TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Multifamily Direct Loan Program
Audit Report # 21-004

Executive Summary

OIA reviewed the Multifamily Direct Loan Program and found it has been consistently successful in committing federal funds and repayment funds when allocated through the published Notice of Funding Availability (NOFA) process. From 2016, the program has funded approximately $152M in MFDLs, representing a mix of federal funds from the HOME Investments Partnership Program and the National Housing Trust Fund, as well as some Neighborhood Stabilization Program (NSP) funds and Tax Credit Allocation Program (TCAP) amounts. The repayments of the TCAP represents available funding that carries fewer restrictions in the application and loan due diligence process as well as post-construction compliance.

Based on our reviews the Multifamily Direct Loans Program is performing effectively overall with some suggestions for consistency and efficiency. The following summarizes OIA's recommendations:

Observations and Recommendations

1. Internal Audit recommends that a change management tracking system be implemented in administering the loan closing process to track, and maintain information on the type of changes coming through the various touchpoints within TDHCA for the MFDL process. By consistently tracking this information on each loan closing, trends and observations could be made to support program improvements.
2. Construction draw tools, spreadsheets and guidance should be reviewed to determine if they could be simplified. Standards for determining when a certain number of draws may be appropriate could be instructional in working to decrease the amount of documentation review and processing time required.
3. OIA recommends that the Legal team review the application prior to underwriting when certain conditions are present specifically, other governmental funding in the form of grants, loans or tenant vouchers.
4. The contract and loan document approval process should be modified to ensure all approvals are tracked and available in a central location. OIA recommends that the process be automated as a routable document rather than email when possible.
5. Due to the highly complex and manual nature of the MFDL requirements and process, OIA recommends that management consider assigning a "loan officer" or "project manager" to ensure the loan application and documents move smoothly and more quickly through the process.
6. OIA recommends that Multifamily Finance evaluate the current end-user systems in place for the multifamily uniform application review and loan closing process to determine any future needs for system and application improvements.
7. Due to the possible retirement of some of the key personnel, the MFDL division should consider documenting their procedures with screenshots that could be used for future training and improving SOPs.
8. Because of the complexity of the Multifamily Direct Loans process, OIA recommends that all Divisions create and/or update documented SOPs and process flows, so that the team can more easily identify process weaknesses and inefficiencies as well as evaluate options for technology solutions.

Management Response

Management agreed with our recommendations. Detailed responses are included in the body of the report.

Objectives, Scope and Methodology

OIA's scope included a review of applicable portions of the Texas Governmental Code §2306 Texas Department of Housing and Community Affairs; Texas Administrative Code Title 10, Chapter 11 Qualified Allocation Plan and Chapter 13 Multifamily Direct Loans Rule; TDHCA Board resolutions including those providing authority for commitment of multifamily direct loans and amendments as required, and the Standard Operating Procedures (SOP) of Divisions tasked with originating and maintaining Multifamily Direct Loans. Based upon our preliminary understanding of the Multifamily Direct Loans Program we identified critical points and risk to develop audit objectives and a methodology reflected in the detailed audit program. Based on our reviews the function of the Multifamily Direct Loans Program is performing effectively overall with some suggestions for improved consistency and efficiency.

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, OIA

9/13/2021
Date Signed

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GOVERNOR

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Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: INTERNAL AUDIT OF THE MULTIFAMILY DIRECT LOANS PROGRAM

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Multifamily Direct Loans Program*". This audit was conducted in accordance with applicable audit standards. It included the objectives to review the effectiveness and efficiency of the Multifamily Direct Loan Program processes across functional divisions and to evaluate the administrative and internal control procedures in place.

The Multifamily Direct Loan (MFDL) Program rated high on the risk assessment and was included in the approved Fiscal Year 2021 audit work plan and was selected for audit due to lack of recent audits, complexity of transactions and interest expressed from both the program area and legal division to review the flow of loan document preparation and routing.

