

Audit Report

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**Department of Housing and Community Development**

July 2020

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

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July 10, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Housing and Community Development (DHCD) for the period beginning July 1, 2014 and ending July 10, 2018. DHCD provides services to strengthen communities and provides affordable housing for people of limited income. DHCD also works with partners to finance housing opportunities and revitalize places for Maryland citizens to live, work, and prosper.

Our audit disclosed that DHCD did not always adhere to State procurement regulations when procuring contracts. For example, DHCD did not properly secure bids prior to opening, did not always document the date when bids were received and opened, and did not always retain the evaluation committee's technical ratings or losing proposals. In addition, DHCD could not document its award of two of three procurements tested for amounts substantially higher than the related winning bids. For example, one contract was awarded for \$12.2 million when the vendor's winning bid totaled \$9.7 million. As a result, there was a lack of assurance as to the propriety of the awards and that the contracts were awarded to the appropriate vendors at the most advantageous prices to the State.

DHCD also used contracts for marketing and construction management services to obtain goods and services that were outside the scope of the contracts and in the case of the construction management contracts circumvent State procurement regulations. Certain of these procurements appeared questionable, and DHCD could not document that these related goods and services were received. For example, DHCD directed one marketing vendor

to purchase promotional supplies and computer tablets totaling approximately \$90,000 and could not provide any documentation accounting for the disposition of the items purchased. In addition, DHCD paid three construction management services vendors \$76,000 for rental inspection services and one of these vendors \$16,200 for administrative tasks, none of which were included in the scope of the contract.

We also noted that DHCD did not have sufficient procedures and controls over certain housing assistance loans. For example, our review of inspections for five projects receiving State multifamily housing loans totaling approximately \$12.5 million, disclosed that DHCD did not retain documentation to support that renters of these units met the income qualifications. DHCD also did not take appropriate action when one of these loan recipients failed to provide the low-income housing required by the loan agreement. In addition, DHCD did not have a process to ensure multifamily housing loans were recorded in its automated loan servicing system to enable timely collection of the loans, and for certain of these loans, DHCD did not generate timely and accurate invoices and pursue delinquent accounts.

We also identified significant security and control risks that existed within the DHCD network. For example, DHCD had not protected sensitive information in two of its applications as we noted approximately 250,000 records containing such sensitive personally identifiable information that was not adequately safeguarded. Furthermore, malware protection controls were not sufficient to provide DHCD with adequate assurance that its computers were properly protected.

Finally, our audit included a review to determine the status of the six findings contained in our preceding audit report dated November 16, 2015. We determined that DHCD satisfactorily address four of these findings. The remaining two findings are repeated in this report.

DHCD's response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. In accordance with our policy, we have redacted any vendor names or products mentioned by DHCD in its response.

We wish to acknowledge the cooperation extended to us during the audit by DHCD, and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a prominent initial "G".

Gregory A. Hook, CPA  
Legislative Auditor



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## Background Information

### Agency Responsibilities

The Department of Housing and Community Development (DHCD) provides services to strengthen communities and provides affordable housing for people of limited income. DHCD's three operating divisions (Development Finance, Credit Assurance, and Neighborhood Revitalization) administer various housing and neighborhood revitalization programs that assist families with affordable homeownership, foreclosure prevention counseling, affordable rental housing, and housing rehabilitation needs. Through these housing programs, DHCD provides loans and grants for the purchase and/or rehabilitation of single-family homes and for the acquisition, construction, renovation, and/or rehabilitation of multifamily rental housing. DHCD's remaining divisions provide administrative support to assist in achieving its goals.

DHCD's programs are funded primarily by revenue bonds it issues, federal funds, and State appropriations. According to the State's records, DHCD's expenditures totaled approximately \$412.4 million during fiscal year 2018. Table 1 below presents certain financial data pertaining to DHCD's outstanding loans as of June 30, 2018.

**Table 1**  
**Loans Outstanding as of June 30, 2018 (in millions)**  
**(net of allowances for loan losses)**

	<b>Single Family</b>	<b>Multifamily</b>	<b>Business</b>	<b>Other</b>	<b>Total</b>
From State Funds	\$100.0	\$364.3	\$0	\$86.7	\$551.0
From Revenue Bonds	884.9	242.6	8.2	171.3	1,307.0
<b>Total Loans Receivable</b>	<b>\$984.9</b>	<b>\$606.9</b>	<b>\$8.2</b>	<b>\$258.0</b>	<b>\$1,858.0</b>

Source: DHCD's Audited Financial Statements

## **Financial Statement Audits**

DHCD engaged independent certified public accounting firms to perform audits of certain of its financial activities. Based on significance and risk, we reviewed the following financial statements for the fiscal year ended June 30, 2018:

- Community Development Administration (CDA) Single Family Housing Revenue Bonds
- CDA Revenue Obligation Funds
- CDA Multifamily Mortgage Revenue Bonds
- State-Funded Loan Programs

In the related audit reports, the firms stated that the financial statements presented fairly, in all material respects, the related financial positions as of June 30, 2018 and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **National Mortgage Loan Servicing Practices Settlement**

In February 2012, the nation's five largest mortgage servicers agreed to a significant national settlement over questionable mortgage loan servicing and foreclosure practices. Through the Maryland Office of the Attorney General (OAG), Maryland received approximately \$60 million in settlement funds for foreclosure prevention programs, including foreclosure fraud prevention, housing counseling, and neighborhood revitalization. In May 2012, a workgroup, which included representatives from OAG, DHCD, the Maryland Department of Labor, Baltimore City, and Prince George's County, completed a three-year spending plan for these funds.

