



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**



February 24, 2017

Ms. Kathleen Patterson, Auditor  
Office of the District of Columbia Auditor  
717 14<sup>th</sup> St, N.W., Suite 900  
Washington, DC 20005

Re: DHCD Response to draft report entitled “*To Better Meet Affordable Housing Goals DHCD Should Improve Management of the Housing Production Trust Fund*”

Dear Ms. Patterson,

The Department of Housing and Community Development (“DHCD”) is in receipt of the draft letter report from the **Office of the District of Columbia Auditor (“ODCA”)** entitled “*To Better Meet Affordable Housing Goals DHCD Should Improve Management of the Housing Production Trust Fund.*” DHCD appreciates the opportunity to constructively examine compliance with the laws and regulations associated with the implementation of the Housing Production Trust Fund (“HPTF”) and its efficiency in providing and creating affordable housing for District residents.

I would like to highlight that an unrepresentative sample of DHCD projects were selected for the audit review. The selection included one project per year since 2001, each of which was solely funded with HPTF. The vast majority of the projects and units that DHCD funds leverage various other housing finance tools, such as federal funds and Low Income Housing Tax Credits (“LIHTC”), which require significant compliance and asset management. Limiting the sample to projects that only received HPTF funding does not capture the complete view of the how DHCD manages the compliance of these funds. When federal funds were involved in project funding, internal monitoring was better and regulated throughout this timeframe. In addition to addressing the audit findings, DHCD looks forward to collaboratively working with ODCA to address any issues identified by the review.

While DHCD acknowledges there is always room for improvement to the HPTF program, the program boasts numerous successes that have contributed to homeownership opportunities and improved quality of life for DC residents. Additionally, DHCD has worked to improve systems and processes to the administration of the HPTF program by automating the application process

and streamlining RFP requirements. This program ensures that citizens who want to live in the District can afford to call the District home.

Since taking office in January 2015, the Bowser Administration has produced and preserved over 3,100 units of affordable housing in the District. Additionally, as part of Mayor Muriel Bowser's commitment to affordable housing, more than \$100 million in financing from the HPTF helped to produce or preserve more than 1,400 affordable housing units in FY 2016. The HPTF is just one tool the District government uses to provide gap financing for affordable housing projects. In October 2016, Mayor Bowser celebrated the unprecedented investment of over \$100 million from HPTF. The \$106.3 million supports 19 projects that will produce or preserve more than 1,200 affordable housing units in all eight wards. Within the first five months of FY 2017, DHCD has already expended \$50 million in HPTF loans for affordable housing.

In response to the issues and recommendations offered by the ODCA, DHCD offers the attached chart which outlines the Summary Findings, Auditor Recommendations and DHCD's Responses. Thank you again for the opportunity to provide comments to the draft letter report. Please do not hesitate to contact Latrena Owens, Chief of Staff, at 202-442-6972 if you have questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Polly Donaldson". The signature is fluid and cursive, with a large initial "P" and "D".

Polly Donaldson  
Director

cc: Allison Ladd, Deputy Director, DHCD  
Betsy Cavendish, Mayor's General Counsel  
Brian Kenner, Deputy Mayor, Planning and Economic Development

SUMMARY FINDINGS	RECOMMENDATIONS	DHCD RESPONSE
<p><b>FINDING 1 - DHCD did not ensure that HPTF projects were adequately and consistently screening households for income certification and recertification.</b></p>	<p>1 DHCD should develop income certification procedures and distribute them to HPTF projects, including a standard form, a list of sufficient documentation, and guidance about when and how certification should be conducted, including the requirement for bank statement submission.</p> <p>2 DHCD should develop a monitoring strategy that includes site inspections to ensure HPTF projects are complying with the procedures.</p> <p>3 DHCD should coordinate periodic training on income certification procedures.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>
<p><b>FINDING 2 - DHCD did not provide projects with sufficient guidance about how to handle tenant income exceeding HPTF limits.</b></p>	<p>4 As this is a policy issue that cuts across different affordable housing programs operating in the District, the D.C. Council should amend D.C. Code § 42-2802.02 to address how to handle tenant income increases above HPTF limits.</p> <p>5 Once the D.C. Council determines how to handle tenant income increases, DHCD should include this guidance in its procedures that are distributed to HPTF projects and language should be added to loan agreements.</p>	<p>DHCD, working with colleagues in the Executive Branch, is considering how best to handle the thorny issues surrounding what to do when low income tenants – happily – achieve greater income. We do not want to destabilize those with fragile improvements in their income by removing them from housing, but at the same time, we want to house those in the target low income populations. We believe legislation would likely not be able to take into account the nuances of this problem, and thus would be premature, unnecessary and perhaps in some cases, detrimental to the various goals being sought.</p> <p>Once the Executive Branch formulates guidance, it will be circulated to HPTF projects.</p>
<p><b>FINDING 3 - DHCD did not enforce the requirement that projects submit annual household income certifications.</b></p>	<p>6 DHCD should create a standard certification form for all HPTF projects to submit annually that requires valuable data, i.e. household income, household size, tenant information, unit size, unit #, rent amount for reserved units.</p> <p>7 DHCD should include the annual certification form as an exhibit in the loan agreements.</p> <p>8 DHCD should make the annual certification form available on DHCD's website.</p> <p>9 DHCD's Portfolio and Asset Management Division should send this certification form annually to HPTF borrowers</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>