This report includes the following sections:

A. Audit results
B. Background
C. Scope and methodology
D. Types of Multifamily Direct Loans made by TDHCA
E. Processes and flow of transactions
F. Staffing
G. Testing and review

A) AUDIT RESULTS

OIA reviewed the Multifamily Direct Loan Program and found it has been consistently successful in committing federal funds and repayment funds when allocated through the published Notice of Funding Availability (NOFA) process. From 2016 the program has funded approximately $152M in MFDLs, representing a mix of federal funds from the HOME Investments Partnership Program and the National Housing Trust Fund, as well as some Neighborhood Stabilization Program (NSP) funds and Tax Credit Allocation Program (TCAP) amounts. The repayments of the TCAP represents available funding that carries fewer restrictions in the application and loan due diligence process as well as post-construction compliance.

OIA tested the loan application routing and approval process throughout different divisions and different stages of the application, as well as contracts and draw requests. Our attributes included verification of timely and accurate review of applications by each division, and verification of compliance with current rules and regulations during the application process as well as during the draw requests and prior to funds being released to the developers.

As part of the review to determine external views of the Multifamily Direct Loan Program, OIA initiated a short customer service and open text type survey that was sent to almost 150 developers and consultants. The results of this survey were closed as of August 10, 2021. Overall, the survey results were positive regarding the team members, their commitment to the Program, and the existence of the Program to provide gap financing. 13 of the 23 participants (56%) who answered the survey indicated that the program was good or excellent, with many useful comments provided in the open text questions.

B) BACKGROUND

The Multifamily Direct Loan Program provides funding to nonprofit and for-profit entities for the new construction or rehabilitation of affordable multifamily rental developments. Funding is typically provided in the form of low interest rate, repayable construction-to-permanent loans. Multifamily developments funded through the Department's Multifamily Direct Loan Program must comply with long-term rent and income restrictions and are typically layered with additional Department funding sources such as Housing Tax Credits.

Texas Government Code §2306 authorizes the TDHCA Governing Board to make loans to have funds available for multifamily affordable rental developments. The funds utilized by TDHCA are primarily federal funds from the HOME and National Housing Trust Fund programs (NHTF), as well as Neighborhood Stabilization Program (NSP) and Tax Credit Assistance Program (TCAP) Repayment Funds (RF). Both HOME and NHTF funds are allocated annually from the US Department of Housing and Urban Development (HUD); however, while HOME funds are annually appropriated to HUD by Congress through the budgetary process, the source of the NHTF funds is 65% of statutorily designated fees generated by Fannie Mae and Freddie Mac (chartered private companies serving the public purpose of providing liquidity, stability and affordability in the US housing market). NSP and TCAP are older programs that had provided a source of loans in the past and repayments that come back to the Department may be used for making new loans. TCAP Repayment Funds (RF) are not restricted by the many complex federal requirements.

C) Scope and Methodology

OIA's scope included a review of applicable portions of the Texas Governmental Code §2306 Texas Department of Housing and Community Affairs; Texas Administrative Code Title 10, Chapter 11 Qualified Allocation Plan and Chapter 13 Multifamily Direct Loans Rule; TDHCA Board resolutions including those providing authority for commitment of multifamily direct loans and amendments as required, and the Standard Operating Procedures (SOP) of Divisions tasked with originating and maintaining Multifamily Direct Loans. Based upon our preliminary understanding of the Multifamily Direct Loans Program we identified critical points and risk to develop audit objectives and a methodology reflected in the detailed audit program.

We surveyed key external customers to the Multifamily Direct Loans Program regarding the effectiveness of the Program. We reviewed the Program functionally and across divisions to determine the functions, goals and underlying processes, and divisional roles and responsibilities; we included the review of workflow between divisions. We reviewed the controls related to the Multifamily Direct Loans Program and tested certain transactions and controls described throughout Sections E and F of this report. The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems.