Approximately \$31.8 million of the \$60 million was allocated to DHCD to enhance existing programs for housing counselor services, legal assistance organizations, and neighborhood revitalization. An additional \$6 million of funds originally allocated to Prince George's County was transferred to DHCD, bringing the total received by DHCD to \$37.8 million. As of June 30, 2019, DHCD had spent approximately \$37.5 million of those funds. In addition, DHCD is responsible for monitoring \$10 million allocated to Baltimore City and \$4 million allocated to Prince George's County. As of June 30, 2019, all of those funds had been spent.

## Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated November 16, 2015. As disclosed in Table 2 below, we determined that DHCD satisfactorily addressed four of these findings. The remaining two findings are repeated in this report.

**Table 2**  
**Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Department of Housing and Community Development (DHCD) did not timely monitor State-funded multifamily housing projects to ensure that rental units were reserved for low-income households, as required.	Not repeated
Finding 2	DHCD did not maintain complete documentation of the proposal evaluation process for certain Home Owners Preserving Equity and Neighborhood Conservation Initiative (NCI) grants.	Not repeated
Finding 3	DHCD lacked written procedures for performing and documenting program compliance monitoring of NCI grants.	Not repeated
Finding 4	DHCD's procedures for reconciling the receivable balances for State-funded loans did not ensure that reconciliations were properly performed and that reconciling items were resolved in a timely manner.	<b>Repeated</b> (Current Finding 3)
Finding 5	Controls over employee access to DHCD's single family loan accounting system were not sufficient.	Not repeated
Finding 6	DHCD did not always comply with certain requirements of State procurement regulations for service contracts awarded through the competitive sealed bid process.	<b>Repeated</b> (Current Finding 1)

# Findings and Recommendations

## Contract Procurement and Monitoring

### **Finding 1**

**The Department of Housing and Community Development (DHCD) did not always adhere to State procurement regulations with respect to solicitation documentation. DHCD also awarded two contracts for amounts substantially higher than the related bids prices contained in the proposals.**

### **Analysis**

DHCD did not always comply with State procurement regulations for securing and recording bid documents, publishing contract awards on *eMaryland Marketplace (eMM)*, and retaining procurement documentation. In addition, DHCD awarded two contracts for amounts substantially higher than the related bid prices contained in the proposals. We judgmentally selected for testing three procurements awarded during the audit period for construction management, weatherization services, and mortgage loan servicing, collectively valued at approximately \$29.4 million.

- DHCD did not properly secure the hardcopy vendor bids or proposals prior to opening and did not document the receipt and subsequent opening of the bids or proposals. For example, eight DHCD employees had access to the proposals prior to opening for all three procurements tested. In addition, DHCD did not document the dates when proposals were received nor when and by whom the proposals were opened. As a result, there was a lack of assurance that the proposals remained secured, were received in accordance with the established due dates, and were opened in the presence of at least two State employees, as required.
- DHCD did not retain the procurement officer's determinations (analysis of the proposals and recommendation to the evaluation committee) for any of the three procurements tested. DHCD also did not retain the evaluation committee's technical ratings for two of the procurements tested, collectively valued at \$26.9 million. In addition, DHCD did not retain the losing proposals for any of the three procurements tested. When subsequently presented to the Board of Public Works (BPW) for approval, DHCD disclosed the identity of the bidders and cost proposals for each of the three procurements, which recommended award to the highest ranked proposal based on cost and technical factors. However, based on the aforementioned

lack of supporting information, we could not determine or verify the propriety of the awards and that the contracts were awarded to the appropriate vendors.

- For two of the three indefinite quantity contracts tested, DHCD increased the estimated quantities between the bid documents and the related contracts presented to BPW for approval, and DHCD management was unable to provide documentation to justify the increase. As previously noted, DHCD did not retain complete procurement documentation for these awards, and since the individuals responsible for these procurements were no longer employed by DHCD, we were unable to obtain an explanation for the differences. One contract was awarded for \$12.2 million although the winning proposal totaled \$9.7 million. The other was awarded for \$2.5 million although the winning proposal totaled \$1.8 million.
- DHCD did not publish two contract awards totaling \$14.7 million on *eMM* as required. In addition, based on our inquiries regarding 55 solicitations with bid or proposal opening dates between July 1, 2014 and July 10, 2018, DHCD management advised us that the related awards for an additional 8 contracts totaling \$92.0 million were not published on *eMM* as of May 2019.

State procurement regulations require that proposals be secured and opened in the presence of at least two employees, that a register of proposals be maintained, and that a record of the date contract bids were received and opened be maintained. The regulations also require that procurement determinations be maintained on file and that contracts in amounts exceeding \$50,000 be published on *eMM*. *eMM* is an internet-based, interactive procurement system managed by the Department of General Services (DGS). Effective July 2019, DGS replaced *eMM* with *eMaryland Marketplace Advantage (eMMA)*.

According to State records, DHCD directly awarded contracts totaling approximately \$108 million during our audit period. Similar conditions regarding the failure to properly secure bids, document the bid openings, and publish contract awards on *eMM* were commented upon in our preceding audit report.

### **Recommendation 1**

**We recommend that DHCD**

- a. secure all vendor bids or proposals prior to opening (repeat);**
- b. record the dates that the bid or proposal documents are received and opened, ensure that at least two employees witness the openings, and maintain documentation of employees present (repeat);**
- c. retain procurement documentation to support contracts awards;**

- d. ensure that contract award amounts are supported by the related bids or proposals and supporting calculations; and
- e. publish contract awards on *eMMA*, as required (repeat).

**Finding 2**

**DHCD improperly used marketing and construction management services contracts to obtain goods and services that were outside the scope of the contracts. Certain of these purchases appeared questionable, and DHCD could not document that these goods and services were received.**

**Analysis**

DHCD improperly used contracts for marketing and construction management services to obtain goods and services that were outside the scope of the contracts. Certain of the goods and services purchased appeared questionable, and DHCD could not document that these goods and services were received. We received an allegation through our fraud, waste, and abuse hotline regarding possible violations of State laws, regulations, and policies by DHCD involving the use of contracts. Our review of the specific contract referenced in the allegation did not identify any matters that warranted a referral to the Attorney General’s Criminal Division. However, our review of the contract in the allegation and another contract (included in Finding 1) disclosed the following conditions.

