

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
2002 AND 2003 CALENDAR YEARS**

AUDITORS OF PUBLIC ACCOUNTS
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December 20, 2004

**AUDITORS' REPORT
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We have made an examination of the books, records and accounts of the Connecticut Housing Finance Authority (CHFA), as provided in Section 2-90, as amended, and Section 8-260 of the General Statutes, for the 2002 and 2003 calendar years. Included in this examination is the State Housing Authority (SHA), a subsidiary of the CHFA established in accordance with Section 8-244b of the General Statutes.

SCOPE OF AUDIT:

We have relied on the financial audits, the compliance audits (required under Section 1-122 of the General Statutes), and the Section 8 audits (of Federally-assisted housing payment programs under the United States Housing Act of 1937) conducted by the CHFA's independent public accountants covering the calendar years indicated above. Such reliance was placed after having satisfied ourselves as to the firm's professional reputation, qualifications and independence, and verifying that generally accepted accounting principles and auditing standards were followed in the audits and in the preparation of the reports. Comments in the reports are presented under the heading "Other Examinations" in this report. Financial statements of the CHFA are included in its annual reports for 2002 and 2003.

We conducted our audit in accordance with generally accepted government auditing standards for financial audits. This report on our examination consists of the Comments and Recommendations which follow.

COMMENTS

FOREWORD:

The Connecticut Housing Finance Authority, hereinafter referred to as the CHFA or the Authority, operates under the provisions of Chapter 134, Sections 8-241 through 8-265qq of the General Statutes. It was established by the 1972 Session of the General Assembly as the successor to the Connecticut Mortgage Authority, which had been established by the General Assembly in 1969. The CHFA is a body politic and corporate, constituting a public instrumentality and political subdivision of the State. It was created to alleviate the shortage of housing for low and moderate income families, and to encourage the development of a balanced community of all income levels in the urban areas. Under Section 8-244b of the General Statutes, the CHFA established a subsidiary to be known as the State Housing Authority or hereinafter referred to as the SHA. The SHA was created to be the successor to the Connecticut Housing Authority. It was established to assist in ensuring continued occupancy of Authority-financed developments by low and moderate-income persons and families in accordance with the statutory purpose of the Authority.

Funds for financing permanent mortgage loans were obtained by issuing bonds, the interest from which has generally been exempt from Federal income tax to the bondholder, except during the period in which the Mortgage Revenue Bond (MRB) program was temporarily discontinued, from July 1992 through August 1993. The MRB program was extended indefinitely and made permanent in August 1993. In addition, financial market conditions permitted the CHFA to sell certain issues made during the period that were not exempt from Federal income tax. Loans made from the proceeds of such bonds must be secured by a first mortgage lien. Funds derived from the excess of interest income from loans over bond interest expenses are used to pay operating expenses of the CHFA.

Board of Directors and Administrative Officials:

In accordance with Section 8-244, subsection (a), of the General Statutes, the governing body of the Authority consists of 15 directors. Four directors are ex-officio, seven members are appointed by the Governor and four are appointed by the General Assembly. Members of the CHFA Board of Directors as of December 31, 2003, were as follows:

Ex-officio members:

- | | |
|---------------------|---|
| Denise L. Nappier | - State Treasurer |
| John P. Burke | - State Banking Commissioner |
| Marc S. Ryan | - Secretary, Office of Policy and Management |
| James F. Abromaitis | - Commissioner, Dept. of Economic and Community Development |

Appointed members:

- Arthur H. Diedrick, Chairman
- Allen Bacchiochi
- Raymond J. Devlin, Jr.

Orest T. Dubno
Joseph H. Fisher
Thomas W. Hynes
Keith D. McNamara
Steven Montesano
Jorge L. Perez
Ronald L. Smoko

One vacancy (a gubernatorial appointment) has existed since May 2002.

Gary E. King served as President-Executive Director during the audited period.

