



Housing Trust Fund Program



City of Charlotte
Internal Audit Department
600 E. Fourth St.
Charlotte, NC 28202

Staff

City Auditor

Tina Adams, CPA, CIA

Audit Supervisor

Marie Marsicano

Senior Auditor

Lynette Stover

To learn more about Internal Audit,
please visit our [website](#).

August 18, 2022

Housing Trust Fund Program Executive Summary

Objective

This audit was conducted to determine whether adequate controls exist to ensure that the Housing Trust Fund program is administered in accordance with applicable City requirements.

Background

In 2001, Charlotte City Council established the Housing Trust Fund (HTF) to provide financing to developers for affordable housing through voter-approved housing bonds. It is the city's major housing development program that primarily provides gap financing for acquisition, new construction, and rehabilitation of multifamily units every two years. This program was designed to enable the city to realize more affordable housing and safeguard the affordability of many of its investments for at least 30 years.

Conclusion

Housing and Neighborhood Services (HNS) has established controls to propose the most appropriate developers for council selection, and ensure that properties are maintained in accordance with Housing Trust Fund requirements.

Highlights

Approved developer proposals met program requirements and subsequent payments were adequately supported.

- The Request for Proposal (RFP) process outlines the general requirements and eligibility criteria for developers to qualify for funding from the Housing Trust Fund (HTF) and the Charlotte Housing Opportunity Investment Fund.
- Documentation was maintained to support developer selection and payments.

Housing and Neighborhood Services' monitoring processes are adequately designed to administer the Housing Trust Fund requirements.

- HNS effectively monitors projects to ensure that eligible tenants reside in well maintained properties that retain the the required number of affordable units. Minor exceptions were noted related to missing documentation.
- Improvements can be made to the process used to monitor compliance fee billing and collections.

Actions Taken: HNS has established a plan and a timeline for implementation of the recommendations.

Contents

Highlights	1
Objective.....	4
Background.....	4
Findings and Recommendations.....	6
1. <i>Approved developer proposals met program requirements and subsequent payments were adequately supported.</i>	6
2. <i>Housing and Neighborhood Services' monitoring processes are adequately designed to administer the Housing Trust Fund requirements.</i>	6
Conclusion	9
Distribution of Report	9
Scope, Methodology, and Compliance	10
Appendix A	12
Appendix B.....	14

Objective

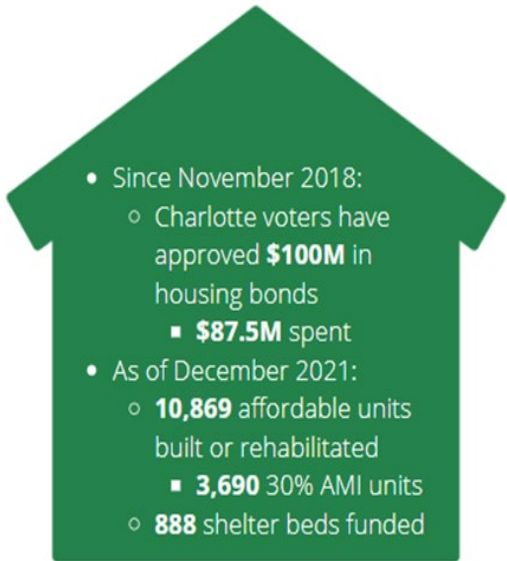
This audit was conducted to determine whether adequate controls exist to ensure that the Housing Trust Fund program is administered in accordance with applicable City requirements.

Background

The Housing Services Division of Housing & Neighborhood Services provides a wide array of programs and services for residents within the City of Charlotte. In partnership with nonprofits, housing developers, and other community partners, the programs focus on areas ranging from homelessness to homeownership. These programs include down payment assistance, housing rehabilitation, and commercial gap financing for below market rate housing development.

In 2001, Charlotte City Council established the Housing Trust Fund (HTF) to provide financing to developers for affordable housing through voter-approved housing bonds. The HTF is the City's major housing development program that provides gap financing (via low-interest loans and grants) for acquisition, new construction, and rehabilitation of multifamily units. This program was designed to help the city realize more affordable housing and safeguard the affordability of many of its investments for at least 30 years. The first developments were funded in 2002. To recognize the HTF's 20th anniversary, the City recently released the [Housing Trust Fund 20 Year Anniversary report](#), detailing the fund's achievements.

Since its inception, the HTF received \$218.8 million. When the city invests in the development or preservation of affordable housing units, it is required that the rent or sales price of the unit be affordable for households earning a specific level of income, which is based on Area Median Income (AMI). The Anniversary Report noted that the current AMI is \$84,200 per year for a family of four.

