

County of Napa

Auditor-Controller

Internal Audit Report



A Tradition of Stewardship
A Commitment to Service

Housing and Homeless Services Division
Compliance Review
Proximity Workforce Housing Assistance Program

For the Period: January 1, 2023 – December 31, 2023

Report Date: March 22, 2024

Tracy A. Schulze, CPA
Auditor-Controller

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Engagement Team

Susan MacDonald

Staff Auditor



A Tradition of Stewardship
A Commitment to Service

Auditor-Controller
1195 Third Street • Room B10
Napa, CA 94559

Main: (707) 253-4551
Fax: (707) 226-9065
www.countyofnapa.org

Tracy A. Schulze
Auditor-Controller

March 22, 2024

To the Board of Supervisors
Napa County, CA

Executive Summary

The Internal Audit section of the Napa County Auditor-Controller's Office has completed a compliance review over Napa County Housing and Homeless Services Proximity Workforce Housing Assistance Program (Program) for the period of January 1, 2023 to December 31, 2023.

We conducted our procedures in conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* established by the Institute of Internal Auditors. These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our objectives; and that the internal audit activity be independent, objective, and perform engagements with proficiency and due professional care.

The objectives of this compliance review were to determine whether loan recipients from the Program qualify to receive the Program loan and whether certain other requirements of the Program are being met in accordance with the Napa County Proximity Housing Assistance Guidelines (Guidelines) as revised and approved by the Board of Supervisors on April 19, 2022.

Based on our review, we believe that overall loan recipients from the Program qualified to receive the Program loan, and certain other requirements of the Program are being met in accordance with the Guidelines. However, we did note opportunities to improve the Program. This report noted one exception in the Procedure/Results section and further discusses the exception in the Conclusion section. We also discuss the results of management's corrective action plans to prior observations.

This report is a matter of public record and is intended solely for the information and use of the Director of Housing and Homeless Services, County Executive Officer, and the Board of Supervisors. I want to thank the internal audit team and Housing and Homeless Services' staff for their expertise and professionalism in conducting this engagement.

Sincerely,

A handwritten signature in blue ink that reads "Tracy A. Schulze".

Tracy A. Schulze, CPA
Auditor-Controller

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2023 - December 31, 2023

Background

The Housing and Homeless Services Division of the County Executive Office provides oversight and administration over the Proximity Workforce Housing Assistance Program (Program). The purpose of the Program is to assist low- and moderate-income households to purchase a home close to their place of work. The Program is intended to strengthen the jobs-to-housing nexus for members of the Proximity Workforce by increasing housing opportunities that are affordable and reducing displacement of those members who may otherwise choose to purchase homes outside of the County due to lower home prices.

Following Board of Supervisor approval of the Guidelines on April 19, 2022, the Program now provides down payment assistance of up to 16.5% of the purchase price in the form of a homebuyers' assistance loan for qualified buyers toward an eligible property. For the period of January 1, 2023 to December 31, 2023, there were 21 loans that closed and total funds awarded was \$2,227,500.

To be eligible for the Program:

- At least one person in the household must work in Napa County,
- The total household income must not exceed 120% of Napa County's Median Income for the household size (refer to the Household Income Limit table below),
- The purchase price of the home must not exceed 110% of the Median Home Price in the Jurisdiction (city/town),
- The home must be located in Napa County and within 20 road miles to the applicant's place of work, and
- The unit must be occupied as the Owner's Primary Residence

The Household Income Limit is updated each year by the California Department of Housing and Community Development (HUD) for each county. The Director of the Program uses this information to establish the thresholds for income for all loan applications where the total household income must not exceed 120% of the median income stated in the table.

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Background (continued)

| 2023 Maximum Total Gross Household Income Limit for Napa County | | | |
|---|------------------|----------------------|-----------------------|
| Household Size | Low Income (80%) | Median Income (100%) | Maximum Income (120%) |
| 1 | \$74,700 | \$90,700 | \$108,850 |
| 2 | \$85,400 | \$103,700 | \$124,400 |
| 3 | \$96,050 | \$116,650 | \$139,950 |
| 4 | \$106,700 | \$129,600 | \$155,500 |
| 5 | \$115,250 | \$139,950 | \$167,950 |
| 6 | \$123,800 | \$150,350 | \$180,400 |
| 7 | \$132,350 | \$160,700 | \$192,800 |
| 8 | \$140,850 | \$171,050 | \$205,250 |

Each June, the Program Director issues a memo to establish the threshold for the maximum amount that will be provided for down payment assistance based on the current market median home price in each jurisdiction.