Recent State Legislation:

Notable legislative changes which took effect during the audited period are presented below:

Section 41 of Public Act 02-1 of the May 2002 Special Session provided for a transfer of \$85,000,000 during the fiscal year ended June 30, 2003 to the State's General Fund from the resources of the Authority.

Section 16 of Public Act 02-5 of the May 2002 Special Session, effective July 1, 2002, provided for the transfer of the Department of Economic and Community Development's housing loan portfolio to the Authority.

Section 46 of Public Act 03-279 requires that not later than January 1, 2004, the Executive Director of the CHFA, in consultation with the Commissioner of the Department of Economic and Community Development (DECD) and the Secretary of the Office of Policy and Management (OPM), develop a plan to transfer housing programs from DECD to CHFA.

Section 46 of Public Act 03-1 of the June 2003 Special Session requires the transfer of \$2,500,000 from the resources of CHFA to the State's General Fund during each of the State fiscal years ending June 30, 2004 and 2005.

CHFA Programs:

The CHFA provides financing through several programs at interest rates below those generally available. The two most significant programs are described below. Other programs are described in the CHFA Annual Reports.

The home mortgage program finances the acquisition or rehabilitation of existing or newly constructed housing with no more than four living units, one of which is required to be occupied by the borrower. The Authority's home mortgage funds are distributed through participating lenders.

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Multi-family mortgage loans provide permanent and construction financing for building new and rehabilitated pre-existing multi-family projects. It had been the aim of the Authority to invest a major portion of its multi-family resources in mortgages of projects subsidized under the Federal "Section 8" program, which pays a portion of some tenants' rent as determined by income. While the Section 8 program is no longer available for any new projects, those who were under the program will continue to receive Section 8 subsidies.

Thirty years is the maximum maturity of all home mortgage loans. Prior to 1993, all new home mortgage loans were "growing equity" (GEMS). The CHFA turned to conventional 30-year mortgages in 1993 in response to market conditions. We were informed that future mortgage types offered would be dependent on future market conditions.

Multi-Family Housing:

The Federal "Section 8" program, which is no longer available for any new multi-family housing projects, subsidizes a portion of some tenants' rent as determined by income. Under this program, eligible tenants pay 30 percent of their income as rent. The Federal legislation permits participating projects to be withdrawn after 20 years. However, we were informed that CHFA's regulatory agreements with the owners of such projects generally prohibit such withdrawals. Section 8-253a of the General Statutes permits such prepayments and withdrawals only on a finding by the Authority that there is not an acute need for low and moderate income housing in the area and that rents would not materially escalate.

For multi-family housing mortgage loans made with the proceeds of obligations issued after September 3, 1982, the Tax Equity and Fiscal Responsibility Act of 1982 made two changes. First, the definition of individuals of low and moderate income was changed to be 80 percent of median gross income as determined under Section 8 of the United States Housing Act of 1937. Second, 20 percent of the housing units in a project (15 percent in targeted areas) were to be occupied by individuals of low or moderate income for a specified period. All of the rental units must remain as rental units for the remaining term of the obligation, or for the specified period if that is longer.

There is a Multi-Family Underwriting Unit that underwrites the financing of multi-family rental housing developments, providing direct construction and/or permanent mortgage loans to private developers and not-for-profit sponsors for construction and/or rehabilitation of rental housing. The staff reviews loan proposals, analyzes sites and financial statements, and performs feasibility analyses to determine a proposal's acceptability. Also, the Multi-Family Technical Services Unit ensures that plans and specifications meet Authority standards and that construction proceeds are disbursed according to approved plans and timetables, and approves proposed changes and observes the integrity of developments. The division also verifies projected costs and reviews appraisals for accuracy and completeness. A Tax Credit Unit is responsible for the administration of State of Connecticut Low Income Housing Tax Credits (LIHTC's). The Unit underwrites and verifies requests for LIHTC's and conducts ongoing monitoring for verification of unit compliance and tenant eligibility.

Single-Family Housing:

The Authority adopts at various times sales price and family income limitations for eligibility in its home mortgage programs.