D) Types of Multifamily Loans Made by TDHCA

- **Multifamily Direct Loan – HOME funds**

  HOME funds are allocated directly from the federal government budget and have less restrictive guidelines then NHTF in terms of unit mix and income levels. HOME funds allow for a limit of 80% of AMI (Area Median Income); however, HOME funds come with more stringent labor standards during construction (Davis Bacon), so there is a trade-off and a need for staff to understand the underlying federal requirements on a detailed basis. While the developer is ultimately responsible for meeting the federal requirements, TDHCA provides technical guidance and ensures that the contract includes all necessary language to hold the developer responsible for this function.

- **Multifamily Direct Loan – NHTF funds**

  NHTF funds are allocated through HUD from the Fannie Mae and Freddie Mac activity on an annual basis. These allocations are related directly to activity in the mortgage security market, so the annual allocation to the Department depends on those volumes and amounts. For example, because of high activity in the market over the past two years, TDHCA received an allocation for 2021 that far exceeded anything received before. The NHTF funds, though not subject to Davis Bacon, are further restricted by unit mix and income levels and are meant to focus on extremely low income tenants, or those earning no greater than 30% AMI.

- **Multifamily Direct Loan – TCAP RF**

  The TCAP repayment funds are the most flexible funding source currently utilized by TDHCA for MFDL. These funds do not carry the federal requirements of the other sources, therefore they can be utilized for more unit mixes and income levels. These funds also do not require adherence to Uniform Relocation Act rules or the stringent environmental review requirements of HOME and NHTF.

E) PROCESSES AND FLOW OF TRANSACTIONS

Multifamily Direct Loans Application

The MFDL application is included within the Multifamily Uniform Application; in most cases the direct loans are layered with other funding sources such as 4% or 9% Low Income Housing Tax Credits (LIHTC). Between the layering of funding, including primary funding such as revenue bonds or conventional loans, the process of evaluating the application and determining the amount of the loan can become quite complex. As such, the accuracy and timeliness of information on the application is paramount, as much of the data is utilized as input to the Real Estate Analysis (REA), also known as underwriting.

Once the application has been reviewed and any administrative deficiencies are cleared by MF Division staff, the application is submitted to REA for review. At this time, only MFDL personnel review the application prior to REA's review. MFDL staff primarily ensure that the application adheres to the rules provided within the applicable sections of Texas Administrative Code. MFDL staff also evaluates site and neighborhood criteria, initially reviews relocation requirements, and requests the Previous Participation Review (PPR) from the Compliance Division. The PPR is a statutorily required rating system that assesses the ongoing compliance of Applicants that have participated in TDHCA Programs in the past. Both the submission of the application and review are highly manually processes and intensive in nature requiring multiple reviews and verification, with the MFDL Manager signing off as final reviewer.

Once received, REA reviews the application, imports data from one spreadsheet into another spreadsheet, then applies the standards identified in the rules and in the published NOFA to determine the financial feasibility of the development for the loan amount and terms including interest rate, years to repay, and type of repayment. For example: monthly set amounts or annual payment based on cash flow from the development. The output from this initial review includes a list of the pre-closing requirements that will be required of the Applicant and remains valid until the loan closing if there are no material changes; however as the superior (primary funding) financing for the development is solidified, changes often occur that affect the Department's underwriting outcome. These changes may generate from any of the Divisions that are engaged in the MFDL process, as there are many points of contact for the Developers. At times the REA function may not be notified timely of changes.

Once the REA underwriting report is complete and PPR has been completed, as applicable, the deal is approved by the Executive Award and Review Advisory Committee (EARAC) prior to presentation to the TDHCA Governing Board. Once the Board has approved the loan award, MFDL issue a Commitment, staff starts the contracting process, and also initiates procedures relating to Davis Bacon and Uniform Relocation Act. Program Services also begins its process of due diligence for federal requirements such as Environmental Clearance and Section 3 requirements.