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<p><b>FINDING 4 - DHCD did not ensure that projects created or maintained all of the affordable units required.</b></p>	<p>DHCD should enforce Kentucky Scott's loan agreement to create 21 units of affordable housing for senior citizens and work to bring the property in compliance with the agreement, without adversely impacting current tenants.</p>	<p>DHCD acknowledges the recommendation and will work with our Portfolio and Asset Management Division to address.</p>
<p><b>FINDING 5 - DHCD did not publish annual rent and income limits consistently, nor were utility allowances published or included within the rent and income limits.</b></p>	<p>DHCD should enforce the requirement for properties to submit annual certifications.</p> <p>DHCD should determine the utility allowance annually and publish it with the rent and income limits.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>ODCA has indicated in its draft audit findings that DHCD did not publish rent and income limits for 2014 and that the timeframe in which they were published varied greatly. DHCD does not concur with this audit finding, since DHCD publishes the annual rent and income limits in accordance with the official release of the HUD limits.</p>
<p><b>FINDING 6 - DHCD was not enforcing the HPTF rent limits.</b></p>	<p>The loan agreement between DHCD and the borrower should include information about the utility allowance and rent and income limits, as well as a website link to find the limits.</p> <p>DHCD Portfolio and Asset Management Division should establish a system of communication to inform borrowers and property management companies when the updated rent and income limits and utility allowance have been posted.</p> <p>DHCD should include methods for checking borrower compliance with rent limits in the monitoring strategy it should implement per Recommendation 2.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>
<p><b>FINDING 7 - DHCD did not enforce the requirement for HPTF borrowers to submit annual financial statements.</b></p>	<p>DHCD should add language to the loan agreements when projects are expected to exceed rent limits due to their participation in other local and federal programs.</p> <p>DHCD should ensure adequate staffing for the HPTF program to enforce the submission of all required financial statements.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>

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<p><b>FINDING 8 - DHCD did not ensure that all of the loans were being repaid per requirements. As a result HPTF is due millions of dollars from borrowers who were not repaying their loans.</b></p>	<p>The D.C. Council should amend D.C. Code § 42-2803.01 to require that DHCD include the amount of HPTF loan repayments due and paid in the HPTF's annual and quarterly reports.</p>	<p>Since March 2016, DHCD has published annual reports for FY13 and FY14 and they are posted on the DHCD website. Additionally, the FY15 report is under final approval and the FY16 report is due on April 1, 2017.</p> <p>Additionally, it is important to note that the sample selected for the audit review, included one project per year since 2001, and that sample only included projects that were solely funded with HPTF, excluding other housing finance tools. Limiting the sample to projects that only received HPTF funding does not capture the complete view of how DHCD manages the compliance of these funds.</p>
<p><b>18</b></p>	<p>DHCD should conduct a cost benefit analysis to determine if outsourcing repayments of HPTF loans is beneficial.</p>	<p>DHCD is currently evaluating the loan servicing contract to ensure that the services meet the needs of the Agency.</p>
<p><b>19</b></p>	<p>DHCD should designate staff to conduct specific procedures for reconciliation of AmeriNat remittances.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>
<p><b>20</b></p>	<p>DHCD should create an accurate system to track borrower compliance with loan agreements, including loan repayments.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>
<p><b>21</b></p>	<p>DHCD should immediately provide information about subordinate loans to AmeriNat.</p>	<p>Prior to the audit, DHCD was working on a system to transmit loan information to AmeriNat. The system is currently being adjusted to meet the Agency needs.</p>
<p><b>22</b></p>	<p>DHCD should develop SOPs for the timely transfer of subordinate loan documentation to AmeriNat and tracking borrower compliance with loan agreements.</p>	<p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>
<p><b>23</b></p>		