Marketing Contract

Certain of the transactions made under a marketing contract appeared questionable and the disposition of items improperly procured under the contract could not be readily determined. In April 2015, DHCD entered into two five-year contracts (including a two-year renewal period) totaling \$5 million, under a solicitation to obtain marketing services for various housing and neighborhood development advertising campaigns. The two vendors awarded a contract provided services including marketing planning, media buying, creative design services, and marketing analysis.

- DHCD had directed one of the marketing contractors to purchase promotional supplies and computer tablets totaling approximately \$90,000, during the period between September 2015 and January 2018 that were not included in the scope of the marketing contract. The promotional supplies were essentially printed material obtained by the contractor from office supply companies, although DHCD’s contract specially excluded printing services. DHCD management advised us that these items were used as promotional giveaways and raffle prizes for homebuyer education events, but could not provide any documentation accounting for the disposition of the tablets

purchased and could not identify the specific educational events. We were advised by DHCD that the individual who directed the contractor to purchase these items was no longer employed by DHCD.

- DHCD directed the second marketing contractor to pay a vendor for other services, without any formal agreement existing between either the contractor or DHCD with the vendor, and could not document that the vendor provided deliverables commensurate with the amounts paid. Specifically, in June 2017, DHCD received an unsolicited proposal from an existing DHCD vendor to develop a homebuyer education marketing campaign. Rather than enter into a contract with this vendor, as required by State procurement regulations, DHCD directed the marketing contractor to pay the vendor \$50,000 for these services. Neither DHCD nor its marketing contractor had a formal agreement with the vendor describing the specific services that were to be provided. In addition, the \$50,000 payment was authorized by DHCD and made by the contractor before any services were provided by the vendor, and the vendor was not monitored by either party to ensure the services were provided.

Furthermore, the vendor's marketing campaign proposal included a pledge that the vendor would raise \$50,000 from outside parties to help fund this marketing campaign, but DHCD did not verify that these funds were raised. At our request, DHCD obtained from the vendor a summary of services provided as of May 2019. The summary showed that only \$10,000 in matching funds was raised. In addition, although print media and a website had been developed listing DHCD as a sponsor of the program, DHCD was unable to provide any documentation indicating its approval of these materials and could not readily determine whether these services were commensurate with the \$50,000 paid to the vendor.

#### Construction Management Contract

DHCD circumvented State procurement regulations by authorizing three construction management services vendors to do work that was not included in the scope of the contract and paid one of these vendors overhead costs that were not specified in the contract. In May 2017, DHCD entered into a five-year, \$2.5 million contract for construction management services for multifamily housing projects. The contract was awarded to three vendors for services including design and construction document review, construction cost review, and field monitoring during the construction phase. Under the contract, these construction-related services were to be billed at rates ranging from \$109 per hour to \$132 per hour.

- DHCD authorized each of the construction management services vendors to perform rental inspection services for a rental subsidy program—services that

were not included in the scope of the contract since the services were unrelated to the construction phrase of the contract. DHCD management advised us that it believed that this work was authorized because it was similar to the construction management services. Work performed by the three vendors for rental inspection services totaled approximately \$76,000 as of December 2018.

- DHCD authorized payment of approximately \$16,200 to one of the construction management services vendors for “project oversight charges” for administrative tasks, such as tracking and ensuring that inspection reports were delivered to DHCD, that were not provided for in the contract. Furthermore, the amount charged appeared excessive. Although DHCD questioned the charges and obtained an explanation from the vendor, the rate billed by the vendor, and paid by DHCD, for these administrative tasks primarily was the highest construction management rate established in the contract (\$132 per hour). We were advised by DHCD that it ceased doing business with this vendor in July 2018.

The use of these contracts to procure unrelated goods and services and the services of other vendors circumvents the public solicitation, competitive bidding, and other procurement requirements established in State regulations.

## **Recommendation 2**

**We recommend that DHCD**

- a. discontinue the practice of using existing contracts to procure goods and services not provided for in the contract and to process payments to vendors not originally included in the contract,**
- b. ensure all service procurements are documented in formal agreements and all services are provided, and**
- c. ensure that all billings are in accordance with the approved scope of work and contract rates.**

## State-Funded Loans

### **Finding 3**

**DHCD's procedures for reconciling the receivable balances for State-funded loans did not ensure that reconciling items were resolved in a timely manner.**

### **Analysis**

DHCD's procedures for reconciling the State's records of its receivable balances for State-funded housing loans with its loan servicer records did not ensure that reconciling items were resolved in a timely manner. Specifically, although supervisory personnel reviewed and approved these reconciliations, they did not verify that longstanding reconciling items were resolved. A similar condition was commented upon in our preceding audit report.

We reviewed the July 31, 2018 reconciliations for certain loan programs, managed by six loan servicers and for which, according to State records, the outstanding loan balances totaled \$81.3 million. Our review disclosed that the reconciliations included 1,532 reconciling items totaling approximately \$12.5 million that had been unresolved for periods ranging from six months to eight years. For example, the reconciliation of one loan servicer disclosed approximately \$470,000 in loan modifications processed for nine mortgage loans in May 2017 that had not been reflected in the State's accounting records as of July 2018, because DHCD management advised that it lacked adequate documentation of the modifications. These reconciling items from July 2018 included 34 reconciling items totaling approximately \$121,000 from the July 2014 reconciliations that we identified during our preceding prior audit. DHCD had performed no follow-up to resolve the noted discrepancies between DHCD records and State records.

DHCD entered into contracts with loan servicers to administer its loans, including maintenance of loan records. The loan servicer provides DHCD with monthly reports summarizing loan activity. DHCD is responsible for reconciling these reports with the State's records to ensure that all loan activity has been properly accounted for. According to DHCD's audited financial statements, there were 18,713 State-funded housing loans totaling \$876 million as of June 30, 2018.