Multifamily Direct Loans Contracting and Loan Documents

Generally speaking, within the TDHCA there is a clear delineation between the Program divisions and the Program Control and Oversight divisions. The Program teams are involved with rule making, announcing and programming funding opportunities, evaluating applications against rules, providing technical assistance regarding the Programs, presenting actions to the Board, and ensuring all funds are committed on a timely basis. The Programs Services group has been traditionally tasked with performing quality assurance for the Program's disbursements and more recently performing closing functions. The Compliance Division is responsible for contract and/or property compliance reviews and administration after funds have been disbursed by monitoring Developments' compliance with federal and state rules and regulations.

In the MFDL process, pre-closing activities including due diligence and gathering of closing documents were transferred to the Program Services team several years ago to add a separation of duties and to mitigate risk. Because of the multiple and sometimes overlapping responsibilities between the various Divisions that are involved, OIA also noted that underlying documentation for the process exists in many different places on the network drive, on HCS and in the Compliance Management Tracking System (CMTS); different logs and tracking mechanisms are utilized for various parts of the process. The process should be better coordinated to ensure that overlapping responsibilities and a unified process is in place with the inputs from other Divisions; currently, as the loan moves through the process it is "owned" by different Divisions.

Loan documents are prepared only after the federal funds contract has been signed per Legal requirement based on Texas Government Code § 2306, Texas Administrative Code Chapter 11, Qualified Allocation Plan and Chapter 13, Multifamily Direct Loan Rule. Final due diligence begins after the contract is signed, with many sub-processes running concurrently to culminate in the final loan agreements, attachments, and the myriad legal documentation necessary to ensure the development is accountable for the committed low income units and that risks of repayment of funds have been mitigated.

OIA found that while the contracts were routed for approved by the appropriate internal parties prior to execution, evidence of these approvals currently exists on email and is not saved in a central location. Emails are currently being utilized in place of the manual paper routing form, which is consistent with other TDHCA processes during the Pandemic; however, OIA recommends that with likely telecommuting being a regular part of the Department's future operations that an automated approval process, such as DocuSign, be established to better document the approvals and any contract revisions.

Based on OIA's review, changes come in to the deal at many different times in the process. Developers may change their financing arrangements; another government grant or loan might be awarded or rescinded; additional federal funding may be received through project-based vouchers; or application data may be updated. There is a lack of understanding between Divisions as to what changes materially impact the need to rework and make changes to the underlying documentation. These impacts should be understood and brought into the process of managing expectations of the Developers / Borrowers in terms of a reasonable closing date.

The impact of these changes that arise prior to closing primarily affect Real Estate Analysis, which must reevaluate the development each time if the change requires, and the Legal Division to complete revised or new loan documents. Real Estate Analysis, in particular, could benefit from additional technology support to enhance their review process. The Divisions that jointly work on MF loans should work together to educate one another on the impacts of changes and review any technology solutions that could reduce rework. In turn, MF Division and Program Services Division staff, as relationship managers to the Developers / Borrowers, should augment their role as the training and technical support that is inherently required by such a complex and federally regulated process. This scenario is similar to that in the financial services and banking industries that require multiple layers of process management, both upfront and within the compliance (usually loan) period.

Multifamily Direct Loan Construction Draws

The Construction Draw process is complex and manually intensive. The Draws can be started as table funding, which allows the Developers to draw up to 50% of the loan amount if costs have been incurred and accounted for at the time of loan closing. If the project has not started construction or does not have enough eligible costs at the time of closing, then the Developer will request the initial Draw in some other eligible amount. Certain information is also required such as the total budget with hard and soft costs identified, as well as final sources of funds, and evidence of required match. Statute requires that a retainage of 10% of construction hard costs be withheld during the draw process.

OIA observed that there are no standard draw schedules or required number of draws; some developments had up to 13 draws, though not the norm. The workbook for requesting a draw is very confusing and lengthy; the detailed amounts requested by the Developer that is input to the spreadsheet actually represents an amount that is net of retainage. As such, the detailed requests reflect the Developer's original request less retainage, although in another place in the worksheet the original request is presented in total. The spreadsheet should be reviewed and even possibly reconstructed for easier use by the Developer as well as internally.