- 
- Since November 2018:
 - Charlotte voters have approved **\$100M** in housing bonds
 - **\$87.5M** spent
 - As of December 2021:
 - **10,869** affordable units built or rehabilitated
 - **3,690** 30% AMI units
 - **888** shelter beds funded

In 2019, The City of Charlotte ("City") and the Local Initiatives Support Corporation (LISC) partnered to provide funds for affordable housing development through the City's Housing Trust Fund and the LISC Charlotte Housing Opportunity Investment Fund. Using a request for proposal (RFP) process, loan funds are provided to developers for newly constructed or rehabilitated

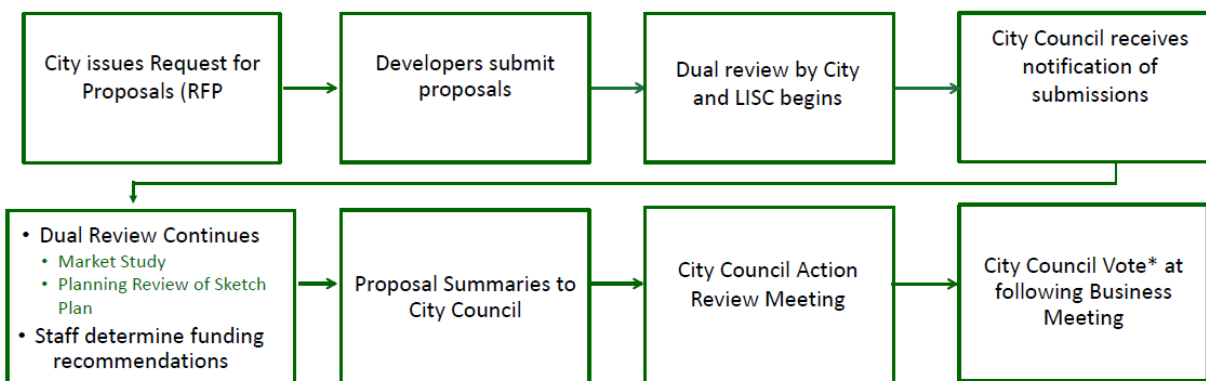
single/multi-family, and supportive housing (special needs housing i.e., elderly, homeless, and disabled).

The HTF process is completed in phases as illustrated below¹. Phase I includes the steps necessary for projects to obtain City Council approval for funding. The remaining phases involve the approval, closing, and monitoring processes executed in conjunction with LISC and other required agencies.

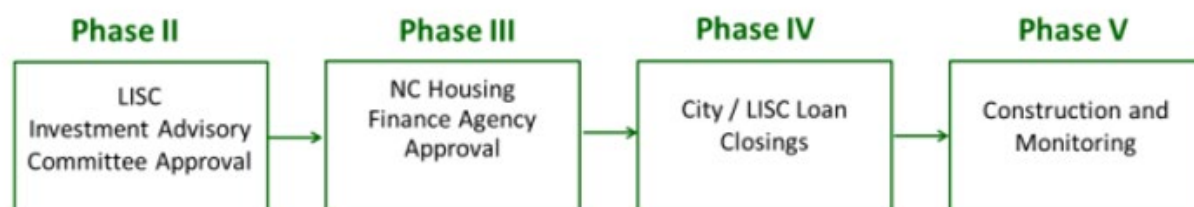


HOUSING TRUST FUND PROCESS

Phase I (Original Goal Timeline: 45 days from RFP Proposal Submission Deadline)



*Council vote must occur prior to state's LIHTC application deadline. 9% LIHTC allocations are awarded in August. Projects involving state housing bonds will require subsequent Council action.



¹ Graphic courtesy of H&NS

Findings and Recommendations

1. Approved developer proposals met program requirements and subsequent payments were adequately supported.

Housing and Neighborhood Services (HNS) and LISC use the Request for Proposal (RFP) process to determine if developers qualify to receive funding from the Housing Trust Fund (HTF) and the Charlotte Housing Opportunity Investment Fund. This process occurs each year in January and July, and attracts numerous developers. The RFP outlines the general requirements and eligibility criteria to qualify for each fund.

Once the RFP is published, developers have 30 days to respond. HNS and LISC provide a timeline so all parties know how long the process will take. To ensure that developers are selected fairly, HNS and LISC review each of the responses to the RFP to verify the developer meets the eligibility criteria and qualifies through practical experience. Other considerations for selection can include the type of development, site accessibility, population served, deeper targeting of area median income, and City Council priorities.

Auditors identified approved projects that requested drawdown payments in FY2021. For the period, there were 14 projects with a total of 28 drawdowns. Auditors haphazardly selected seven projects and reviewed supporting documentation to verify the RFP requirements were met and invoices matched the requested drawdown payments. For the projects reviewed, documentation of the RFP process was present and included the necessary support for the selection of the developer. The required documentation was properly maintained and sufficient to support payment requests.