The following establishes the maximum purchase price and maximum loan amount for calendar year 2023:

| Jurisdiction | Median Home Price | 110% of Median Price | Maximum Loan Amount from Program |
|-----------------------|-------------------|----------------------|----------------------------------|
| American Canyon | \$696,003 | \$765,604 | \$126,325 |
| Calistoga | \$859,300 | \$945,230 | \$155,963 |
| City of Napa | \$850,278 | \$935,306 | \$154,326 |
| Unincorporated County | \$859,300 | \$945,230 | \$155,963 |
| St. Helena | \$859,300 | \$945,230 | \$155,963 |
| Yountville | \$859,300 | \$945,230 | \$155,963 |

Compliance Review
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Objectives and Scope

The *objectives* of this compliance review were to determine whether:

- 1) Program loan recipients were qualified to receive the Program loan per the Program Guidelines, and whether
- 2) Certain other requirements of the Program are being met in accordance with the Program Guidelines

The *scope* included a review of the Program's records for the period January 1, 2023 to December 31, 2023. Our review focused on loan applications accepted and funded under the Guidelines approved by the Board of Supervisors on April 19, 2022.

We also conducted a follow-up review of the observations, recommendations, and management's responses (corrective action plans) noted in our last report issued on March 30, 2023. One observation and recommendation from that report remains open and will be addressed later in this report.

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Procedures and Results

We reviewed the Guidelines, as approved by the Board on April 19, 2022, and discussed with Housing and Homeless Services staff the changes to the Program revised Guidelines and administration of the Program. We then performed the procedures listed below to accomplish our objectives.

1. *Procedure:* Obtain a detailed listing of all loan receipts of the Program, including loan amount. Verify the completeness of this listing by comparing the total amount loaned per the detail to the amount distributed per the general ledger records.

Results: No exceptions noted.

2. *Procedure:* Review 13 of the 21 loans funded and perform the following:

- a. Ensure the maximum purchase price of the home did not exceed 110% of the median price of homes in the same jurisdiction (*Guidelines, Section 201 – Proximity Housing Assistance*):

Results: One exception noted. Applicant # 30538 was granted a variance through Board Agenda Item # 23-1268, increasing the 110% threshold to %115 of the median price of a home in St. Helena.

- b. Ensure the first mortgage, excluding closing costs and insurance, did not exceed 82% of the value of the purchased home (*Guidelines, Section 201 – Proximity Housing Assistance*):

Results: No exceptions noted.

- c. Ensure the total down payment amount contributed by the applicant, including gifts, did not exceed 16.5% of the purchase price.

(Guidelines, Section 201.1 and 201.6 – Proximity Housing Assistance): “The total down payment amount contributed by the applicants, including gifts, will not exceed 16.5% of the purchase price... Other first time homebuyer programs are acceptable to be used in addition to the Napa County Proximity Housing Assistance Program so long as Napa County maintains the second lien and is not subordinate to another program.”

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Procedures and Results (continued)

Results: Two exceptions noted. Calculation of the “down payment” contributed by the applicant is based on the deduction of the First Mortgage and Proximity Housing Loan from the home purchase price.

Applicant # 30538 utilized a \$250,000 forgivable loan under the ARPA Childcare Facility Loan Program to reduce the Loan to Value rate of the First Mortgage to 54%, resulting in a down payment contributed by the applicant calculated to be 30%.

Applicant # 30632 utilized a \$250,000 forgivable loan under the ARPA Childcare Facility Loan Program to reduce the Loan to Value rate of the First Mortgage to 47% resulting in a down payment contributed by the applicant calculated to be 37%.

The only other loans addressed in the guidelines are those for first time homebuyers. Therefore, variances should have been requested from the Board of Supervisors for each of these applicants allowing them to exceed the maximum down payment of 16.5%.

- d. Ensure Program loan amount did not exceed 16.5% of the purchase price of the home (*Guidelines, Section 201 – Proximity Housing Assistance*):

Results: No exception noted.

- e. Review executed Second Mortgage Agreement and ensure the provisions for maintenance, insurance, and refinancing are included (*Guidelines, Section 404 – Other*):

Results: No exceptions noted.

- f. Ensure the property purchased is located within a 20-mile radius of the place of employment of the Proximity Workforce Member of the household (*Guidelines, Section 201 – Proximity Housing Assistance*):

Results: No exception noted.

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Procedures and Results (continued)

g. Verify recipient had at least one member of their household certified as a member of the Proximity Workforce at the time of execution of the purchase (*Guidelines, Section 301 – Qualification to Receive Proximity Housing Assistance*):

Results: No exceptions noted.

h. Verify the owner's gross household income does not exceed 120% of the area median income (*Guidelines, Section 301 – Qualification to Receive Proximity Housing Assistance*):

Results: No exceptions noted.

i. Verify the Internal Revenue Service Form 1040 Individual Income Tax Return and Most Recent Paystubs were obtained (*Guidelines, Section 302 – Employment/Income Verification Procedures*):

Results: No exceptions noted.

j. Review written requests, if any, from applicants for a special review of variances from the Board approved Guidelines due to unusual hardship, and the outcome from the special review committee (*Guidelines, Section 501 – Special Review*):

Results: One variance granted by the Board of Supervisors to increase maximum purchase price from 110% of area median home price to 115%.

k. Review grievances, if any, filed with the Board of Supervisors by applicants to appeal determinations made by County staff and the outcome from the Board's review (*Guidelines, Section 502 – Grievance Procedures*):

Results: No grievances filed.

