LEGISLATIVE AUDIT COUNCIL

SUMMARY

A Review of Selected Operations of the State Housing Finance and Development Authority

INTRODUCTION

Members of the General Assembly requested that we audit the State Housing Finance and Development Authority. The requesters were concerned about program efficiency and why more aid for affordable housing was not reaching the needy community.

We reviewed the housing trust fund program, a program created by the General Assembly in 1992 to provide affordable housing. In addition, we reviewed the need for a private corporation affiliated with the authority which was created to address housing needs. Finally, we reviewed three areas which impact citizen participation in housing programs. Two of these areas involved follow-up from our 1991 review of the authority's homeownership program.

December 2003

HOUSING TRUST FUND (HTF) PROGRAM

For every $500 sold in real estate in South Carolina, 20¢ is allocated to the housing trust fund program for the creation of affordable housing. As of the end of FY 01-02, the HTF program had a balance of $12 million.

Non-profit sponsors assist individuals in applying for housing trust funds. The authority's staff reviews applications for qualification and completeness. Then the applications are generally submitted to the agency's governing board for approval. If approved, the nonprofit organization is responsible for completion of the project and the authority staff oversees the project.

PROGRAM OVERSIGHT

Authority staff has not adequately monitored housing trust fund projects. Authority staff are to inspect property to ensure that work has been completed and to evaluate the quality of work. In 52 (72%) of the 72 cases that we reviewed, there was no evidence of a site inspection. In six cases, emergency repairs which are to be completed in six months were not completed in that time. There is a question about whether the needed repair is an actual emergency when it is not completed in six months.

SPECIAL PROJECTS

From August 1999 to November 2002, authority officials allowed the use of over $2.6 million in housing trust funds for "special projects" which did not meet criteria for funding.

At least six (60%) of the ten special projects exceeded the maximum, allowable award amount. In three cases, the awards were at least $200,000 above the maximum amount allowed by guidelines.
Housing trust funds cannot be used for manufactured or mobile homes except for emergency repairs. Two special projects which were not of an emergency nature involved repairs to manufactured homes.

We also found problems with authority oversight of special projects.

One project was *abandoned* after the agency paid the sponsor $450,000 (90%) of a $500,000 award. When the property was inspected 17 months after the funding agreement was signed, 51% of the work had not been completed. According to an agency official, the authority did not provide adequate oversight in planning this project.
The authority made a full payment of $90,000 for a special project three weeks after the funding agreement was signed. Fifteen months later when the property was inspected, 4 of the 11 housing units were still incomplete.
In January 2003 (21 months after an award of $150,000 had been paid), the authority approved an additional $15,000 for the project. These funds were to be used to construct three housing units that were *already proposed* in the original award. We found no evidence that this property was inspected or completed.

Non-profit Corporation

In June 2002, the State Housing Finance and Development Authority created the State Housing Corporation (a private nonprofit corporation) exclusively for the benefit of the authority. We could find no reason why the corporation should continue to operate and recommend that the corporation be disbanded.

THERE ARE SEVERAL CONFLICTS OF INTEREST INVOLVING THE AUTHORITY AND THE NON-PROFIT CORPORATION. The same officials exercise influence over both organizations. For example, the authority's director served as the corporation's president from December 2002 through July 2003. Even after his resignation as president, this official continues to work with the corporation.

STATE RESOURCES HAVE BEEN USED TO SUBSIDIZE THE NON-PROFIT CORPORATION. The authority has made two loans totaling almost $5 million to the corporation. Based on a prior Attorney General opinion, "…[there is] no Constitutional or statutory power for a State agency to give public funds to a private foundation or any other corporation or individual except in payment for goods and services."

In addition, authority staff have spent state time working on corporation activities without reimbursement from the corporation. We could find no state law which allows state employees to perform services for private entities, such as the State Housing Corporation, at state expense.

THE NON-PROFIT CORPORATION HAS DONE LITTLE TO AVOID COMPETITION WITH OTHER PRIVATE ORGANIZATIONS. Based on its articles of incorporation and a "Statement of Intention," the corporation is to create housing in areas where housing cannot be provided by other organizations. However, our review showed that some of the projects considered for development by the corporation are in areas where private organizations involved in developing affordable housing are located or where organizations have developed affordable housing.

Participation Issues

The authority does not have comprehensive information on state housing needs which shows where the greatest housing needs are. As a result, the agency cannot ensure that information is disseminated to citizens in the most needy areas of the state.

The authority has increased the percentage of minorities who receive mortgage loans from 17% in 1991 to 33% in recent years.

The authority has more effectively targeted the homeownership program to low-income recipients. From 1999 to 2001, approximately 52% of the households that received mortgage loans earned less than $30,000 a year.

Income Range	Percentage
0 – $9,999	.02%
$10,000 – $19,999	7.90%
$20,000 – $29,999	44.50%
$30,000 – $39,999	38.70%
$40,000 – $49,999	7.40%
$50,000 and Above	1.48%
TOTAL	100.00%

FOR MORE INFORMATION

Our full report, including comments from the authority, and this document are published on the Internet at

www.state.sc.us/sclac

Copies can also be obtained by calling

(803) 253-7612

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