2. Housing and Neighborhood Services' monitoring processes are adequately designed to administer the Housing Trust Fund requirements.

The Asset Management Unit within HNS monitors the HTF projects to ensure that the properties maintain good standard living conditions during the 30-year affordability period. Initial occupancy monitoring occurs monthly during the lease-up period for all new rental development projects. The lease-up period is the timeframe where units are being filled/rented and typically occurs 12 months after the development's initial occupancy date has been provided. A property stabilizes when 85-95% of the units are consistently occupied for six to twelve months.

A. Long-term Monitoring Documentation

Long-term monitoring begins 12 months after the end of the initial occupancy monitoring, regardless of whether all units are occupied. Monitoring covers the financial, physical, and

managerial aspects of the properties. Appendix A details the documents submitted to Asset Management for compliance review.

When responding to the RFP, developers must submit the number and type of units (one-, two- or three-bedroom apartments) that will be designated as low income, as well as what percentage of AMI category. Each property's unit mix varies and must be maintained as part of the requirements. The following is an example of the unit mix requirement for one property:

Income Group	Number of Units
30% or less of area medium income (AMI)	31
31-50% of AMI	9
51-60% of AMI	71
61-80% of AMI	45
81%-120% of AMI	
>120% of AMI	
TOTAL	156

As part of the monthly review, Asset Management staff evaluates property occupancy levels to determine if they are continually meeting the affordable housing requirements per the initial RFP. On a sample basis, Asset Management re-calculates the percentages submitted related to rent rolls and the occupancy/vacancy reports which reflect the percentages of the unit mix requirements.

Annually, Asset Management staff reviews the recertification documentation that property management receives from residents. This documentation includes bank statements, pay stubs and/or social security statements.

Once monitoring is complete, the city communicates the review results to property management. Unsatisfactory reviews contain recommended actions that must be corrected by a specific date. When all items are addressed, Asset Management provides a close-out memo.

Due to monitoring activities being suspended during the pandemic, auditors reviewed five completed projects from 2019. Auditors reviewed documents for each of the five projects to evaluate the monitoring process, verified the unit mix calculations and reviewed the income recertification. There were a few minor exceptions noted related to missing documentation. We reviewed approximately 250 documents of which six were missing.

Property Monitoring File Directory	Documentation Area	Documentation Exceptions
Section 4-Property Information	Selection criteria	1
Section 5-Physical Inspection	Preventative maintenance plan	2
Section 6-Financial Documents	Cash flow letters	3

Recommendation: The Asset Management unit should ensure all required monitoring compliance documentation is received and properly maintained in the appropriate file(s).

Value Added: Compliance

HNS Response: HNS agrees with this recommendation. Housing Services is developing new technology to ensure all documents are in a compliance record before closing a monitoring report. HNS will have this technology in place by 12/31/22. In the intervening time, all files are reviewed by the case manager and a supervisor to ensure no document is missing. File checklists are being updated to ensure the documented missing records are shown as required documents. The checklist review will be completed by 8/30/22.

B. Compliance Fees

The Asset Management unit uses outside contractors to assist with monitoring, and to conduct physical property inspections. To help offset the cost, some housing developments must pay compliance fees after construction and the lease-up period ends (non-profit developers are exempt from the fees). Compliance fees are \$30 per unit, and the city can collect the fees for 30 years with annual increases of 3% (See Appendix B for an example of a compliance fee schedule for one development). Total fees collected for CY2020 and CY2021 were \$31,219 and \$53,597, respectively.

Asset Management does not have a process to monitor compliance fee billing and receipt of payments. Auditors reviewed the compliance fee process for five out of seven developments; three were required to submit fees. Two of the developers were invoiced properly and payments were received timely. The third developer was not invoiced for CY2020 or CY2021. After auditor inquiry, both years were invoiced in February 2022. As of June 30, 2022, payment had not been received. The amounts invoiced for these projects were \$3,028 and \$3,119 respectively.

Recommendation: The Asset Management unit should implement procedures to monitor the invoicing and receipt of housing development compliance fees.

Value Added: Compliance; Risk Reduction

HNS Response: HNS agrees with this recommendation. HNS Housing and Finance staff will review the current process and invite City Finance AR to review and propose a more comprehensive approach to fee collection. HNS Asset Management is not the most appropriate group to manage fee collection. We will establish a new approach by 9/30/22.

Conclusion

Housing and Neighborhood Services (HNS) has established controls to propose the most appropriate developers for council selection, and ensure that properties are maintained in accordance with Housing Trust Fund requirements.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and Housing and Neighborhood Services. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).