The Authority requires owners to complete an occupancy certificate, in which borrowers must certify their intent to occupy the mortgaged premises, and acknowledge the calling of the loan should the borrower cease to reside on the premises. This occupancy requirement is only enforceable on loans made after 1983.

The CHFA also operates an Urban Area Mortgage Program for home mortgages. Under this program, the CHFA may finance mortgage loans in certain legislatively designated urban areas of the State without regard to the borrower's income, but such loans may not be made by the CHFA if otherwise available on "reasonable terms". Prior to Public Act 95-202, this requirement was deemed satisfied when the applicant provided evidence of refusal for mortgage loans by not less than two financial institutions that are making residential mortgage loans in the area in which the housing is located, and that such refusal was for at least one of the reasons indicated in the CHFA's written procedures. Currently, the requirement that the applicant show refusal by not less than two financial institutions has been eliminated. The CHFA regulations require that all urban area mortgage loans be insured and that the owners live on the premises. Generally, applicable purchase price limitations apply to urban area mortgages.

Mortgage Insurance:

Section 8-251 of the General Statutes currently permits the Authority to purchase or make \$750,000,000 of mortgage loans which are uninsured or not guaranteed by a Federal agency, a Federally chartered corporation, a private mortgage insurance company, or the State or the Authority itself. As of December 31, 2003, the Authority had financed or firmly committed to finance approximately \$478,703,000 of such mortgage loans, representing 63.8 percent of this maximum.

After January 1, 1978, most of the CHFA's multi-family housing was uninsured, although subsidized under HUD's Section 8 Program. Developments covered by Section 8 subsidies were considered to be secure even in the absence of mortgage insurance. As noted earlier in this report, the Section 8 Program has been discontinued. This marked the end of Federal subsidies, but not affected is the existing portfolio of multi-family development loans. New multi-family projects have been at below-market rate rents based on Internal Revenue Service requirements for tax-exempt funding and most are uninsured. The CHFA has been undertaking the risk of such uninsured loans in order to keep costs and, accordingly, rents as low as possible.

RÉSUMÉ OF OPERATIONS:

During the audited period (calendar years ended December 31, 2002 and 2003) the CHFA maintained three funds in accordance with the provisions of Section 8-258 of the General Statutes: a Housing Mortgage General Fund (including its Capital Reserve), an Investment Trust Fund (formerly

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known as the Investment Trust Surplus Fund), and a Housing Mortgage Insurance Fund. In addition, the CHFA maintained Special Needs Housing Funds, referring collectively to a Special Needs Housing Fund, a Special Needs Housing Capital Reserve Fund and a Special Needs Housing Renewal and Replacement Fund. During the audited period, CHFA assets also consisted of various component units consisting of the aforementioned State Housing Authority and a number of subsidiary corporations created to hold foreclosed real estate. As mentioned earlier in this report, the scope of our audit did not include a review of these funds, as they were reviewed and reported on by the CHFA's independent auditors, and reliance will be placed on their audits. Separate comments follow in this report under the caption for each fund mentioned for informational purposes only. Detailed financial data concerning these funds is presented in the CHFA's Annual Reports.

Housing Mortgage General Fund:

With the exception of the initial \$50,000 appropriation made by the General Assembly in the 1969-1970 fiscal year, no appropriations have been requested of or made by the General Assembly for the general operations of the Authority. The only exception to this is the \$4,000,000 appropriated for the Emergency Mortgage Assistance program. In order to use the services of the State for payrolls and related employee benefits, the CHFA issued wire transfers to the State Treasurer's Office in the total amount of \$9,539,909 and \$10,159,393 to provide for such costs, during the State fiscal years ended June 30, 2002 and 2003, respectively. Our examination of the records of the State Comptroller and Treasurer indicated that these amounts were received and deposited as receivable collections against grant agreements deemed appropriated for the purposes of the Authority in accordance with the provisions of Section 3-39a of the General Statutes. Expenditures processed through this contribution account were \$9,551,814 and \$10,158,581 for the corresponding periods. These expenditures are only a small part of the total operating expenses of the Housing Mortgage General Fund. Most of the revenue received and expenses incurred by the CHFA are applicable to its own General Fund. During the period of this examination, monthly mortgage payments, including principal and interest, were made directly to various financial institutions which acted as servicing agents for the CHFA. The servicers deducted their service fees and wired the balance of their collections to the CHFA's credit at a Hartford bank. The monthly servicing fee for the CHFA's individual home mortgages is 1/12 of 3/8 of one percent of the unpaid balance.

