



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: August 5, 2020

Re: Internal Audit Reports

Since the last report to the Audit Committee on May 21, 2020, the FHA Risk Share Program Reporting Requirements process audit was completed. A copy of the report is attached, and a summary follows:

2020 FHA Risk Share Program Reporting Requirements

Objective:

At the request of the Senior Vice President-Asset Management, Internal Audit was asked to examine the FHA Risk Share Program reporting requirements and determine whether or not HDC is fulfilling those requirements in the most efficient and stream-lined manner.

Audit Results:

Upon completion of this process audit, we determined that there are opportunities for improvement in fulfilling FHA Risk Share Program reporting requirements. This process requires collaboration amongst various departments within the organization, and we made recommendations regarding coordination and leadership on the process. We have engaged with the Legal department to help develop a comprehensive checklist of requirements, and this process has begun. In addition, we will work closely with the Asset Management team to enhance the existing process for fulfilling FHA Risk Share Program reporting requirements.

FHA RISK SHARE REPORTING REQUIREMENTS PROCESS AUDIT 2020



Objective:	To examine the FHA Risk Share Program reporting requirements and determine whether or not HDC is fulfilling those requirements in the most efficient and streamlined manner.
Scope:	Audit period covered the calendar year 2019.
Background:	FHA Risk Share Program is a HUD-administered program that provides credit enhancement for mortgages of multifamily housing projects whose loans are underwritten, processed, and serviced by housing finance agencies (HFA). HDC participates in the FHA Risk Share Program, and there are various reporting requirements. SVP-Asset Management has asked Internal Audit to examine the process by which HDC currently fulfills these reporting requirements and offer suggestions on how to improve the process for fulfilling these requirements.
Results:	We determined that there are opportunities for improvement in fulfilling FHA Risk Share Program reporting requirements.
Recommendations:	<p>(1) We recommend that one department take leadership of this process, and that an individual within that department be assigned this responsibility. After several discussions with management, we feel leadership of this initiative is best housed in the Asset Management department. Many of the required reports to HUD originate from information stored in Asset Management (such as project financial statement analyses and annual property inspection reports).</p> <p>(2) HDC should develop written procedures for managing the reporting to HUD. A formal checklist may help to guide the process and mitigate the risk of incomplete and inconsistent reports.</p>

FHA RISK SHARE LOANS IN HDC PORTFOLIO

As of December 31, 2019

<u>Loan Status</u>	<u># Projects</u>	<u>Outstanding Loan Amount</u>
Permanent	26	\$630 million
Construction	25	\$1,300 million*

*Expected Permanent Loan Amount

GENERAL REPORTING REQUIREMENTS

- HDC Audited Financial Statements
- Negative changes in HDC's financial condition
- Changes in principal staff
- Changes in authorized signatories
- Semi-annual report on the status of the FHA Risk Share portfolio
- Annual certification
- Annual physical inspection reports