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<p>24 FINDING 10 - DHCD did not commission a Certified Public Accountant for annual HPTF audits.</p>	<p>DHCD should engage a CPA firm or an independent firm to annually conduct an audit of the Fund, starting with an FY 2016 audit.</p>	<p>DHCD recognizes the need for improvement in this area and in FY16, DHCD hired an independent auditing firm to ensure compliance with HPTF audit requirement. The entrance meeting with the auditor was held on January 24, 2017.</p>
<p>25</p>	<p>DHCD should develop a system to ensure that audits are completed going forward.</p>	<p>DHCD recognizes the need for improvement in this area and in FY16, DHCD hired an independent auditing firm to ensure compliance with HPTF audit requirement. The entrance meeting with the auditor was held on January 24, 2017.</p>
<p>26</p>	<p>DHCD should ensure that these audits are publicly accessible on its website.</p>	<p>DHCD recognizes the need for improvement in this area and in FY16, DHCD hired an independent auditing firm to ensure compliance with HPTF audit requirement. The entrance meeting with the auditor was held on January 24, 2017.</p>
<p>27 FINDING 11 - DHCD did not comply with requirements to submit quarterly and annual reports on a timely and consistent basis</p>	<p>DHCD should ensure that the HPTF program has sufficient staff for the timely and consistent publishing of quarterly and annual reports.</p>	<p>Since March 2016, DHCD has published annual reports for FY13 and FY14 and they are posted on the DHCD website. Additionally, the FY15 report is under final approval and the FY16 report is due on April 1, 2017.</p>
<p>28</p>	<p>DHCD should create detailed SOPs that address the compilation of the quarterly and annual reports, that include: retention of back-up information and calculations to support the reported figures; explanations for any adjustments after the fiscal year closes; and reconciliation of the annual report information with SOAR data prior to report release.</p>	<p>DHCD recognizes the need for additional resources and human capital to implement the recommendation outlined in the report.</p>
<p>29</p>	<p>DHCD should make these quarterly and annual reports publicly accessible on its website.</p>	<p>DHCD concurs with the finding and has made the FY13 and FY14 report available on the DHCD website.</p>

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<p>FINDING 12 - DHCD did not comply with annual spending requirements for projects targeting extremely low-income and very low-income households in 2013, 2014, and 2015.</p>	<p>30 DHCD should ensure that future HPTF Requests for Proposals (RFPs) target projects to extremely low- and very low-income households.</p>	<p>Since January 1, 2015, DHCD RFPs have been focused on the creation and preservation of affordable units. DHCD has prioritized projects that target 50% AMI and below.</p>
<p>FINDING 13 - DHCD had not been conducting an annual community outreach plan.</p>	<p>31 DHCD should develop a compliance plan to ensure that future obligations do not deviate from the required 40 percent for both extremely low income and very low income households.</p> <p>32 DHCD should develop, publish and follow annual outreach plans.</p>	<p>DHCD recognizes that it does not develop plans in accordance with the statute, however the community outreach plan is geared to meet the needs of the residents we serve. Moving forward the agency will augment the current plan to adhere to statutory requirements.</p> <p>Since January 1, 2015, DHCD has conducted numerous Ward by Ward community outreach activities to engage and inform district residents about services offered by DHCD. In partnership with the Greater Washington Urban League DHCD hosts an Annual DC Housing Expo/Home Show in June of each year. The Expo provides invaluable resources and information for all current and potential renters and homeowners in Washington, D.C. The all-day event provides homeownership information and guidance for residents facing foreclosure, small business owners and community leaders. Additionally, DHCD submitted a 5 year consolidated plan to HUD in August 2016 outlining how the Agency plans to send federal funds.</p>
<p>33</p>	<p>DHCD should incorporate requirements into both the loan agreements and covenants about where, and how, to advertise vacant units and waitlists when there are no vacancies.</p>	<p>Since FY11, DHCD loan documents requires that all projects post vacant units on <a href="http://dchousingsearch.org">dchousingsearch.org</a></p>
<p>34</p>	<p>DHCD should make information easily accessible on its website about the HPTF-funded projects including their names, locations, number of units, and AMI requirements.</p>	<p>Since March 2016, DHCD has published annual reports for FY13 and FY14 and they are posted on the DHCD website. Additionally, the FY15 report is under final approval and the FY16 report is due on April 1, 2017.</p>

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<p><b>FINDING 14 - DHCD did not consistently conduct annual housing needs assessments.</b></p>	<p>35 DHCD should conduct annual housing needs assessments as required by D.C. Code § 42-2802(d)(3).</p> <p>36 DHCD should ensure adequate staff is in place to conduct annual needs assessments.</p> <p>37 Prior to the development of the RFP, DHCD should use the data determined by the annual needs assessment to target the RFP to specific housing needs.</p> <p>38 DHCD should ensure that all needs assessments, even those conducted by other vendors, are accessible on the DHCD website.</p>	<p>DHCD submitted 5 year consolidated plan to HUD in August 2016 and included in the plan and the annual action plans are DC priorities and "needs assessment" details.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p> <p>DHCD will apply similar compliance standards utilized for federally funded programs and LIHTC to comply with the recommendation. DHCD also recognizes the need for additional resources and human capital to implement these recommended changes.</p>
<p><b>FINDING 15 - DHCD record management was weak and HPTF data was unreliable.</b></p>	<p>39 DHCD should develop SOPs for the HPTF, which should address document retention and data reliability.</p>	<p>DHCD recognizes the need for additional resources and human capital to implement the recommendation outlined in the report.</p>