### **Recommendation 3**

**We recommend that supervisory reviews of the monthly State-funded loans receivable reconciliations include a verification to ensure that reconciling items, including the aforementioned 1,532 items, are investigated and resolved in a timely manner (repeat).**

# Multifamily Housing Program

## Background

DHCD provides loans to multifamily housing developers for the creation or preservation of affordable rental housing units for low-income individuals. State law and the financing agreements require that a portion of the rental units in each multifamily housing project that receives DHCD financing be reserved for low-income households for the greater of 15 years or the number of years required by federal law (if the project also receives federal assistance). In addition, the developers are required to maintain the property in accordance with certain pre-established standards.

Different divisions within DHCD are responsible for various aspects of the multifamily housing program, including loan underwriting, monitoring compliance, and collection. DHCD uses one automated system to monitor compliance with the terms of the financing (loan) agreements (the loan monitoring system) and a second automated system to generate invoices and track loan activity such as repayments (the loan servicing system). The amount and timing of loan repayments vary based on the type of loan. According to DHCD records, as of July 2018, DHCD had issued 886 multifamily housing loans totaling \$2.2 billion.

### **Finding 4**

**DHCD did not monitor multifamily housing loans timely and effectively for compliance with the terms of the loan agreements. In addition, DHCD did not always take appropriate action when a loan recipient did not comply with the terms of the agreements.**

### **Analysis**

DHCD did not monitor multifamily housing loans timely and effectively for recipient compliance with the terms of the loan agreements and, in one instance, did not take appropriate action when a loan recipient did not comply with these terms. The DHCD division responsible for monitoring loan compliance uses an automated loan monitoring system to track each project and related details, such as the number of rental units. Projects are monitored through annual physical inspections during which DHCD employees are to ensure that the required units are assigned to eligible low-income renters and that residents have safe and sanitary housing conditions.

- DHCD did not have a process to ensure all new multifamily projects had been recorded into its loan monitoring system timely. We compared the loans closed during the audit period (from the multifamily database that was used to

track loan applications) with the loans reflected in the loan monitoring system and noted that 48 of the 138 loans, valued at \$360.1 million, were entered late—between 3 months and 3 years after the loans were closed. One of these loans, for \$1.3 million, had not been entered into the loan monitoring system until we notified DHCD of its absence, which was 16 months after the loan had been closed. Since DHCD does not monitor loan compliance until the project is entered into this system, these unrecorded projects would not be subject to timely monitoring.

- Annual physical inspections of loan recipient properties were not sufficiently documented. DHCD procedures required inspectors to verify that low-income renters met the eligibility requirements but did not specify what documents were to be reviewed to support the eligibility and did not require copies of the documents to be retained. Our review of inspection results on file for five projects with 117 rental units, valued at approximately \$12.5 million, disclosed that DHCD did not retain any documentation to support the income verifications performed to confirm renter eligibility for any of the 22 rental units selected by DHCD during the inspection.
- DHCD did not take appropriate action when the recipient of a \$1.3 million loan (related to one of the five aforementioned projects we reviewed) failed to provide the required low-income housing. Specifically, this loan was approved in May 1995 for the renovation of 20 low-income units. A DHCD inspection on October 6, 2015 noted that 18 of the 20 units were vacant and, the following year, DHCD noted that all units were vacant. DHCD management advised us that the units were vacant because the loan recipient needed additional funds to make them habitable. Terms for this loan deferred repayment for up to 40 years as long as the loan recipient continued to use the housing for income-eligible households. State regulations and the regulatory agreement attached to each loan outline the specific timing of steps for DHCD to demand repayment of the loan proceeds and/or accelerate repayment in the event the borrower fails to comply with income and use restrictions. However, as of July 2018, DHCD had made no repayment demands. We were advised by DHCD management that timely repayment of this loan was not likely and that a meeting was held with this recipient on October 26, 2018 to negotiate alternatives such as transferring the loan to a different property but, as of September 2019, DHCD was still in the process of identifying appropriate substitute properties.

#### **Recommendation 4**

**We recommend that DHCD**

- a. establish procedures that ensure all existing multifamily loans have been recorded in the loan monitoring system and future loans are entered timely;**
- b. enhance its inspection procedures to specify the documents to be used for verifying renter income eligibility and for retaining copies of the documents for review and approval; and**
- c. take appropriate action when noncompliance is identified during the inspections, including for the property noted above.**

#### **Finding 5**

**DHCD did not ensure multifamily housing loans were recorded in its automated loan servicing system used for the collection of loan repayments. In addition, for certain of these loans, DHCD did not generate timely and accurate annual invoices and pursue delinquent accounts.**

#### **Analysis**

DHCD did not ensure multifamily housing loans were recorded in its automated loan servicing system for subsequent collection of the loans. In addition, for certain of these loans, DHCD did not generate timely and accurate annual invoices and pursue delinquent accounts. We reviewed procedures over DHCD's automated loan servicing system which is used to account for all multifamily housing loans. We also reviewed procedures for surplus cash multifamily housing loans, under which the loan repayment is contingent on the loan recipient's available cash after paying expenses for maintaining the property. According to DHCD records, as of September 2018, DHCD had issued 440 surplus cash loans totaling \$553 million.

#### Automated Loan Servicing System

DHCD did not ensure that all loans were entered into its automated loan servicing system immediately after loan closing so that the collection process could be initiated at the appropriate time. Our test of eight multifamily project loans closed during the audit period (related to four construction projects), totaling \$15 million, disclosed that the loans were not recorded in the loan servicing system for periods ranging from 157 to 548 calendar days after the loans were closed. Generally, multifamily loans are to be repaid annually once the construction/renovation is complete.

