Texas 76102

Dear Mr. Beard:

Attached is the final audit response from the City of Dallas in connection with your offices' audit of the City's Mortgage Assistance Program. We thank you for your time involved in reviewing the program and we appreciate the opportunity to continue to improve the program based on your staffs' comments.

If you or your staff has any additional information needs, please contact Bernadette Caston, Compliance Manager at (214) 670-3619.

Sincerely,



Jerry Killingsworth, Director
Housing Department

Attachment

AUDITEE COMMENTS: FINDING 1

The City of Dallas' Mortgage Assistance Program (MAP) has been very successful in the creation of affordable housing for first time homebuyers. Through the subcontract with the Enterprise Foundation, as agent for the City of Dallas, over 3,200 new homeowners have been created. This national "Best Practice" program is recognized as a model first-time homebuyer project. The Enterprise Foundation, along with forty lenders annually, has leveraged six private dollars to every one-dollar in public funds invested. The Dallas Enterprise office provides, through its own resources, a \$1.5 million line of credit that permits participating MAP title companies to close these first and second mortgage transactions in a timely and efficient manner. The availability of that line of credit makes the program user friendly for homebuyers, sellers, realtors, and the participating lenders and title companies. The Dallas Enterprise office, working with mortgage and real estate professionals, provides over \$5.7 million dollars annually for first time homebuyers for the City of Dallas.

The rules, procedures, guidelines, and other general business practices of the many professional entities that implement the MAP program are blended to an effective a business process flow that works well for all. Thus, the responsibility for determining individual family eligibility becomes the responsibility of all parties, not just lenders. Each party has different documentation needs for determining eligibility but all parties agree to work in concert to meet each others needs and create more homeowners. Enterprise Foundation does rely on potential homeowners, sellers, realtors, and lenders to collect source documents for the eligibility determination defined under the HOME program. We do not believe that reliance is a mistake. The Enterprise Foundation and the City of Dallas hold mandatory trainings for lenders, realtors, and others involved in the program at the beginning of each year to instruct them on the collection of documentation for HOME and City eligibility to be established. Loan packages submitted to the Enterprise Foundation contain all necessary documents for an accurate eligibility determination to be made. In fact, the loan packages may contain more information than is necessary to make a HOME eligibility determination. Enterprise Foundation, not the lender, ensures that the calculations for HOME and City of Dallas program eligibility for each homeowner are met. Before the City reimburses Enterprise Foundation, additional eligibility checks are performed through the Housing Department staff that calculate income eligibility according to HOME and City of Dallas program guidelines. Throughout the sample audit, there were no ineligible cases found. We believe that those results demonstrate that the system for determining eligibility works.

In accordance with the HOME guidelines, the City of Dallas has established a policy of using the Section 8 definition for calculating income. The appropriate income documentation collected includes: current pay stubs, income tax filings, and other formal written statements regarding current income. Although the lenders or realtors take applications initially, we do not consider the application as proof of income to use for calculating eligibility. When determining family size, there are no formal HUD/HOME policies for documentation to verify family size. We consider the reported size on the application, the number claimed on income tax, and any formal written statement denoting the family membership as adequate. Enterprise Foundation submits income determination and family size on each homebuyer with

a "Summary Sheet." All included income in determining eligibility follows the "Technical Guide for Determining Income and Allowances for the HOME Program." All income exclusions follow the same guidance. If the file documents reflect temporary, nonrecurring, or sporadic income, it is not counted in the projection of income. We assert that cases found by OIG to contain evidence of additional income, overtime, bonuses and unexplained deposits were determined to fall under the definition for income exclusions or were simply explained on an established form. Two loan files, 10043 Neosho Drive and 3606 Nomas Street, were assumed to contain evidence of additional income because they each had a large deposit in their respective checking accounts. This discussion follows:

- 10043 Neosho Drive- The Buyer was determined to be eligible with \$23,825.00 annual income and two persons in the household. The Buyer had two large deposits of \$6,004.34 made February 15, 2001 and \$3,367.17 made March 1, 2001. The sources of these deposits are tax refunds received for the 2000 tax returns submitted for the applicant, her friend, and her mother. Each of the persons named, received substantial tax refunds that were deposited into the account. Two refunds were deposited at the same time. The applicant's friend jointly owned the account and the applicant's mother did not have her own account. A statement from the applicant explaining the circumstances of the deposit and 2000 tax refund and applicable fee documentation from the tax preparer is available. Income tax refunds cannot be counted as income for eligibility and assistance purposes.
- 3606 Nomas Street- The Buyer was determined to be eligible with \$20,590.92 annual income and three persons in the household. The Buyer had one large deposit of \$3,315.27 on April 3, 2001. The applicant's cousin was purchasing a car from a dealer who required a check as payment and would not accept cash. Since the cousin did not have an account, the cousin gave the applicant the money to deposit to pay for the purchase and on April 4, 2001, the statement reflected a payment of \$3,147.50 made to an automobile dealer. A statement from the applicant explaining the circumstances of the deposit is available. The money provided to the applicant for the deposit was not the applicant's personal income; therefore, the income was not counted for eligibility purposes.

Given the explanations above, we disagree with the recommendation 1B that would call for paying back \$34,890 due to ineligibility. The clients were determined to be eligible under HOME and City of Dallas guidelines.

With regard to recommendation 1A, we have included a revision in the Mortgage Assistance Program procedures that would call for Enterprise Foundation to submit a more detailed income calculation sheet with each loan package sent to the City of Dallas for reimbursement. We have also included a procedure that would require the source documents for those calculations to be included in the loan package sent to the City of Dallas for reimbursement.

AUDITEE COMMENTS: FINDING 2

The City recognizes its responsibility for managing the day-to-day operations of the HOME program and prides itself on a system of checks and balances to ensure proper documentation and expenditure of funds.

With regard to recommendation 2A, we have included a revision in the Mortgage Assistance Program procedures this year that would call for Enterprise Foundation to submit a more detailed income calculation sheet with each loan package sent to the City of Dallas for reimbursement. We have also included a procedure that would require the source documents for those calculations to be included in the loan package sent to the City of Dallas for reimbursement.

In reviewing the findings, there were no cases determined to be ineligible according to HOME rules. As previously mentioned, the City's MAP program has additional guidelines for determining the amount of assistance to be provided to each homebuyer. However, we are not aware of any federal rule violations if a homebuyer receives additional subsidy based on differing calculations of income within the City guidelines, provided the homebuyer is eligible according to HOME guidance. Additionally, over the last year, two federal audits have been conducted for this program, as well as one single audit, and no citing related to ineligible recipients was found. We believe those audits support that the system works in determining HOME eligibility. We believe that revisions to the monitoring programs will not be necessary given the above noted changes to the MAP procedures.

MANAGEMENT CONTROLS

Based on the facts previously mentioned in this document, we believe that adequate controls exist for determining HOME eligibility in our contract, policies, and procedures for the Mortgage Assistance Program (MAP). We noted that there were no ineligible determinations. We also supported the two cases in Finding #1 for an amount of \$34,890 and believe that they were properly calculated and properly assisted.

We do believe that the program operates efficiently and effectively for the creation of new homeowners. We do appreciate the work of the OIG in offering suggestions and comments during the review. We have incorporated some suggestions in order to improve the income determination summaries under City guidelines and we did make the adjustment to receive source documents from Enterprise Foundation (via the other MAP partners). We respectfully submit our differing opinion with regard to the findings.

DISTRIBUTION OUTSIDE OF HUD

City of Dallas, Housing Department, Dallas, Texas

The Enterprise Foundation, Dallas, Texas

Chairman, Committee on Government Affairs

Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources

House Committee on Financial Services

Senior Counsel, Committee on Financial Services

Committee on Financial Services

Managing Director, Financial Markets and Community Investments, U.S. GAO

Chief Housing Branch, Office of Management and Budget

Department of Veterans Affairs, Office of Inspector General

Chairman, Committee on Government Affairs
172 Russell Senate Office Building, Washington, D.C. 20510

Chairman, Committee on Government Reform
2348 Rayburn Building, House of Representatives, Washington, D.C. 20515-4611

Ranking Member, Committee on Government Reform
2204 Rayburn Building, House of Representatives, Washington, DC 20515