There is only one staff member in MFDL who processes Construction Draws; when that team member is unavailable there is little backup support causing delays. Entry into systems such as CMTS and HCS that are not complete due to lack of information at the time of entry, must be finalized by staff prior to inputting the Draw thereby requiring more time spent and increased delay in paying funds.

Team members in both MF and Program Services should provide ongoing training in small groups of approved MFDL awardees to help Developers' staff through the process; the more simple the process to the Developer, the less difficulty MFDL staff should have with processing the Draws.

The OIA offers the following observations and recommendations for the Multifamily Direct Loan Program application and draw processes.

<u>**Observations:**</u>

Observation Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.01	Internal Audit recommends that a change management tracking system be implemented in administering the loan closing process to track and maintain information on the type of changes coming through the various touchpoints within TDHCA for the MFDL process. By consistently tracking this information on each loan closing, trends and observations could be made to support program improvements.	9/1/2022	MFDL, REA, Program Services, Legal

Observation Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.02	Construction draw tools, spreadsheets and guidance should be reviewed to determine if they could be simplified. Standards for determining when a certain number of draws may be appropriate could be instructional in working to decrease the amount of documentation review and processing time required.	2/1/22	MFDL, Program Services
21-004.03	OIA recommends that the Legal team review the application prior to underwriting when certain conditions are present specifically, other governmental funding in the form of grants, loans or tenant vouchers.	12/1/21	MFDL, Legal
21-004.04	The contract and loan document approval process should be modified to ensure all approvals are tracked and available in a central location. OIA recommends that the process be automated as a routable document rather than email when possible.	10/1/22	MFDL

Management Responses:

Program Management appreciates the opportunity to provide comment on observations included in this report. Comments are organized by Observation Number. Program Services concurs with these responses and will work towards implementing the recommendations.

21-004.01. *MF Program Management concurs with this recommendation. MFDL staff are currently engaged in creating a tracking system for contracts and other documents for which MFDL holds primary responsibility, and welcomes the expansion of this effort to cover the entire loan closing process. MFDL, REA, Program Services and Legal all receive and process revisions made after Board approval. A global change management tracking system for the loan closing process would reduce administrative time spent coordinating and notifying each participant for each revision, and will provide valuable reference points for further observation and improvement in the loan closing process. All teams engaged in the MFDL process look forward to working together to review currently owned and available, affordable software that can be beneficial to tracking and managing changes occurring during the loan closing process. Program Management envisions the review, selection and implementation of this process to be completed by September 1, 2022.*

21-004.02. *Program Management concurs with this recommendation, and is currently implementing cross-training within MFDL, and engaging MFDL and Program Services staff as a group to explore ways to simplify and automate the MFDL draw process without compromising its integrity. Program Management estimates completion by February 1, 2022.*

21-004.03. *Program Management concurs with this recommendation, and has recently revised its internal review process to engage Federal Compliance Counsel and subject matter specialists upon application receipt and prior to referring the file to REA for underwriting. Current review forms and checklists will be updated to reflect this revision by December 1, 2021.*

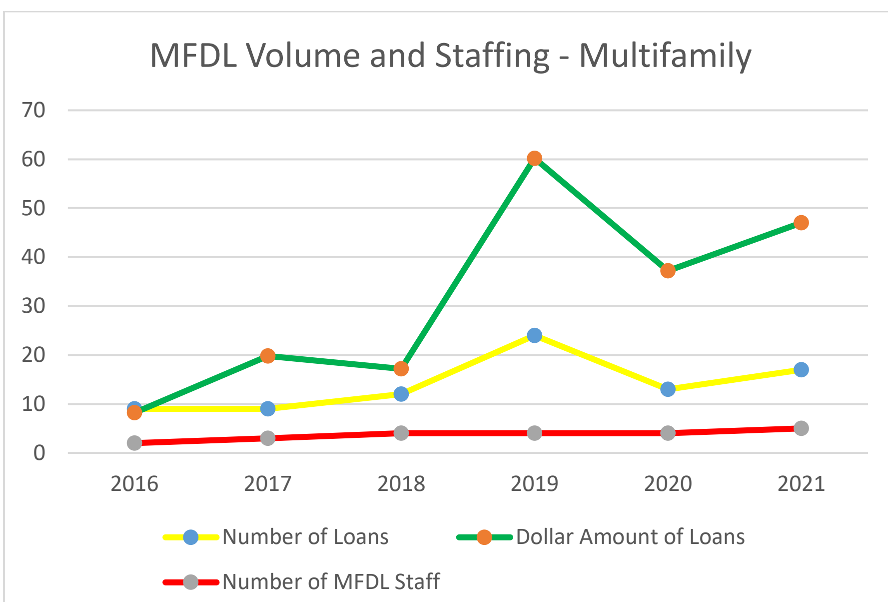
21-004.04. *Program Management concurs with the recommendation to automate the award (commitment) and contract documents (but is not committing to automating loan closing documents). Program Management will review and evaluate secure software such as DocuSign for this purpose and make recommendations to the Multifamily Finance Director based on security, costs, and compatibility by October 1, 2022.*