Investment Trust Fund (formerly the Investment Trust Surplus Fund):

Under Section 8-258 of the General Statutes, the CHFA established this fund to account for assets which it determined "surplus funds" in accordance with the terms of its General Housing Mortgage Finance Program Bond Resolution of September 27, 1972, hereafter referred to as GBR.

As defined in Section 505, subsection (3), of the GBR, surplus funds represent the monthly excess of pledged receipts over funds required for the payment of operating expenses, principal and interest and the requirements of the Capital Reserve Fund. These amounts are to be deposited monthly in the General Fund surplus account. Section 506, subsection (1), of the GBR, provides that the amount in the General Fund surplus account may be transferred annually to the Investment Trust Fund. If these requirements and/or options are not executed on time, the amounts in the General Fund surplus account automatically revert to the redemption account. One of these options, which

is set forth in Section 506, subsection (1) (c) (ii) of the GBR, authorizes the establishment of a separate account which is unrestricted and can be used by the CHFA for any purpose authorized by the General Statutes.

Housing Mortgage Insurance Fund:

As provided for under Section 8-258, subsection (d), of the General Statutes, the CHFA is authorized to also establish a Housing Mortgage Insurance Fund. This fund shall consist of mortgage insurance premium receipts; money or assets received from loan defaults or delinquencies (including sales, lease or rental of real property); moneys lent or paid by the State for inclusion in this fund; and any other moneys available to the Authority which it determines to include therein. Loans and advances may be made from said funds as provided by Section 8-250 (purpose and powers of the Authority).

Connecticut Housing Finance Authority Bonds:

In accordance with the provisions of Sections 8-250, subsection (12), and 8-252 of the General Statutes, the Authority is authorized to issue bonds as, in its opinion, are necessary to provide sufficient funds for carrying out the purposes of the Authority. Except for bonds issued between July 1992 and August 1993, the period in which the Mortgage Revenue Bond Program was discontinued, most of the CHFA's bonds have been tax-exempt. The tax-exempt bonds are not backed by the full faith and credit of the State of Connecticut. However, the State, on or before December 1, of each year without further legislative approval, must appropriate from the State General Fund whatever amount is certified by the Chairman of the Authority as necessary to restore the Capital Reserve Fund to the required minimum capital reserve. Such amounts must be repaid by the Authority and credited to the State's General Fund as soon as possible from any moneys in excess of the amounts which the Authority determines will keep it self-supporting. The CHFA has determined that such amounts may be paid from the Surplus Account. As of December 31, 2003, the amount on deposit in the Bond Resolution Capital Reserve Fund, valued in accordance with the Act, was \$471,300,000 which was in excess of the Bond Resolution Capital Reserve Fund minimum requirement of \$261,549,000. The amount on deposit in the Indenture Capital Reserve Fund, valued in accordance with the Act, was \$3,439,000, which was in excess of the Indenture Capital Reserve Fund minimum requirement of \$2,900,000. For both of these capital reserve funds, the minimum is the amount of debt service due in the following year and the maximum is the greatest amount of debt service due in any succeeding year.

