

PENNSYLVANIA DEPARTMENT OF THE
AUDITOR GENERAL



Performance Audit Executive Summary: Pennsylvania Housing Finance Agency PennHOMES Program

This report presents the results of our performance audit of the Pennsylvania Housing Finance Agency (PHFA) regarding the PennHOMES program. Our audit objectives were: (1) Assess PHFA's process for reviewing developers' applications and awarding of PennHOMES program funds to ensure compliance with any applicable statutes, regulations, executive orders, contractual agreements, guidelines, policies, and procedures; and (2) Assess PHFA's process for monitoring units with PennHOMES program funding for compliance with any applicable statutes, regulations, executive orders, contractual requirements, guidelines, policies, and procedures regarding rent restrictions and income qualifications. The audit period was July 1, 2022, through September 30, 2024, with updates as applicable through the end of our audit procedures on October 9, 2025.

Our audit results are contained in **two findings with 24 recommendations**. We requested PHFA provide its written response indicating either agreement or disagreement with *Findings 1* and *2*, as well as the recommendations made in each of the findings regarding the PennHOMES program. However, PHFA did not respond with that information as requested. Instead, PHFA management provided a summary and timeline of a new data system that is in process but not scheduled to be fully operational until the fourth quarter of the 2026 calendar year. While we acknowledge PHFA's plans to upgrade its new data system in the hopes it will result in process improvements, our audit procedures and findings are based on the evidence and operations in place during the audit period reviewed. We are unable to draw conclusions on how the new PHFA data system may affect future PHFA operations and processes and to what extent it may address the findings and recommendations contained in this report. We have included our response in the *Auditor's Conclusion to PHFA's Response* section of this audit report.

Finding 1 – Although audit procedures did not find issues with applicants awarded PennHOMES funds, issues were found related to the lack of written documentation supporting the review and award process.

As part of our audit procedures, we reviewed documents that support the application review process performed by PHFA staff for 13 of the 39 applications submitted during the 2022 and 2024 application cycles that requested PennHOMES funding. There was no application cycle in 2023. Of the 13 applications we selected for review, five were awarded funds and eight were not awarded funds. We did not find any issues with the completeness and timeliness of applications being submitted; applications awarded funds complying with requirements; award approval by the PHFA Executive Director/Chief Executive Officer; and award process approval by the PHFA Board.

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However, we noted the following concerns regarding PHFA's operations: (1) the practice of purging, without first scanning into an electronic format, the hard copy decision-making support documents, of all unfunded projects that do not re-apply during the next application cycle; (2) the application scoring sheet did not include all factors considered when making the decision on which projects to fund; and (3) there was a lack of documentation to support review of developer financial capacity and housing development viability with an application approved for PennHOMES funding.

PHFA's current software does not allow staff to add comments or approvals on the electronic application; therefore, comments, if made, are on hard copy notes or in emails between staff. Purging documents pertaining to unfunded projects without first scanning does not allow for review of the decision-making process. PHFA management stated they are in the process of implementing a new data system, as noted above, that will allow staff to add comments to the electronic application.

Regarding the scoring of applications, our review found that during the award decision-making process, consideration was given to additional factors that were not documented on the scoring sheets. Although PHFA management provided explanations to justify the points awarded or not awarded, the lack of written documentation increases the risk that scoring manipulation could occur, whether from outside or inside influences, which could impact the outcome of which applications will be awarded funds. PHFA could better ensure objectivity, accountability, and transparency regarding its decision-making process by documenting all factors that are considered when making decisions on which applications to award PennHOMES funds.

PHFA developed a Qualified Allocation Plan (QAP) for each application cycle which contained federal and state requirements, priorities for the use of available funds, and selection criteria by which each project will be evaluated. Preferences are given to applicants that meet certain criteria in the QAP. Therefore, applications that did not score as many points as others in the same application cycle were awarded funds because they met a preference that, pursuant to the QAP, was required to be selected. We reviewed the total number of points awarded by PHFA to all 39 applications submitted during the 2022 and 2024 application cycles and found that while such projects are not awarded in **overall** score order, funds were awarded in score order within each **preference** category.

Our audit procedures also included reviewing PHFA's process for determining the financial capacity of the developers applying for PennHOMES funds and the viability of the proposed housing development projects. These determinations are critical as indicators of whether the developer will financially be able to complete the project and whether the housing development's operations and financial position will be favorable and generate a profit to be able to repay PHFA for funds awarded. We found that PHFA did not implement a formal evaluation process until the

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2024 application cycle. We further found that one housing development project received 2022 funding despite a PHFA staff member's recommendation that it not be funded.

We offer seven recommendations to PHFA to address issues with the retention of documents and the process for awarding funds. Improvements in these areas would provide more accountability and better transparency to the PennHOMES funding award process.

Finding 2 – PHFA did not consistently perform, review, and adequately document monitoring of PennHOMES funded properties.

PHFA monitored PennHOMES funded properties in the following three areas: (1) financial operations; (2) project operations; and (3) technical services. For each of these three types of monitoring, we reviewed 46 of 176 PennHOMES funded properties monitored by PHFA during the fiscal year July 1, 2022, through June 30, 2023. Further, we found that PHFA's monitoring procedures were conducted timely.

However, we found issues with lack of documentation to fully support PHFA's monitoring efforts and whether a supervisory level review was performed. We also found concerns regarding properties being unable to repay PennHOMES loans. More specifically, for each of the three types of PHFA PennHOMES program monitoring of the 46 properties we selected for review, we found the following:

Financial Operations

- Operating budgets for 12 properties were either not required to be submitted to PHFA, submitted without all the information, or not submitted timely.
- Five of the properties were not fully monitored by PHFA and followed a reduced scope of financial reporting to PHFA.
- Signoffs were not documented from staff who reviewed financial statements for 36 properties and supervisors who approved the work performed on 38 properties.
- Supervisory review of the financial performance reviews (FPR) were not documented for 37 properties.
- Negative cash deficits for four properties were not addressed in FPR letters sent to property management to document PHFA's concern regarding negative cash which could hinder the property's ability to repay its PennHOMES loan.
- During the 2023 calendar year, 24 properties were not sent billings to repay PennHOMES loans due to having either a low amount of cash surplus or a cash deficit.

Project Operations

- Monitoring was not performed for five properties as required by PHFA policy.

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- Incorrect unit information regarding the number of occupants and bedrooms and income and rent limits was found on six properties' File Audit Sheets which are used by PHFA to determine if residents meet the income limit requirements and if residents' gross rent charged is within requirements. Additionally, 33 File Audit Sheets did not contain supervisory approval.
- Remote monitoring was performed instead of required on-site visits for one property.
- Lack of documentation to support follow-up on issues cited on the Management Review sheet which is used to summarize PHFA's results of monitoring and items that need to be addressed by the owner or manager of the property.

Technical Services

- Inspection reports (TSAM) are not reviewed, and therefore, not approved by a senior staff member.
- PHFA was unable to provide documents to support that inspections were performed for two properties and that portions of inspections were performed for three other properties.
- Inspection of two properties did not include the required number of units.
- TSAMs for 25 properties did not include comments explaining the overall rating of the property, as required.

We offer 17 recommendations to PHFA to address the issues found with monitoring performed on PennHOMES funded properties.