Scope, Methodology, and Compliance

Scope

This audit reviewed the controls established by Housing and Neighborhood Services to administer the Housing Trust Fund. We reviewed the RFP developer selection process for FY2021. Due to the suspension of monitoring during the Covid 19 pandemic, auditors reviewed the documentation for CY2019 projects.

Methodology

To achieve the audit objectives, auditors performed the following:

- Interviewed Housing Trust Fund staff,
- Reviewed the City requirements for the program,
- Obtained an understanding of the current practices for the program,
- Reviewed RFPs and various approvals,
- Reviewed the supporting documentation for disbursements,
- Reviewed the monitoring process for selected projects, and
- Reviewed the reports presented to City Council and City Manager by the Director of Housing and Neighborhood Services.

Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the processes used throughout the Housing Trust Fund program and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:

- **Control Environment** – The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization
- **Risk Assessment** – The process for identifying and assessing risks that may limit the achievement of objectives

- **Control Activities** – The actions management establishes through policies and procedures to achieve objectives and respond to risks
- **Information & Communication** – The quality of information which management and personnel communicate and use to support the internal control system
- **Monitoring** – The activities management uses to assess the quality of performance over time

Internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report

Appendix A

Sample of Property Monitoring File Directory

Section 1 Correspondence	File Directory General Correspondence
	Compliance Letter documents requested
	Management Plans (see electronic file)
	Loan/Grant Agreement and Modifications (see electronic file)
	Deed Restrictions (see electronic file)
	Commitment Letter (see electronic file)
Section 2 Compliance Reports	Asset Management Property & Information Sheet
	Compliance Closing letter
	Property's Response to City Monitoring Follow-up
	City approval of Rent Increases (this is the City's approval sent to the property)
	HOME Fixed or Floating Units Schedule - based on bedroom size
	Monitoring Follow Up Letter
	Compliance Observation Sheet
	Rent Burden Analysis 30% of Income Worksheet & Regulations
	Supportive Services Documents
Section 3 Tenant Information	Tenant Lease - Current
	Tenant Income Re/Certification Worksheet - Current
	Income Verification Documentation - Current
Section 4 Property Information	Compliance Unit Status Report (see electronic file 20XX)
	Lease Protections Review 20XX (when applicable)
	Rent Roll
	Occupancy & Vacancy Reports
	Sample Lease & House Rules (see electronic file)
	Selection Criteria (see electronic file)
	Property Insurance Certificates
	Income Schedule (Annual)
	Fair Market Rent (Annual)
	Rent Schedule (Annual)
	Rent Approval Request Letter (when applicable) (this is the property's request)
	Utility Allowance Schedule (with utilities circled and total amount) (Annual)
	Affirmative Fair Housing Marketing Plan-Signed (see electronic file)

Section 5 Physical Inspection	Inspection Repair Report
	City Contractor Inspection
	Inspection Rating
	Fixed/Preventive Maintenance Plan and Log (see electronic file)
	Unit Inspections
	Certificate of Occupancy or Certificate of Compliance (see electronic file)
Section 6 Financial Documents	Financial Statement Analysis
	Audited Financial Statements
	Property Budget
	Replacement Reserves or Capital Reserves
	Cash Flow Letters
	Cash Flow Payment
	Compliance Monitoring Payment
	Pro Forma (see electronic file)

Appendix B

Asset Management Compliance Fee Schedule

HTF-Tax Credits Funds

\$30 each for 81 of 81 units with annual 3% increase

Count	Year	Fees	Increase 3%	Next Monitoring
1	2019	\$2,430.00		Select
2	2020	\$2,502.90		Select
3	2021	\$2,577.99		Select
4	2022	\$2,655.33		Select
5	2023	\$2,734.99		Select
6	2024	\$2,817.04		Select
7	2025	\$2,901.55		Select
8	2026	\$2,988.59		Select
9	2027	\$3,078.25		Select
10	2028	\$3,170.60		Select
11	2029	\$3,265.72		Select
12	2030	\$3,363.69		Select
13	2031	\$3,464.60		Select
14	2032	\$3,568.54		Select
15	2033	\$3,675.59		Select
16	2034	\$3,785.86		Select
17	2035	\$3,899.44		Select
18	2036	\$4,016.42		Select
19	2037	\$4,136.91		Select
20	2038	\$4,261.02		Select
21	2039	\$4,388.85		Select
22	2040	\$4,520.52		Select
23	2041	\$4,656.13		Select
24	2042	\$4,795.82		Select
25	2043	\$4,939.69		Select
26	2044	\$5,087.88		Select
27	2045	\$5,240.52		Select
28	2046	\$5,397.73		Select
29	2047	\$5,559.66		Select
30	2048	\$5,726.45		Select
Grand Total		\$115,608.26		