



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

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General Assembly Should Improve Oversight of Housing Finance Agency Funds and Expenditures

Highlights

IN BRIEF: The North Carolina Housing Finance Agency (NCHFA) is a public agency governed by a 13-member board. NCHFA's independence from certain state government policies and controls over expenditures increases the risk of wasteful or unnecessary expenditures. In addition, several NCHFA statutory funds have limited oversight, which led to an improper use of funds in one instance. The largest fund, the North Carolina Housing Trust Fund is overseen by the North Carolina Housing Partnership, but oversight activity is limited. Further, in violation of its own procurement policy, NCHFA did not have a contract with the private attorney that it pays to serve as general counsel to its board. The General Assembly should clarify that NCHFA is subject to the State Budget Act, direct that statutory funds be transferred to the North Carolina Housing Trust Fund, and improve oversight of the North Carolina Housing Trust Fund.

BACKGROUND: The General Assembly created the North Carolina Housing Finance Agency in 1973 as a public agency and instrumentality of the State. NCHFA has grown well beyond its initial role of supporting the individual homebuyer market with its mortgage products and now administers 16 programs addressing a range of housing needs for low-income and moderate-income households in addition to partnering with the Department of Health and Human Services on 5 additional programs. NCHFA is a state agency, yet it operates with a greater degree of independence than most agencies. Although NCHFA asserts that it is a self-supporting agency, the State supports its operations in several ways.

North Carolina Housing Finance Agency's asserted independence from certain state government policies and controls over expenditures increases the risk of wasteful or unnecessary expenditures.

Federal audits conducted in 2017 and 2019 by the Special Inspector General of the Troubled Asset Relief Program questioned some NCHFA expenditures as part of the NC Foreclosure Prevention Fund, determining that some expenditures were wasteful. The Program Evaluation Division did not conduct an audit of all NCHFA expenses but did identify ongoing areas of concern including

- additional employee benefits totaling \$544,148 in Fiscal Years 2017–18 and 2018–19;
- questioned nonprofit contributions totaling \$63,550 in Fiscal Years 2017–18 and 2018–19; and
- employee gift cards costing \$8,418 in December 2016.

Several of these expenditures would not occur at other state agencies because they are not permitted in the State Budget Manual. NCHFA contends that it is exempt from the State Budget Manual, though the Office of State Budget and Management has not provided an exemption to NCHFA.

Recommendation: The General Assembly should clarify that statute does not exempt the Agency from the requirements and limitations of the State Budget Act and direct NCHFA to update its policies and procedures to comply with the State Budget Manual. The General Assembly also should direct NCHFA's board to limit contributions to nonprofit entities outside established grant programs, except in circumstances that meet the criteria of a policy established by the NCHFA board and are individually approved by the board.

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Five NCHFA funds created by the General Assembly collectively hold nearly \$18 million that NCHFA is able to expend at its discretion or with limited oversight. The Program Evaluation Division determined that NCHFA improperly used one fund, the Homeownership Assistance Fund, to provide annual funding of \$130,000 to the Construction Training Partnership, which exists outside the Homeownership Assistance Fund's statutory purpose. Consolidation of these smaller statutory funds into a larger fund could improve oversight.

Recommendation: The General Assembly should modify statutes to eliminate these statutory funds and direct NCHFA to transfer the balance of the funds to the North Carolina Housing Trust Fund.

The North Carolina Housing Trust Fund is overseen by the North Carolina Housing Partnership, but oversight activity is limited.

The General Assembly created the Housing Partnership to perform oversight of the NC Housing Trust Fund, but the Housing Partnership lacks independence from NCHFA and the funds it oversees. A review of Housing Partnership activity shows little oversight in terms of the promulgation of rules and regulations or more generally in terms of policy matters related to implementation of programs using NC Housing Trust Fund dollars. The Housing Partnership has statutory authority to allocate funds from the NC Housing Trust Fund, but in practice the Partnership has ceded much of this responsibility to NCHFA.

Recommendation: The General Assembly should improve oversight of the North Carolina Housing Trust Fund by directly appropriating funding from the North Carolina Housing Trust Fund to NCHFA programs and transitioning the Housing Partnership to an advisory board.