### Surplus Cash Loans

DHCD did not issue invoices for surplus cash loans in the first year of operation, as stipulated in the loan agreements. Financial data from the required annual audited financial statements for each loan recipient were necessary to identify the loan recipient's surplus cash that was to be used to calculate the annual loan payments. However, DHCD did not require loan recipients to submit initial audited financial statements for the year (calendar year) operation commenced after construction of the related housing project was completed. Rather, DHCD's procedure was to obtain the initial audited financial statements after the first complete year of operation thus ignoring any partial year of operation following completion of construction. For example, if a loan recipient's fiscal year ends December 31, and the construction of the related housing project was completed on March 31, 2016, the first audited financial statements would not be submitted until the conclusion of the fiscal year ending December 31, 2017 (the first full fiscal year). Without the audited financial statements, DHCD was unable to invoice recipients timely.

In addition, DHCD did not always generate accurate annual invoices and pursue delinquent accounts. Our test of five invoices, totaling approximately \$396,000, related to the surplus cash loans, disclosed that one invoice for \$168,000 was approximately \$56,000 less than it should have been based on the available financial information. We were advised by DHCD management that this error was due to miscommunication between the DHCD division responsible for calculating the invoice amount based on a review of the audited financial statements, and the division responsible for generating the invoices.

For the same \$168,000 invoice, DHCD also did not follow up with the cash loan recipient that paid approximately \$48,000 less than the amount invoiced and did not assess approximately \$11,000 in late fees for the payment that was received 6 days after the 10-day grace period provided for in the loan agreement. We noted one other cash loan recipient of the five tested where DHCD did not assess approximately \$6,000 in late fees for payment received 9 days after the 10-day grace period. We were advised by DHCD management that rather than bill immediately for unpaid amounts and fines, its practice was to add any unpaid amounts to the subsequent invoice, which would not be issued until one year later.

### **Recommendation 5**

#### **We recommend that DHCD**

- a. ensure loans are recorded in the loan servicing system promptly upon loan closing;**

- b. obtain audited financial statements and issue timely and accurate invoices for multifamily surplus cash loans as soon as project construction is completed; and**
- c. pursue timely collection for any unpaid loan payments and assess appropriate late fees for delinquent payments, including those noted above, in accordance with loan terms.**

## **Information Systems Security and Control**

### **Background**

DHCD's Division of Information Technology (DIT) has historically been responsible for information technology support for approximately 400 DHCD users. Beginning in May 2016, DHCD began using the State of Maryland Department of Information Technology's (DoIT) managed, shared IT security services involving network firewall and intrusion detection prevention systems operations.

DIT operates several critical computer applications and databases on DHCD supported hardware, for supporting various functions including mortgage loan management, cash management, debt services, mortgage insurance, and federal rental program funding subsidies. Many of these applications and databases process or contain sensitive personally identifiable information (PII). DIT operates an internal headquarters network as well as most of a wide area network for DHCD that connects DHCD's remote offices and its headquarters.

**Finding 6**  
**Sensitive PII maintained by DHCD was stored without adequate safeguards.**

### **Analysis**

Sensitive PII maintained by DHCD was stored without adequate safeguards. Specifically, we determined that as of November 2018, two of three DHCD applications we reviewed contained such information which was not adequately secured. As of March 18, 2019, according to DHCD records, the two applications included 116,482 and 133,827 records respectively, which contained sensitive PII. DHCD personnel advised us that this information was subject to various mitigating controls including data access and connectivity limits. However, we determined that DHCD's procedures did not adequately safeguard the information, including by use of substantial mitigating controls, which requires use of data loss prevention software.

The State of Maryland *Information Technology Security Manual* requires that agencies protect such sensitive confidential data using adequate safeguards and/or other substantial mitigating controls.

**Recommendation 6**

**We recommend that DHCD implement appropriate information security safeguards for its applications' stored sensitive PII.**

**Finding 7**

**Malware protection controls for DHCD computers were not sufficient to provide adequate assurance that computers were properly protected from security risks.**

**Analysis**

Malware protection for DHCD computers was not sufficient to provide adequate assurance that computers were properly protected from security risks. Our review identified nine DHCD servers running an outdated operating system software version that was no longer supported by the operating system developer. Developer support for this operating system ended during 2015, after which software updates were no longer issued to address newly discovered software vulnerabilities.

DHCD also did not adequately restrict administrative rights nor enable host-based firewalls on certain of its computers. DHCD advised us that its policy was to grant local administrative rights to all users who were issued either laptops or tablets and to not enable host-based firewalls on laptops. According to DHCD records, at the time of our review, 66 laptops and 11 tablets were issued to personnel. Our January 2018 testing of 10 computers (consisting of 6 desktops, 2 laptops, and 2 servers) disclosed the following conditions.

- Local administrative rights were not properly restricted on 2 of the 8 user computers tested. If these computers were infected with malware, the malware would run with administrative rights and expose these computers and possibly the broader DHCD network to a greater risk of compromise than if the computers' user accounts operated with only user rights.
- Host-based firewalls were not enabled on the 2 laptop computers tested. If these laptops were used outside of the DHCD network, they would be susceptible to attack from untrusted traffic.

The State of Maryland *Information Technology Security Manual* states that agencies, at a minimum, must protect against malicious code (viruses, worms, Trojan horses) by implementing protections (anti-virus, anti-malware) that, to the extent possible, include a capability for automatic updates.

**Recommendation 7**

**We recommend that DHCD ensure that**

- a. administrative rights on computers are restricted to only system and network administrators;**
- b. all laptop computers are protected by an enabled and properly configured host-based firewall; and**
- c. necessary and appropriate steps are taken so that all servers operate with vendor supported versions of operating system software installed. To accomplish this recommendation, DHCD should develop and implement a plan to migrate its servers to a supported operating system.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Department of Housing and Community Development (DHCD) for the period beginning July 1, 2014 and ending July 10, 2018. The audit was conducted 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 findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DHCD's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included procurements and disbursements, payroll, certain State-funded loan program transactions, specific programs (such as multifamily and single family housing grants and loans) used by DHCD to promote housing opportunities and revitalize localities throughout the State, and information technology. Furthermore, we reviewed a specific contract relevant to an allegation to our fraud, waste, and abuse hotline. We also determined the status of the findings contained in our preceding audit report.