F) STAFFING

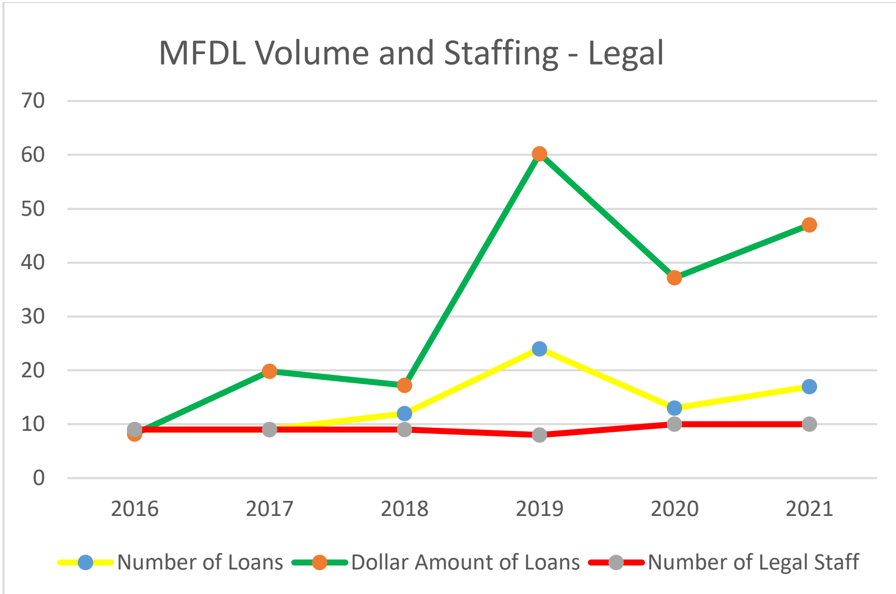
While the MFDL Program has been able to fully commit funds available to it, the Program has experienced increased growth in funding with a limited increase in resources or technology tools. The amount of growth requires that the process be reviewed in the context of the additional growth to streamline procedures; determine time frames for various types of deals; better manage expectations with external parties; better educate and assist external parties through the complexities of the process; and as a result provide better outcomes throughout the process and ensure reviews can be completed timely. For example, since TCAP RF is less restrictive, the loan should be able to be closed faster. OIA noted that management has allocated three full-time equivalents (FTEs) to the entire Multifamily Finance Division for FY2022, but those may not be fully focused on Multifamily Direct Loans.

