

County of Napa

Auditor-Controller

Internal Audit Report

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

For the Period: January 1, 2022 – December 31, 2022

Report Date: March 30, 2023



A Tradition of Stewardship
A Commitment to Service

Tracy A. Schulze, CPA
Auditor-Controller

Table of Contents

	<u>Page</u>
Executive Summary	1
Background	2
Objectives and Scope	4
Procedures and Results	5
Conclusion.....	8
Prior Observations	9

Engagement Team

Paul Phangureh, CPA, CIA, CGAP	Internal Audit Manager
Susan MacDonald	Staff Auditor



A Tradition of Stewardship
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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 30, 2023

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, 2022 to December 31, 2022.

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,


Tracy A. Schulze, CPA
Auditor-Controller

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

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 (prior was 10%) in the form of a homebuyers' assistance loan for qualified buyers toward an eligible property. For the period of January 1, 2022 to December 31, 2022, there were three (3) loans that closed and total funds awarded were \$342,704.

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.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Background (continued)

2022 Maximum Total Gross Household Income Limit for Napa County			
Household Size	Low Income (80%)	Median Income (100%)	Max Income (120%)
1	\$70,550	\$83,600	\$99,100
2	\$80,600	\$95,500	\$113,200
3	\$90,700	\$107,500	\$127,400
4	\$100,750	\$119,400	\$141,500
5	\$108,850	\$129,000	\$152,900
6	\$116,900	\$138,500	\$164,100
7	\$124,950	\$148,100	\$175,500
8	\$133,000	\$157,600	\$186,800

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 2022:

Jurisdiction	Median Home Price*	Maximum Purchase Price (110% of Median)	Maximum Loan Amount from Program
American Canyon	\$714,327	\$785,759	\$129,650
Calistoga	\$895,000	\$984,500	\$162,442
Napa	\$813,311	\$894,642	\$147,615
St. Helena	\$895,000	\$984,500	\$162,442
Yountville	\$895,000	\$984,500	\$162,442

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

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, 2022 to December 31, 2022. 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 2, 2022.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

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 each of the three (3) 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: No exceptions noted.

- b. Ensure the first mortgage, excluding closing costs and insurance, did not exceed 80% of the value of the purchased home (*Guidelines, Section 201 – Proximity Housing Assistance*):

Results: One exception noted. For Applicant #2, the first mortgage was 81.4% of the value of the purchased home, which exceeded the maximum 80% loan-to-value ratio. The loan was based on the *appraised* loan-to-value ratio of 80% rather than the *purchase price*. This reduced the minimum down payment required by the applicant from 3.50% to 2.10%.

This exception is further discussed in the Conclusion Section under ‘Unapproved Change to the Guidelines’.

- c. Ensure total down payment contributed by the applicant, including gifts, did not exceed 16.5% of the purchase price (*Guidelines, Section 201 – Proximity Housing Assistance*):

Results: No exceptions noted.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Procedures and Results (continued)

- 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.

- 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.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Procedures and Results (continued)

- 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: No variances filed.

- 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.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

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, we did find one deviation from the Guidelines and noted it as an exception in the Procedure/Result section and further discuss the exception below:

1. Unapproved Change to the Guidelines

Observation

On April 19, 2022, the Board of Supervisors approved the Guidelines to increase the down payment assistance from a maximum of 10% to a maximum of 16.5% (Resolution 2022-56). Those revisions, however, did not increase the first mortgage loan-to-value ratio of 80%. The Guidelines currently being followed were edited, without Board approval, to increase the first mortgage loan-to-value ratio to 82%. The unapproved Guidelines are also posted on the County's website.

Recommendation

We recommend that the Program Director review the loan-to-value threshold requirement of 80% for the first mortgage. If changes are deemed necessary, we recommend the Program Director amend Resolution 2022-56 and obtain Board of Supervisor approval and post the Board approved Guidelines on County's website.

Management's Response

On April 19, 2022, the Board of Supervisors discussed and approved guidelines to increase the maximum down payment assistance to 16.5% and allow the 3.5% required homeowner contribution to include up to 2% of closing costs. The redline and clean version of the guidelines included at that time included a type-o showing the related maximum first mortgage amount at 80% rather than 82%. The type-o was corrected when discovered and included on the County website. Staff will amend Resolution 2022-56 and obtain Board of Supervisor approval addressing the correction.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Prior Observations

1. File Retention

Observation

Based on our review, the Program would benefit from changes to current process for file retention. At some point, the Program administration, without adherence to the County Records Retention Schedule, shredded paper documents in the loan file with the intention of retaining them electronically.