DHCD engaged independent accounting firms to perform audits of certain of its financial activities. Based on significance and risk, we reviewed the following financial statements for the fiscal year ended June 30, 2018:

- Community Development Administration (CDA) Single Family Housing Revenue Bonds
- CDA Revenue Obligation Funds
- CDA Multifamily Mortgage Revenue Bonds
- State-Funded Loan Programs

In the related audit reports, the firms stated that the financial statements presented fairly, in all material respects, the related financial positions, as of June 30, 2018, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firms to provide audit coverage of the aforementioned revenue bonds issued by DHCD's

CDA. Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs (such as Section 8 Housing) and an assessment of DHCD's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DHCD.

To accomplish our audit objectives, our procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DHCD's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from DHCD's project and loan accounting systems for the purpose of testing single and multifamily loans, construction, and weatherization projects. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DHCD's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved. As provided for in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components,

when significant to the audit objectives, and as applicable to DHCD, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DHCD's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DHCD that did not warrant inclusion in this report.

DHCD's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DHCD regarding the results of our review of its response.

## APPENDIX



LARRY HOGAN  
Governor  
BOYD K. RUTHERFORD  
Lt. Governor  
KENNETH C. HOLT  
Secretary

June 18, 2020

Gregory A. Hook CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
301 West Preston St, Room 1202  
Baltimore, MD 21201

Dear Mr. Hook,

Attached for your review, please find the response to the findings and recommendations from the draft fiscal compliance audit report for the Department of Housing and Community Development for the period beginning July 1, 2014 and ending July 10 2018. The Department issues its response in accordance with the Joint Audit and Evaluation Committee's *Policy on Agency Response to Reports Issued by the Office of Legislative Audit*.

The Department views the resolution of all audit findings with the utmost seriousness. Please be assured that every action will continue to be taken to ensure the Department's compliance with the recommendations within the audit report. If you have any questions regarding our response, please contact Mr. Anthony Yancey, Internal Audit Manager, at 301-429-7458 or at [anthony.yancey@maryland.gov](mailto:anthony.yancey@maryland.gov).

Sincerely,

A handwritten signature in blue ink that reads "Kenneth C. Holt".

Kenneth C. Holt  
Secretary

Attachment

cc: Robyne Chaconas, Chief of Staff  
Sergei Kuzmenchuk, Chief Financial Officer  
Anthony M. Yancey, Internal Audit Manager



# Department of Housing and Community Development

## Agency Response Form

### Contract Procurement and Monitoring

**Finding 1**  
**The Department of Housing and Community Development (DHCD) did not always adhere to State procurement regulations with respect to solicitation documentation. DHCD also awarded two contracts for amounts substantially higher than the related bids prices contained in the proposals.**

**We recommend that DHCD**

- a. secure all vendor bids or proposals prior to opening (repeat);**
- b. record the dates that the bid or proposal documents are received and opened, ensure that at least two employees witness the openings, and maintain documentation of employees present (repeat);**
- c. retain procurement documentation to support contracts awards;**
- d. ensure that contract award amounts are supported by the related bids or proposals and supporting calculations; and**
- e. publish contract awards on *eMMA*, as required (repeat).**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	No additional comments		
<b>Recommendation 1a</b>	Agree	<b>Estimated Completion Date:</b>	7/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The Department concurs with the auditors' recommendations. However, in response to recommendation (a), the Department believes that the vendor bids it receives are already secured prior to opening. In July 2019, The Department implemented procedures to have all bids that are received in the Department's Division of Operation &amp; Administration to be immediately logged in and stored in a secured location. Each day, the bids are collected by a designated procurement officer and transferred to a locked cabinet in the office of the Procurement Director, who retains the key to the cabinet. Moreover, in order to ensure compliance with State Procurement Regulations, the Department will continue to provide training to its staff regarding these measures.</p>		
<b>Recommendation 1b</b>	Agree	<b>Estimated Completion Date:</b>	7/1/2019

## Department of Housing and Community Development

### Agency Response Form

<b>Please provide details of corrective action or explain disagreement.</b>	In regards to recommendation (b), as stated earlier, procedures were implemented in July 2019 to have all bid documents logged by date and time upon receipt in the Department’s Division of Operations and Administration. Additionally, procedure were implemented to ensure that a minimum of two Procurement unit staff members are present, and documented as such, to witness the opening of all bids and competitive sealed technicalproposals.		
<b>Recommendation 1c</b>	Agree	<b>Estimated Completion Date:</b>	7/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	The Department’s Procurement unit has put procedures in place to use a checklist to ensure that all procurement documentation is retained and properly labeled in electronic files.		
<b>Recommendation 1d</b>	Agree	<b>Estimated Completion Date:</b>	7/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	In regards to contract award amounts, the Department ensure that its Evaluation Committee reviews financial proposals and document the methodology of all rankings of the proposals, which directly relate to the award amount. Specifically, the Evaluation Committee will provide a detailed narrative with supporting calculations as justification for the rankings of the proposals and the award amount. It is important to note that due to various factors, such as the language in the requests for proposals allowing for variations in pricing structure, financial proposal received may be structured in such a manner that will likely affect the actual award amount.		
<b>Recommendation 1e</b>	Agree	<b>Estimated Completion Date:</b>	7/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	Additionally, the Department has administered procedures to ensure that all contract awards in amounts exceeding \$50,000 are published on <i>eMarylandMarketplace Advantage (eMMA)</i> , in compliance with State procurement regulations.		