As disclosed in the CHFA's annual reports, Housing Mortgage Finance Program bond issues were made prior to this examination and bonds totaling \$8,563,895,000 had been issued prior to December 31, 2001, with \$3,206,660,000 outstanding as of that date. During the period of this examination, six additional Housing Mortgage Finance bond issues totaling \$1,771,390,000 were made. Bonds retired during the same period totaled \$1,824,020,000. As of December 31, 2003, \$3,154,030,000 of Housing Mortgage Finance Program bonds were outstanding. As of December 31, 2001, \$19,845,000 of Special Needs Housing Mortgage Finance Program Special Obligation bonds were outstanding. During the audited period, additional special obligation bonds totaling \$26,610,000 were issued and \$865,000 were retired. As of December 31, 2003, \$45,590,000 of these

bonds were outstanding. The CHFA had obtained a "top tier" designation by Standard and Poor's with a rating of "AAA" and was rated "Aaa" by Moody's Investor Services. Detailed bond information is included in the CHFA's annual reports.

Temporary Investments:

Temporary investments are those made with funds not needed for immediate use. The nature of such investments is limited by Section 8-250, subsection (18), of the General Statutes to obligations issued by or guaranteed by the United States of America or the State of Connecticut or to obligations which are legal investments for savings banks in this State. This area was reviewed by the CHFA's independent public accountants, and the CHFA was found to be in compliance with the applicable limitations.

Authority Staffing Levels:

According to the CHFA's monthly personnel status reports, the number of full-time employees decreased from December 2001 to December 2003, as shown below:

	<u>Pay Period Ended Dates</u>		
	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/03</u>
Total number of employees	<u>105</u>	<u>107</u>	<u>101</u>

Personal services costs, including fringe benefits, increased by approximately \$1,273,422 from calendar year 2001 to calendar year 2003 as a result of merit increases and increased costs of fringe benefits.

Other Examinations:

As noted previously in this report, the CHFA has been subject to annual audits by independent public accountants (IPAs) covering its financial operations, its loan servicing function, the Section 8 Federally assisted housing payments program under the United States Housing Act of 1937, and the compliance matters described in Section 1-122 of the General Statutes. Discussed below are the summaries of findings arising from the IPA audits for the calendar years ended December 31, 2002 and 2003.

2002 Audit:

The 2002 IPA audit resulted in the following findings, as reported to the Finance/Audit Committee of the CHFA, by the IPA, in a letter dated May 28, 2003:

- The staffing level of the accounting department should be increased in response to added responsibilities and the need for sufficient oversight.

- The Authority should consider different approaches to computing loan loss allowances, as the current process is very complex.
- Management should consider distributing quarterly balance sheet data to the Board members with operating statements.

2003 Audit:

The 2003 IPA audit resulted in the following findings, as reported to the Finance/Audit Committee of the CHFA, by the IPA, in a letter dated April 28, 2004:

- The Authority acquired approximately 1,300 loans from the Department of Economic and Community Development (DECD) during 2003 in return for an \$85,000,000 transfer of funds as a result of Public Acts 02-1 and 02-5 of the May 2002 Special Session. The Authority expended considerable efforts trying to bring the loan records up to Authority standards. The IPA recommended ongoing attention to these loans.
- Consideration should be given to establishing a methodology that will permit interim calculations of loan loss reserves instead of including these figures only at year-end. This issue is more important given the characteristics of the portfolio acquired from DECD.
- The Authority should continue training Accounting Department staff to prepare its financial statements without necessarily relying upon the Treasurer.
- Consultants should be engaged to annually assess the vulnerability of the Authority's Information Technology security.
- Federal Sarbanes-Oxley legislation imposes certain requirements on publicly traded companies with regard to financial reporting and internal control matters. Despite the Authority's nonpublic status, consideration should be given to adopting the relevant portions of Sarbanes-Oxley in order to be consistent with the Authority's choice to operate a quality organization.

PROGRAM EVALUATION:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to conduct a program evaluation as part of our routine audits of public and quasi-public agencies. In this audit, we selected the Teachers' Mortgage Assistance Program for review.