Recommendation

We recommend that paper files be retained in a secured and locked cabinet for the minimum of current year plus two years as stated in the County Records Retention Schedule for Contracts and Agreements. In addition, a standardized procedure should be formalized for electronic retention of all files, including those that are paid off.

Management Response

Staff agree with the recommendation to revise current processes for file retention to ensure paper files are retained in a secure and locked cabinet for a minimum of three years and standardizing procedures for electronic retention of all files, including those that are paid off. Staff have secured a contract with Neighborly Software to provide a hosted software solution for the enrollment/application, qualification confirmation, administration, and reporting for the Proximity Workforce Housing Assistance Loan Program for this exact purpose. This hosted solution will be implemented in fiscal year 2022-23.

Management's Correction Action Plan – Status

During our review, we found that management implemented Neighborly software, which provides a central and secure location for the collection and retention of all documents.

Internal audit now considers this observation closed.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Prior Observations (continued)

2. Documentation

Observations

Based on our review, the Program would benefit from changes to current process for documentation. The Program has had a turnover in personnel administering the program, which has produced inconsistencies in file documentation. As we discovered when requesting applicant files, there were documents missing, blank, or unsigned. There was also inconsistency in naming the documents and the type of documents saved.

Recommendations

We recommended that a required checklist including sign offs be developed and used to ensure all required documents are retained for each applicant file.

Management Response

Program staff do have a checklist, which is provided to all applicants at the time of inquiry and used to ensure receipt of all required documents prior to application processing and/or loan approval. Staff agree with the recommendation to have a subsequent use/reference to the checklist to ensure all documents submitted are retained in both the paper and electronic file locations prior to loan funding.

Management Response - Correction Action Plan (Follow Up)

The cloud-based portal system includes the required document checklist, and staff utilize the online "task" feature to assign required document submission at the appropriate step in application review and approval. Applications with missing documentation are unable to proceed through the application portal flow by design. All documents submitted are retained only in electronic file locations prior to loan funding. All executed loan documents are retained in both paper and electronic file locations post loan funding.

Internal audit now considers this observation closed.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Prior Observations (continued)

3. **Minimum Down Payment of 3.5%**

Observation

We noted that approval letters issued by Napa County specify that a minimum down payment of 3.5% be provided by the applicant. However, this requirement is not stated anywhere in the Guidelines.

Recommendation

We recommend that the Program administration specify the 3.5% minimum down payment requirement by the applicant be included in the Guidelines.

Management Response

Staff agree there is an opportunity to update the existing Guidelines to further clarify key aspects of the loan program and its requirements, including clarifying the minimum down-payment amount required of the applicant. At present, the Guidelines establish a maximum loan-to-value of 86.5%, and maximum Program assistance amount of 10%, but do not expressly state the remaining 3.5% is the down-payment amount required by the applicant. At this time, the Board of Supervisors has directed staff to consider multiple revisions and expansions to the Program, and the existing Guidelines are under review with staff and County Counsel. This and other recommendations will be included in the final version of the updated Guidelines.

Management Response - Correction Action Plan (Follow Up)

Clarifying language regarding buyer contribution requirement of at least 3.5% of the total transaction, including closing costs not to exceed 2% of the total transaction, will be included in the final version of the updated Guidelines.

Internal audit's observation remains open pending the issuance of the final version of the Board approved updated Guidelines.

Compliance Review
Proximity Workforce Housing Assistance Program (Program)
For the Period of January 1, 2022 - December 31, 2022

Prior Observations (continued)

4. Third Party Loans

Observation

Program administrators do not take into consideration applicant's third-party loans when evaluating their Program loan application. For example, four applicants qualified for the City of Napa Housing Assistance Program for up to \$150,000 or 30% of the purchase price, and a 1% interest rate with no payments due for 30 years unless the house is resold. For one applicant, the additional assistance made it possible for them to put down more than 10%. For the other three applicants, they were able to put down less than the 3.5% minimum down as required by the approval letters.

Recommendation

We recommend that these third-party loans be addressed in the Guidelines as they can cause exceptions to certain requirements in the Guidelines and the approval letters.

Management Response

Staff agree with this recommendation. At this time, the Board of Supervisors has directed staff to consider multiple revisions and expansions to the program, and the existing Guidelines are under review with staff and County Counsel. This and other recommendations will be included in the final version of the updated Guidelines.

Management's Correction Action Plan – Status

During our review, we noted that the Guidelines under Section 201.6 includes the following language: "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."

Internal audit now considers this observation closed.