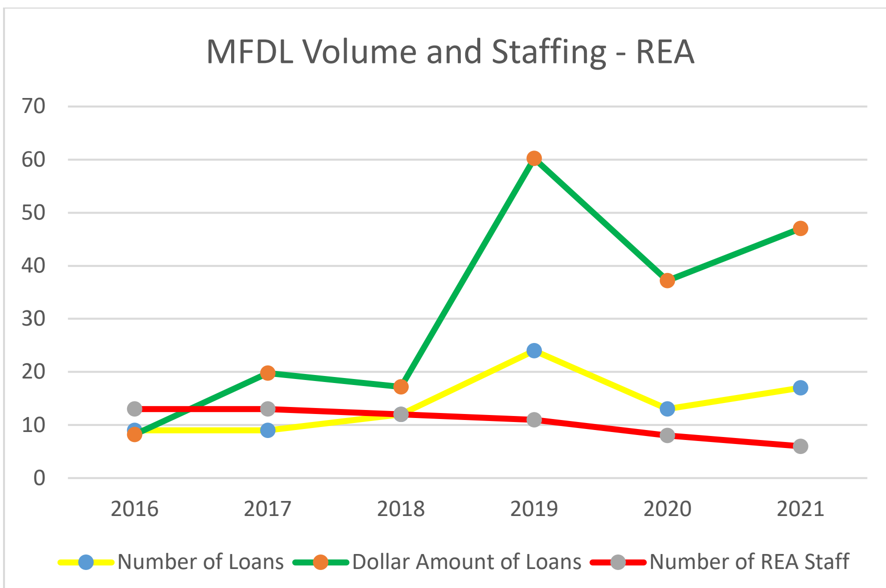
Staff in the Program Services Division includes a Multifamily Loan Closer (100% MFDL), a Senior Environmental Specialist that dedicates approximately 15% time, two Quality Assurance Specialists that dedicate approximately 5% to 7% time, a Section 3 Specialist dedicating less than 5% time; and a Manager dedicating approximately 5% time to MFDL.

As seen in the charts below, the MFDL Program experienced growth of almost three times the funding volumes with little increase in staffing in related programs and divisions[1]. Real Estate Analysis appears to be in the most resource constrained situation where staffing is at half the level in 2021 compared to 2016. In the charts below, staffing levels are reflected; for the Real Estate Analysis and Legal Division staffing represents total staffing, as it is a shared service among many Programs, and the Multifamily Finance staffing is based on only the staff dedicated to MFDLs within the Program area.



[1] These statistics were provided by the Multifamily Finance and Human Resources Divisions.





After responsibility for loan closing was transitioned to Program Services, the areas jointly implemented a weekly MFDL pipeline (activity) discussion which has been successful in managing internal issues. However, the team as a whole, including both internal and external parties, should consider project management techniques such as weekly status calls, task and date tracking, and having standards in place to acknowledge the effect of changes and missed dates. As a full team, they should practice weekly prioritization and scheduling of loan closing and predecessor activity required dates.

In addition, OIA noted the use of numerous checklists and spreadsheets that could be automated and may allow staff to review exceptions and look for issues, as opposed to manually calculating every application. More automated processes can also decrease the possibility of human error. OIA also noted that a few of the key personnel involved in the MFDL process might be retiring. Succession plans for these positions is critical to mitigate the risk of disruption to the program operation.

Observation Item Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.05	Due to the highly complex and manual nature of the MFDL requirements and process, OIA recommends that management consider assigning a "loan officer" or "project manager" to ensure the loan application and documents move smoothly and more quickly through the process.	Unknown TBD	MFDL
21-004.06	OIA recommends that Multifamily Finance evaluate the current end-user systems in place for the multifamily uniform application review and loan closing process to determine any future needs for system and application improvements.	9/1/22	MFDL
21-004.07	Due to the possible retirement of some of the key personnel, the MFDL division should consider documenting their procedures with screenshots that could be used for future training and improving SOPs.	2/1/22	MFDL

Management Response

Program Management appreciates the opportunity to provide comment on observations included in this report. Comments are organized by Observation Number. Program Services concurs with these responses and will work towards implementing the recommendations.