The Teachers' Mortgage Assistance Program was established with the passage of Public Act 00-187 and codified as Section 8-265pp of the General Statutes. The purpose of the program is to encourage certified teachers employed in priority and transitional school districts to purchase homes in those districts, as well as providing assistance to those teaching in subject matter shortage areas

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(as designated by the State Board of Education). At the time of our review in July 2004, CHFA had made approximately \$9,646,000 available for low-interest loans to teachers within the period beginning October 1, 2000.

Eligible teachers are certified part-time or full-time public school teachers employed by transitional or priority school districts, those employed by the Connecticut Technical High School System (formerly the Regional Vocational Technical Schools) located in those same districts, or those teaching in a subject matter shortage area. Participants must be first time homebuyers, or not have owned a home during the past three years. A Statement of Eligibility must be submitted by the superintendent of the employing school district verifying the teacher is appropriately certified. Loans made as part of this program must meet the normal CHFA Homeownership underwriting requirements.

The objective of our review was to determine if the Program appeared to be administered in an effective manner consistent with the statutory requirements. The Program was judged by us to be reasonably effective because assistance was provided to 118 borrowers during calendar years 2002 and 2003. The Authority has apparently been successful in marketing this program to eligible borrowers.

We examined 20 loan files and found 2 files in which teachers in priority or transitional school districts and not teaching in a subject matter shortage area received mortgages for properties outside of the school district in which the teacher was employed. Our review of the system in place to ensure eligibility under this criterion found that an internal control was not in place to prevent such an occurrence. Based on this examination, we present the following Recommendation:

Criteria: In accordance with Section 8-265pp of the General Statutes, there exists a mortgage assistance program for certain teachers. Such assistance is available to teachers employed in transitional or priority school districts provided the house is located in the district, or any area of the State if teaching in a subject matter shortage area.

Condition: Our review of 20 loan files from this program found two instances in which teachers in transitional or priority school districts not teaching in subject matter shortage areas received loans to purchase homes that were located outside of the districts in which they worked.

Effect: Loans appear to have been made without adherence to statutory provisions.

Cause: The Authority did not have a process in place to verify that the residency requirement was met in these circumstances. Program descriptions available on the Internet do not specify the residency requirement as one of the eligibility criteria.

Recommendation: The Authority should revise the Teachers' Mortgage Assistance Program's procedures to ensure that Program requirements are

adhered to by all applicants. (See Recommendation 1.)

Authority Response:

“To see that Program requirements are met, the Authority requires the Superintendent of Schools to sign off on each loan for each loan submission package. In these two cases, the applicant did not understand the residency requirement and the Authority’s review did not catch their error. The Authority has modified the Program description on its website to specify this requirement as one of the eligibility criteria, and will revise its procedures for review of documents to ensure that all applicants adhere to all Program requirements.”

CONDITION OF RECORDS

Our limited examination of the records of the Connecticut Housing Finance Authority disclosed certain areas requiring attention, which are detailed in this section of the report.

False Statement Penalty Provisions in Loan Documents:

- Criteria:* Section 1-126 of the General Statutes requires that any quasi-public agency shall require any application or loan documentation submitted to such quasi-public agency to be signed under penalty of false statement, as provided in Section 53a-157b of the General Statutes.
- Condition:* The Authority had taken steps to implement the provisions of Section 1-126 by amending certain documents. However, we noted that certain borrower's certifications, statements of eligibility, loan applications, and contractor's affidavits contain information that would normally be relied upon in the underwriting process, yet the required false statement provisions were not contained in the documents.
- Effect:* In addition to noncompliance with statutory provisions, public funds are at greater risk if appropriate penalties are not in place to discourage false statements.
- Cause:* A lack of administrative oversight appears to have contributed to this condition.
- Recommendation:* The Authority should perform a complete review of all the documents used in the lending process to determine if they are in compliance with statutory requirements. (See Recommendation 2.)
- Authority Response:* "The Authority is in compliance with the statutory requirements for false statement penalty provisions in Section 8-262a of the General Statutes, which provides "The Connecticut Housing Finance Authority may require any application or document submitted with respect to any program of, or program administered by, said Authority to be signed under penalty of false statement..." (emphasis added). This was an express reservation of discretion to the Authority by the General Assembly, and Section 8-263 of the General Statutes provides "To the extent that the provisions of this chapter are inconsistent with the provisions of any general statute or special act or parts thereof, the provisions of this chapter shall be deemed controlling"

Nevertheless, as recommended by the Auditors, the Authority will perform a review of documents used in the lending process for compliance with the false statement penalty provisions of Section 1-126 of the General Statutes.”

