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Office of the State Auditor**

New Jersey Housing and Mortgage Finance Agency

January 1, 2013 to January 31, 2015

**Stephen M. Eells
State Auditor**



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Enclosed is our report on the audit of the New Jersey Housing and Mortgage Finance Agency for the period of January 1, 2013 to January 31, 2015. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells
State Auditor
April 13, 2015

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Scope

We have completed an audit of the New Jersey Housing and Mortgage Finance Agency (NJHMFA) for the period January 1, 2013 to January 31, 2015. Our audit included financial activities of the Sandy Homebuyer Assistance Program (SHAP), the Sandy Special Needs Housing Fund (SSNHF), and the Fund for Restoration of Multifamily Housing (FRM). Total obligated funds for these programs were \$204 million during our audit period, of which \$98 million was expended. In addition, our audit included an evaluation of select application-level general controls over the SHAP shared drive and the MITAS system. The SHAP shared drive is an internal system which is used to track all SHAP applications. The MITAS system is an integrated financial software system designed to meet the reporting requirements of the NJHMFA.

The New Jersey Housing and Mortgage Finance Agency is in, but not of, the Department of Community Affairs. This public authority was created by the New Jersey Housing and Mortgage Finance Agency Law of 1983. The prime responsibility of the agency is to provide funding for affordable home ownership for New Jersey residents.

Objectives

The objectives of our audit were to determine whether adequate controls are in place at the NJHMFA to ensure the propriety of the program costs for the SHAP, SSNHF, and FRM. Additional objectives were to determine the adequacy of select application-level general controls over the SHAP shared drive and the MITAS system, including policies and procedures regarding security management, logical access, change management, contingency planning, and physical security.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, and policies of the NJHMFA. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the programs and internal controls.

Statistical and nonstatistical sampling approaches were used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions, as well as internal controls and compliance attributes. Sample populations were sorted and transactions were randomly and judgmentally selected for testing.

Conclusions

We found adequate controls were in place at the NJHMFA to ensure the propriety of program costs for the SHAP, SSNHF, and FRM. In addition, the general controls over the SHAP shared drive and the MITAS system were adequate. In making these determinations, we observed issues relating to the administration of the SHAP meriting management's attention.

Observation

Sandy Homebuyer Assistance Program

The New Jersey Housing and Mortgage Finance Agency (NJHMFA) administers the Sandy Homebuyer Assistance Program (SHAP), which provides low and moderate income households the opportunity to purchase a home by offering financial incentives. The program provided a subsidy of up to \$50,000 to assist homebuyers purchasing in one of the nine most Sandy-impacted counties and includes a payment forgiveness of 20 percent per year of occupancy.

The program did not prioritize the homebuyers' need for assistance or whether they were directly affected by the storm, but only whether they lived in, and were purchasing a home in, one of the nine most affected counties. The NJHMFA received almost 4,000 applications, but it could only fund 500 to 600 subsidies. A "first-come, first-served" method was used in determining which eligible applications would be approved.

The program has income restrictions based on family size and the county in which the individual is purchasing. The NJHMFA has several different methods of calculating income for this program, based on various factors. We found this complicated the process. Our statistical sample of the 246 subsidies awarded disclosed that in 6 cases of the 53 subsidies tested, the agency used an incorrect method of calculating income. This resulted in 2 incorrect payments totaling \$27,000 (1% of our sample's dollar value).

The program also has a liquid asset limitation of \$70,000 after the down payment has been made, which raises concerns regarding the recipients' need for assistance. Our test of pre-down payment assets for the 53 sampled subsidies revealed 13 instances where the assets exceeded \$50,000, 6 of which exceeded \$75,000 and 3 of which exceeded \$100,000.

For future programs similar in nature, the NJHMFA should consider setting an application deadline for their programs and then prioritize applications by need and program objectives. They should also review their income criteria to determine if the procedures can be simplified to avoid calculation method selection errors. In addition, they should review their asset limitations to determine if the program is serving the neediest individuals.

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Charles A. Richman
Acting Chairman

Anthony L. Marchetta
Executive Director

April 2, 2015

Mr. John J. Termyna
Assistant State Auditor
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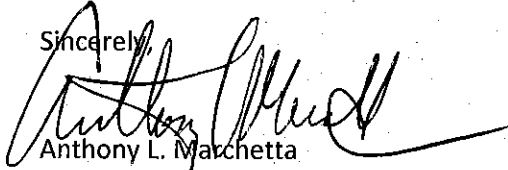
Dear Mr. Termyna:

The New Jersey Housing and Mortgage Finance Agency is in receipt of your draft copy of the OLS audit for the period January 1, 2013 to January 31, 2015.

The Agency consistently strives to implement programs effectively and with appropriate controls at all times and this audit review reflects those objectives. Please be assured that the HMFA will seriously consider the OLS comments and observations noted in the report.

The HMFA found the OLS audit process and staff highly professional during the audit review period. If you have any questions, please do not hesitate to contact me.

Sincerely,



Anthony L. Marchetta
Executive Director

ALM/nm

c: Claudia Lovas
Donna Rendeiro

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