**Finding 2**  
**DHCD improperly used marketing and construction management services contracts to obtain goods and services that were outside the scope of the contracts. Certain of these purchases appeared questionable, and DHCD could not document that these goods and services were received.**

## Department of Housing and Community Development

### Agency Response Form

We recommend that DHCD

- a. **discontinue the practice of using existing contracts to procure goods and services not provided for in the contract and to process payments to vendors not originally included in the contract,**
- b. **ensure all service procurements are documented in formal agreements and all services are provided, and**
- c. **ensure that all billings are in accordance with the approved scope of work and contract rates.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	No additional comments		
<b>Recommendation 2a</b>	Agree	<b>Estimated Completion Date:</b>	10/31/2019
<b>Please provide details of corrective action or explain disagreement.</b>	The Department concurs with the recommendations. While the Department believed that promotional materials purchased and services utilized by contractors in connection to events where the Department promoted its programs were appropriate uses of its existing contracts, the Department has taken measures to ensure that contracts are used as intended. Specifically, the Department has instituted a contract monitor in October 2019, whose role is to ensure that goods and services are procured within the scope of the Department's marketing contracts.		
<b>Recommendation 2b</b>	Agree	<b>Estimated Completion Date:</b>	10/31/2019
<b>Please provide details of corrective action or explain disagreement.</b>	Also in October 2019, the Department incorporated updated language in its requests for proposal for future service contracts in an effort to afford a more inclusive scope of work for vendors to provide services under.		
<b>Recommendation 2c</b>	Agree	<b>Estimated Completion Date:</b>	6/30/2018
<b>Please provide details of corrective action or explain disagreement.</b>	As stated in the auditor's finding, the Department ended its relationship with the vendor in question due to the billing issues stated. Additionally, in June 2018, the Department also hired a new construction manager and adopted a new task order process to ensure that vendor billings are congruent with contract rates and approved scopes of work.		

**Department of Housing and Community Development**

**Agency Response Form**

**State-Funded Loans**

**Finding 3**  
**DHCD’s procedures for reconciling the receivable balances for State-funded loans did not ensure that reconciling items were resolved in a timely manner.**

**We recommend that supervisory reviews of the monthly State-funded loans receivable reconciliations include a verification to ensure that reconciling items, including the aforementioned 1,532 items, are investigated and resolved in a timely manner (repeat).**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	No additional comments		
<b>Recommendation 3</b>	Agree	<b>Estimated Completion Date:</b>	12/31/2020
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The Department concurs with the recommendation. In January 2020, the Department implemented procedures to bolster the existing supervisory reconciliation review already in place. Specifically, in addition to the current supervisory review of monthly reconciliations by the loan accounting controller, a monthly tracking chart of reconciling items has been created and is reviewed and approved by the Deputy Director of the Division of Finance and Administration. This chart encompasses a comprehensive aging of all reconciling items, allowing management to assess timely progress towards a faster resolution of reconciling items or apply other mitigating measures as necessary.</p> <p>In regards to the resolution of reconciling items, the Department plans to have all of the aforementioned 1,532 reconciling items resolved by December 31, 2020. In addition to resolving older reconciling items, the Department will require that any new reconciling items be resolved within 90 days of their occurrence. Moreover, monthly reports detailing outstanding reconciling items per program will be submitted to Executive Management for review.</p>		

# Department of Housing and Community Development

## Agency Response Form

### Multifamily Housing Program

**Finding 4**  
**DHCD did not monitor multifamily housing loans timely and effectively for compliance with the terms of the loan agreements. In addition, DHCD did not always take appropriate action when a loan recipient did not comply with the terms of the agreements.**

**We recommend that DHCD**

- a. establish procedures that ensure all existing multifamily loans have been recorded in the loan monitoring system and future loans are entered timely;**
- b. enhance its inspection procedures to specify the documents to be used for verifying renter income eligibility and for retaining copies of the documents for review and approval; and**
- c. take appropriate action when noncompliance is identified during the inspections, including for the property noted above.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	No additional comments		
<b>Recommendation 4a</b>	Agree	<b>Estimated Completion Date:</b>	10/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	The Department concurs with the recommendations. The Department's Division of Credit Assurance updated its procedures in October 2019 to ensure we consistently enter property loans into the Multifamily Asset Management System within 48 hours after the property loan documents are available in the Department's document sharing software. The Division of Credit Assurance has also coordinated with the Department's Multifamily unit to create a flow chart depicting the loan recording process, from loan origination to the beginning of monitoring protocols.		
<b>Recommendation 4b</b>	Agree	<b>Estimated Completion Date:</b>	9/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	In regards to enhancing inspection procedures, the Division of Credit Assurance has updated its procedures to be more specific pertaining to the review of property management files. Additionally, in September 2019, a standardized checklist was implemented for portfolio managers to follow during their management file reviews, including guidance on what specific documents to review in order to verify resident income.		

## Department of Housing and Community Development

### Agency Response Form

	Due to the sensitivity of such information as medical data and social security information, portfolio managers do not retain individual resident's file documents. Instead, portfolio managers are directed to note management review findings, when observed, for discussion with property management.		
<b>Recommendation 4c</b>	Agree	<b>Estimated Completion Date:</b>	12/31/2020
<b>Please provide details of corrective action or explain disagreement.</b>	The Department monitors projects carefully, stays in contact with owners, and makes decisions on how to proceed with projects that are not in compliance while balancing many variables, most notably, public purpose and financial consequences. Therefore, in January 2020, the Department established procedures for noncompliant projects to go before a Multifamily Loan committee for deliberation and resolution, which are then forwarded to the Secretary of the Department or Chief Financial Officer for final approval. In regards to the property noted above, a resolution with the Department should be reached by the end of calendar year.		