Monitoring of Assistance Provided Through IOREBTA Grants:

- Background:* In accordance with Section 8-265f through 8-265h of the General Statutes, there exists a program for the use of interest earned on real estate broker escrow accounts (IOREBTA). Such funds are to be paid to the Authority and used for mortgage assistance for low or moderate income households. Annual authorizations are made to the Authority by an advisory panel detailing the amounts to be paid to entities involved in affordable housing initiatives.
- Criteria:* Sound financial management practices suggest that when public monies are paid in the form of grants to local non-profit agencies, there should be some method of determining that the monies were expended and used for the intended purpose.
- Condition:* The Authority made grants amounting to \$355,000 and \$505,000 during the 2002 and 2003 calendar years, respectively. While these payments were properly authorized by the advisory panel, there was no evidence available to illustrate the final use of the funds. Grant agreements requiring the preparation of expenditure reporting mechanisms were not executed.
- Effect:* There is reduced assurance that the public funds provided to the various non-profit agencies were fully expended and used to accomplish the intended goals.
- Cause:* The Authority has not attempted to monitor the use of these funds.
- Recommendation:* The Authority should consider establishing a mechanism to obtain expenditure reports from recipients of IOREBTA grants. (See Recommendation 3.)
- Authority Response:* “The Authority is in compliance with the provisions of Sections 8-265f through 8-265h of the General Statutes for the administration of the IOREBTA Program, and has provided reports for that Program annually to the Advisory Panel, which in turn reports to the General Assembly.

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As recommended by the Auditors, the Authority will obtain documentation of their use of funds from recipients of IOREBTA grants, and will incorporate that information into its reports.”

RECOMMENDATIONS

Our prior audit included four recommendations. The status of those recommendations is presented below.

Status of Prior Audit Recommendations:

- The Connecticut Housing Finance Authority should further direct the servicer banks to formally notify the Department of Housing and Urban Development to wire funds directly to the Authority. Noncompliant servicer banks should be charged for lost interest on any funds not directly remitted to the Authority. This issue has been resolved.
- The Connecticut Housing Finance Authority should cease its attempts to collect reimbursement in the case cited and clarify its policy on the payment of health benefit premiums during Family and Medical Leave Act approved leave. This issue has been resolved.
- The Authority should take the steps necessary to reduce the singular reliance placed on the key financial person in the preparation of the Authority's financial statements. This issue has been resolved.
- The Connecticut Housing Finance Authority should conduct an examination of the losses of approximately \$1,000,000 that occurred during calendar year 2001 as a result of bankruptcy cramdowns. This issue has been adequately addressed.

Current Audit Recommendations:

- 1. The Authority should revise the Teachers' Mortgage Assistance Program's procedures to ensure that Program requirements are adhered to by all applicants.**

Comment:

Two out of 20 loan files were found to have been improperly approved because the teachers did not purchase a house in the same district they were employed in.

- 2. The Authority should perform a complete review of all the documents used in the lending process to determine if they are in compliance with statutory requirements.**

Comment:

We reviewed several documents that appear to be relied upon during the underwriting process and found that some were missing false statement penalty provisions as required by Section 1-126 of the General Statutes.

- 3. The Authority should consider establishing a mechanism to obtain expenditure reports from recipients of IOREBTA grants.**

Comment:

Grants are made annually from IOREBTA funds without any requirement that the Authority be supplied with documentation of the use of the funds.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Connecticut Housing Finance Authority during the course of our examination.

Ken Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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