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Conclusion

We obtained and reviewed the Program's records to determine whether the administration of the Proximity Workforce Housing Assistance Program is following the revised Guidelines. Based on our review, we believe that overall, loan recipients from the Program qualified to receive the Program loans and certain other requirements of the Program are being met in accordance with the Guidelines. However, Internal Audit is including two observations and recommendations for management's consideration to improve program documentation and reduce financial risk.

1. Incorrect Loan Amounts on Signed and Recorded Documents

Observation

Loan Applicant #30538: The executed Proximity Housing Program Promissory Note has the incorrect amount listed for the First Mortgage. It should be \$517,110, not \$158,235.

Loan Applicant #30154.: The executed Proximity Housing Program Promissory Note has the incorrect amount listed for the First Mortgage. It should be \$368,250, not \$491,000.

Loan Applicant #30717: The recorded Second Mortgage Agreement has the incorrect amount for the Proximity Housing Loan. Page one (1) of the Agreement lists the loan amount as \$13,355. It should be \$113,355, as shown on the Recitals page of the Agreement.

Recommendation

We recommend that these documents be corrected and signed by the Borrowers. Copies of the recorded documents should be forwarded to Internal Audit to close the corrective actions.

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Management's Response

Staff agree with the recommendation. Appropriation for the Proximity program almost tripled in FY 2022/23, resulting in a significant increase in applications to process without an immediate related increase in staffing. Staff have done a great job managing the uptick and improving internal systems and workflows to support higher volume processing through the implementation of online application processing software. The department has also, in the last several months, been able to fill open vacancies to increase capacity. We have revised internal processes and balanced administrative workloads supporting an additional administrative review. The identified files have been sent to County Counsel for review and will be signed and corrected copies will be recorded and forwarded to IA to close the corrective action.

2. Establish Consistency for Down Payment Requirement in Documentation

Prior Observation

There is no minimum homebuyer down payment requirement in the Board-approved Guidelines. However, when applicants are approved to participate in the Proximity Housing loan program, they receive letters which provide the information below. These four columns imply requirements of the homebuyer to obtain the "Assistance" loan.

During this review period of January 1, 2023 – December 31, 2023 both Exhibit A and Exhibit B were used in the approval letters. Of the 13 files reviewed, three applicants were given more flexible terms as shown in Exhibit B column 2. Based on the dates of the approval letters, the terms were changed to Exhibit B in August 2023.

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Exhibit A

| 1 | 2 | 3 | 4 |
|--|-------------------------------|---|----------------|
| Maximum 1 st Mortgage Loan Amount (not to exceed 82% before financing fees and closing costs) | Homebuyers' Contribution 3.5% | Assistance Amount (up to 16.5% of Purchase Price) | Property Price |
| \$451,000 | Maximum-\$19,250 | \$90,750 | \$550,000 |

Exhibit B

| | | | |
|--|---|--|------------------------|
| Maximum 1 st Mortgage Loan Amount (not to exceed 82% before financing fees and closing costs) | Homebuyers' Contribution: Minimum 1.5%, Maximum 16.5% | County Downpayment Assistance Loan (Not to exceed 16.5% of Purchase Price) | Maximum Property Price |
| \$594,500 | Minimum = \$10,875 Maximum = \$119,625 | \$119,625 | \$725,000 |

Recommendation

Standardize these letters and delete the reference to a minimum down payment requirement unless it is included in the Guidelines. This will reduce the appearance of partiality for some applicants, and not conflict with the currently used Guidelines.

This same observation and recommendation were addressed in the Internal Audit report issued March 2, 2022 and again in the report issued March 30, 2023.

The Corrective Action will remain open until the minimum homebuyer contribution for downpayment is either added to the guidelines and approved by the Board, or until the reference is removed from the approval letters and only the maximum of 16.5% is standardized in all approval letters – as per the current Guidelines.

Management Response

The Program Guidelines clarify key aspects of the loan program and its requirements. The Guidelines establish a maximum 1st Mortgage loan-to-value of 82%, and maximum Program assistance amount of 16.5%. While they do not expressly state it, the remaining 1.5% is the down-payment amount required by the

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applicant. The Loan Approval Letter shown in "Exhibit A" is the letter used prior to the observation and recommendation included in the March 2023 audit. The edits included in the "Exhibit B" revised letter are expressly addressing this recommendation, and consistent with the terms outlined in the Program Guidelines.

The Exhibit B letter was developed following the March 2023 audit. It is the practice of the Department to use a single/consistent loan approval letter. In this case multiple loan approval letters for the 2023 calendar year had already been issued prior to the audit recommendation.

Internal Audit Response

Internal Audit is satisfied that Management has adequately addressed the observation and recommendation in the audit report issued March 30, 2023, and now considers this item closed.