#### Finding 5

**DHCD did not ensure multifamily housing loans were recorded in its automated loan servicing system used for the collection of loan repayments. In addition, for certain of these loans, DHCD did not generate timely and accurate annual invoices and pursue delinquent accounts.**

**We recommend that DHCD**

- a. ensure loans are recorded in the loan servicing system promptly upon loan closing;**
- b. obtain audited financial statements and issue timely and accurate invoices for multifamily surplus cash loans as soon as project construction is completed; and**
- c. pursue timely collection for any unpaid loan payments and assess appropriate late fees for delinquent payments, including those noted above, in accordance with loan terms.**

Agency Response	
<b>Analysis</b>	
<b>Please provide additional comments as deemed necessary.</b>	No additional comments

## Department of Housing and Community Development

### Agency Response Form

<b>Recommendation 5a</b>	Agree	<b>Estimated Completion Date:</b>	8/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The Department concurs with the recommendations. In August 2019, the Division of Finance and Administration (DFA) coordinated with the Department's underwriting unit to update loan closing procedures. Specifically, at the time of loan closure, DFA is now notified by the underwriting unit, who also provides documentation for DFA to record the loan into the loan servicing system. Additionally, DFA reconciles its loan information to that of the loan servicer on a monthly basis. This reconciliation allows DFA to identify any loans that have been initiated with the loan servicer but may not have been entered into the loan servicing system. The monthly reconciliation is reviewed and approved by a loan accounting supervisor. To ensure that procedures are being implemented, quarterly meetings between DFA and the underwriting unit are held.</p>		
<b>Recommendation 5b</b>	Agree	<b>Estimated Completion Date:</b>	1/31/2019
<b>Please provide details of corrective action or explain disagreement.</b>	<p>As of January 2019, the Department has implemented procedures to promote timely issuance of payment information to its surplus cash loan borrowers. Specifically, the Department issues preliminary statements for payment to borrowers within 45 days of the borrower's year end. These statements are issued prior to receiving the borrower's audited financial statements for that given year and provide the borrower with pertinent loan information, including scheduled payment information. It should be noted that the borrower's financial statements and the required payment are due to the Department simultaneously, as the payment due is calculated by the borrower's CPA based on the calculated available surplus cash. Upon receipt of the borrower's financial statement, the Department's Division of Credit Assurance then completes a review of surplus cash and will notify DFA of the available surplus cash through a shared file.</p>		
<b>Recommendation 5c</b>	Agree	<b>Estimated Completion Date:</b>	1/31/2019
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The aforementioned shared file of surplus cash loans maintained by both DFA and DCA is used to identify unpaid loan amounts. Specifically, when loan payments are received, DFA logs the payments into the shared file, where DCA also records all available surplus cash information to calculate the required payment. If the payment received</p>		

## Department of Housing and Community Development

### Agency Response Form

	<p>on a particular loan is less than the calculated surplus cash amount per the borrower's financial statement, the corresponding loan is marked as delinquent. Subsequently, DCA will contact the borrower to pursue the delinquent payment. If collection is unsuccessful, the Department's loan servicer is notified to begin collection efforts.</p>
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### Information Systems Security and Control

**Finding 6**  
**Sensitive PII maintained by DHCD was stored without adequate safeguards.**

**We recommend that DHCD implement appropriate information security safeguards for its applications' stored sensitive PII.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	No exploitation of the referenced sensitive information occurred before, during or after the audit period		
<b>Recommendation 6</b>	Agree	<b>Estimated Completion Date:</b>	12/31/2020
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The Department concurs with the auditors' recommendation. In March 2019, the Department took immediate corrective action to address system vulnerabilities by implementing security solution technologies and host server upgrades that will best safeguard sensitive information contained within each of the systems.</p> <p>The Department also agrees that a data loss prevention system would be an additional mitigating control. Therefore, the Department will identify and implement a suitable data monitoring system and will develop procedures for data monitoring and leakage reporting. These measures will be instituted by December 31, 2020.</p>		

# Department of Housing and Community Development

## Agency Response Form

**Finding 7**  
**Malware protection controls for DHCD computers were not sufficient to provide adequate assurance that computers were properly protected from security risks.**

We recommend that DHCD ensure that

- a. administrative rights on computers are restricted to only system and network administrators;
- b. all laptop computers are protected by an enabled and properly configured host-based firewall; and
- c. necessary and appropriate steps are taken so that all servers operate with vendor supported versions of operating system software installed. To accomplish this recommendation, DHCD should develop and implement a plan to migrate its servers to a supported operating system.

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	No additional comments		
<b>Recommendation 7a</b>	Agree	<b>Estimated Completion Date:</b>	9/30/2020
<b>Please provide details of corrective action or explain disagreement.</b>	The Department concurs with the auditors' recommendations. The Department will restrict local administrative permissions on all user computers and laptops. The Department will identify those positions, with documented justification, that may be granted administrative rights. These measures will be instituted by September 30, 2020.		
<b>Recommendation 7b</b>	Agree	<b>Estimated Completion Date:</b>	9/30/2020
<b>Please provide details of corrective action or explain disagreement.</b>	In regards to not having host-based firewall protection on all laptop computers, the Department will evaluate and determine if its current end-point security product can act as a host-based firewall. This would be the most ideal solution, as local resource and processing impacts would be minimized. If it is determined that current end-point security software cannot effectively fulfill this function, then the Department will enable the firewall feature within the Operating System on all laptop computers.		
<b>Recommendation 7c</b>	Agree	<b>Estimated Completion Date:</b>	7/30/2020

**Department of Housing and Community Development**

**Agency Response Form**

<p><b>Please provide details of corrective action or explain disagreement.</b></p>	<p>In regards to ensuring that all servers operate with vendor-supported operating systems, the Department has since retired or replaced six of the servers with obsolete operating systems that were in use at the time of the auditors' review. The Department is in the process of migrating information from the remaining servers to replacement servers with vendor supported operating systems. The non-compliant servers will then be decommissioned. These actions will be completed by August 2020.</p>
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