21-004.05. *Program Management concurs that this recommendation could provide a more consistent process for borrowers, but cautions that implementing this recommendation may require a greater reorganization than can be agreed to at this time by management. For MFDL, the loan closing process is organized along points in the overall lending process, such as application review, underwriting, award/contract, due diligence, closing and draw, with the exception of subject matter specialists who ensure compliance with federal cross-cutting requirements throughout the process. MFDL Program Management acknowledges that the loan officer/project manager workflow organization is the standard practice in the commercial lending industry and may enhance customer service; however, significant cross-training and reorganization of not only MFDL staff, but also other Multifamily Finance, Program Services, and REA staff would be required to implement this revision. Additionally, because of the complexity of the federal regulations governing these federal funds, subject matter specialists would still be needed to provide expert technical assistance. Given the number of departments impacted and level of cross-training that would be required, and subject to input from other departments, this observation will be taken into consideration with future hiring or other organizational changes, however, no specific actions are committed to being taken.*

21-004.06. *Program Management concurs with this recommendation, particularly as loan volume continues to increase. MFDL staff has commenced organization and evaluation of internal systems in order to improve and simplify them, and is notably being assisted in this effort by internal data management experts. Recommendations for revisions and improvements to current systems are expected to be available by December 31, 2021, to be fully implemented by September 1, 2022 or earlier, depending on available staff time.*

21-005.07. *Program Management concurs with this recommendation, and is in the process of revising and updating SOPs for draws, cross-cutting requirements, and the Integrated Disbursement and Information System, which should be completed by December 1, 2021. SOPs for awards and contracts are largely contained in the checklists specialists use to complete their duties, and have undergone recent revision. These can be incorporated into SOPs by February 1, 2022.*

E) TESTING AND REVIEW

As part of the audit, OIA held multiple interviews with management and staff and reviewed samples of transactions selected either randomly or judgmentally based on the ability to stratify and normalize the population. Transactions included those in the Application, Contracting and Loan Document Preparation, and Construction Draws sub-processes. Detailed transactions were reviewed for timely monitoring and resolution within the various options by tracking them within the processes noted above, ensuring appropriate authorization and verification at key control points. In addition, as noted in Section B, OIA reviewed applicable Texas Government Code and Texas Administrative Code, and Division level SOPs to confirm uniformity. Based on our reviews the function of the Multifamily Direct Loans Program is performing effectively overall with some suggestions for improved consistency and efficiency.

As a part of the review to determine external views of the Multifamily Direct Loan Program, OIA initiated a short customer service and open text type survey that was sent to almost 150 developers and consultants. The results of this survey were closed as of August 10, 2021; 28 participants provided feedback (19% response rate). Overall, the survey results were positive regarding the team members, their commitment to the Program, and the existence of the Program to provide gap financing. 13 of the 23 participants (56%) who answered the question indicated that the program was good or excellent, with many useful comments provided in the open text questions.

An SOP defines expected practices in a process where quality standards exist and plays an important role in any division. They are policies, procedures and standards needed to operate in a successful way. They can create efficiencies, consistency and reliability, fewer errors, and add value to the Division. In our review we noted that the MFDL division did not have current SOPs in place, and that other divisions' SOPs seemed to have not been revised and updated in several years.

Observation Item Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.08	Because of the complexity of the Multifamily Direct Loans process, OIA recommends that all Divisions create and/or update documented SOPs and process flows, so that the team can more easily identify process weaknesses and inefficiencies as well as evaluate options for technology solutions.	12/31/22	MFDL, Legal

Management Response:

21-004.08. *MF Program Management and Program Services concur with this recommendation, and have created process flows to assist in improving processes for which it is responsible. These processes are currently grouped generally as follows: application review, award/contracting, and draws. Other hallmarks such as Site & Neighborhood reviews, Uniform Relocation and Davis Bacon, are woven into these general categories for purposes of coherence. The next step, currently underway, is to update or create SOPs for the named hallmarks and general processes for review and further input by all impacted departments. This is an ongoing effort that should be completed by December 31, 2022.*

Program Management appreciates the Internal Audit department's professionalism and quick grasp of the complex processes that make up MFDL, as well as the proactive recommendations offered to improve performance. Thank you.

OIA extends our sincere appreciation to Multifamily Finance, Program Services Section, the Legal, Information Systems and the Financial Administration Divisions for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Internal Audit Director