

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 4/13/06
Department Name: Auditor-Controller
Department No.: 061
Agenda Date: 5/2/06
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Robert W. Geis, C.P.A.
Auditor-Controller

STAFF CONTACT: Barbara Gilner, C.P.A.
Audit Manager

SUBJECT: Affordable Housing Program Preliminary Compliance Report

Recommendation(s):

That the Board of Supervisors:

Set May 16, 2006 as the date to receive and file an Affordable Housing Program Preliminary Report on Restrictive Covenant Compliance and on the Monitoring and Lottery Selection Processes.

Executive Summary and Discussion:

The Board of Supervisors in April, 2005 asked the Auditor-Controller Internal Audit Department to perform an audit of the Housing and Community Development Department (HCD) with an initial emphasis on the monitoring and enforcement activity with regards to County affordable housing units. It has taken our office some time to begin this examination due to the fact that we had to recruit a new audit manager and new audit supervisor due to vacancies that occurred in March, 2005. We were able to start the audit in January, 2006 and have expended a significant amount of audit hours in February and March. We are issuing an initial preliminary report to the Board to report on significant internal control weaknesses and matters of non-compliance with regards to the compliance monitoring program, restrictive covenants for occupancy, restrictive covenants for rental, and the lottery selection process.

As background the program for providing affordable housing using resale restrictions, owner occupancy covenants, non-rental covenants and use of a lottery process to qualify initial applicants began in 1981 in the Office of Regional Programs. The program was initiated to assist low and very low income families with the ability to purchase a home within the County. In 1991, the Office of Regional Programs was dissolved and the Planning and Development department inherited the program responsibility to administer the compliance and monitoring program. The program was also expanded to include moderate and work force income types, affordable rental units and an inclusionary housing program. The finance portion of affordable housing upon

the dissolution of the Office of Regional Programs transferred with one employee to the Mental Health Department. As the finance and loan program fell apart the Auditor-Controller briefly took the finance program and reconstructed its records. In 1994 the finance program was transferred to the Office of the Treasurer.

In 2003, both the finance function and monitoring and compliance program were transferred to HCD. In fairness to HCD they inherited a program on the compliance side that lacked policy and procedures. Compliance problems had evolved and deteriorated over the years. The HCD initiated a monitoring and enforcement effort that started in December, 2004 and reported to the Board of Supervisors in April, 2005. Community members challenged the results of the monitoring effort and the Board of Supervisors requested the assistance of the Auditor-Controller Department. HCD halted all activity regarding monitoring and enforcement since April, 2005.

In our preliminary report we have found significant reportable weaknesses in the Affordable Housing Program. Due to the nature of the weaknesses we will expand our scope to 100% of the affordable units that have restrictive covenants. In addition, as detailed in our report we also will examine the HCD finance division processes and procedures, test internal controls, and verify the financial condition of the HCD loan portfolio. Our Internal Audit Division will be allocating a significant amount of effort to thoroughly complete our examination of the HCD programs. We also plan to use a student internship program of third year accounting students from UCSB throughout the summer to complete the compliance testing of all 395 units in the affordable housing inventory that have restrictive covenants.

In discussion with the CEO, we will form a process improvement project team led by Ron Cortez, Bob Geis, Ed Moses and a staff member from each of our departments to immediately begin to address the findings of the report. The first three key areas for improvement include: 1) reform the lottery process, 2) implement a program to remedy all violations and 3) implement a compliance program that will feature an annual self assessment for compliance by the owners of each affordable unit.

We need to adopt a philosophy as part of our mission that we have a clear vision that we consider these affordable units valued assets for the property owners and our community that are managed on an on-going basis by the County. We need to assure that the covenants are enforced and corrective policy changes are implemented. We need to have a zero tolerance policy for property owners in violation of covenants. We need to help the applicants with an efficient application and home ownership process. We need to administrate the program efficiently and effectively.

Mandates and Service Levels:

Various policy and program requirements

Fiscal and Facilities Impacts:

The Auditor-Controller plans to use its existing resources to complete this examination. Whether more staff is needed in HCD to assure a more effective program in the future can be evaluated by the process improvement team as we implement changes to the program.

Concurrence:

County Executive Office