



**Community Development – First Time
Homebuyer’s Program Follow-Up
Audit A2019-09**

Issued by the
Internal Audit Office
May 14, 2019

**City of El Paso
Internal Audit Office
Community Development – First Time Homebuyer’s Program Follow-Up Audit A2019-09**

EXECUTIVE SUMMARY

The Internal Audit Office conducted a Follow-Up Audit of the Community Development – First Time Homebuyer’s Program Audit Report dated December 4, 2017. The original Audit Report contained two findings. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Findings	Status
1	<p>A review of Community and Human Development’s Policy and Procedure Manuals outlining the guidelines and processes for the First Time Homebuyer’s Program and Loans identified the following:</p> <ul style="list-style-type: none"> • Manuals are in draft form, outdated, or did not have an “effective date” on the Title Page. • Manuals do not contain procedures for tracking, reviewing, or monitoring loans and program compliance after homebuyers receive assistance. 	Implemented
2	<p>First Time Homebuyer loan payments and late fees are not being allocated in the DownHome System in accordance with the Borrower’s Promissory Note and the terms of the loan. A review of 20 loan payments received during the week of September 25, 2017 identified the following:</p> <ul style="list-style-type: none"> • Seven (7) out of 20 (35%) payments contained interest charges that were not amortized according to the Promissory Note and the terms of the loan. • Seven (7) out of 20 (35%) payments were paid late: <ul style="list-style-type: none"> ○ Six (6) late payments were charged a late fee and not allocated to the principal amount as required by the terms of the loan. ○ One (1) late payment was paid two days late and not charged a late fee. • One (1) out of 20 (5%) payments reviewed had a partial prepayment for a Deferred Loan, which is not allowed per the Promissory Note Terms. 	Implemented

For a detailed explanation of the findings and current observations, please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

The *Generally Accepted Government Auditing Standards* (Standard 5.06 and 6.36) states that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements. The *International Standards for the Professional Practice of Internal Auditing* (Performance Standard 2500.A1) require that the chief audit executive establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

AUDIT OBJECTIVES

The audit objective was to ensure that corrective action was taken by Management to address the recommendations detailed in the original Audit Report dated December 4, 2017.

AUDIT SCOPE

The audit period covered Department of Community and Human Development operations for Fiscal Year 2018-2019.

AUDIT METHODOLOGY

To achieve our audit objectives, we:

- Reviewed Department of Community and Human Development (DCHD) Policies and Procedures,
- Reviewed First Time Homebuyer Program screenshots and documentation,
- Reviewed action taken on loan borrower accounts.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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CURRENT OBSERVATION AND STATUS

Based on the follow-up audit results, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Finding 1

Policies and Procedures Manuals

Current Observation

The Department of Community and Human Development (DCHD) provided finalized versions of The City of El Paso’s Loan Servicing and Collections Manual and The City of El Paso First Time Homebuyers Program Manual.

The Loan Servicing and Collections Manual has an effective date of January 1, 2019 and contains procedures on:

- The entering of new loans into the DownHome System
- The monitoring of loans in the DownHome System by DCHD staff
- The preparation of monthly statements that are sent to borrowers

The First Time Homebuyers Program Manual has an effective date of June 15, 2017. The effective date was chosen as it was when the manual was last updated with the income guidelines amended. Please note that there is a conflict of dates as the original audit was completed on December 4, 2017. The Manual contains procedures on:

- Steps applicants take to apply for the First Time Homebuyer Program
- The criteria used to qualify applicants for the program

Both manuals are readily available to DCHD staff and we verified that the Office of the Comptroller has been made aware of the final version of the Loan Manual as of May 6, 2019.

Status

Implemented

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Finding 2

First Time Homebuyer Loans and Payments in Downhome

Current Observation

The Department of Community and Human Development sent seven (7) corrective letters to borrowers notifying them of adjustments to their accounts. All seven adjustments were in the form of Principal Reductions.

The Truth in Lending Disclosure Statement has been revised to include a note stating that total amounts paid may differ due to late payments, service fees or pre-payments.

The DownHome System allows staff to input new loan terms. The terms of the Promissory Note match with the terms listed in the Truth in Lending Disclosure Statement for the 7 accounts.

Status

Implemented

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

CONCLUSION

We have concluded our audit work on the objectives of the Community Development – First Time Homebuyer’s Program Follow-Up Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the observations and conclusion. In accordance with *Generally Accepted Government Auditing Standards*, we are required to conclude on whether Department of Community and Human Development met the objectives of this Follow-Up Audit. Based on our audit work, we have determined that Department of Community and Human Development met the audit objectives in the following areas:

- The Department of Community and Human Development has Documented Policies and Procedures for The City of El Paso’s Loan Servicing and Collections Manual and The City of El Paso’s First Time Homebuyers Program,
- Borrower loan accounts have been adjusted to reduce principal balances to correspond with the Promissory Note terms,
- Loan Promissory Note and Truth in Lending Statement interest rates and loan terms are identical.

Signature on File
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