Audit Reports on Internal Controls of Housing & Community Development

(For Affordable Housing and Housing Finance)

Issued by the Auditor-Controller
County of Santa Barbara
Presented 2/13/07

Background

- Finalization of 3/15/06 Preliminary Audit Report for Affordable Housing
- New Audit of Housing Finance

Internal Controls

- The policies and processes established to safeguard assets and achieve organizational objectives

Management

- "Management" is used broadly in our audit reports
- Refers to all organizational systems and/or individuals influencing the outcomes and decisions of a process

Audit Scope: Affordable Housing Ownership Activities

- Lottery and eligibility process
- Inventory control and unit tracking
- Restrictive covenant compliance monitoring and enforcement
- Refinancing and home equity monitoring
- General administrative functions

Affordable Housing Program - Audit Scope Limitations

- Affordable Rental Activities

Affordable Housing Program – Audit Conclusions

- Significant weaknesses exist in every key control point

- The lack of strong internal controls has led to
  - Inconsistencies in Program administration
  - Inequalities in benefits, and
  - Undetected violations of guidelines by Program participants

Affordable Housing Program - Findings

Affordable Housing Program – Lottery & Eligibility Certification

- We noted several deficiencies and inefficiencies in the lottery and eligibility certification processes

Affordable Housing Program - Inventory Control

- HCD does not maintain an accurate inventory of all affordable units under its authority

- Management has failed to maintain a complete and accurate listing of the number of affordable units <u>released</u> from the Program

Affordable Housing Program - Restrictive Covenants

- We identified several keys issues with regards to inadequate and/or inconsistent restrictions on affordable property

- Affordable units are permanently released through equity share provisions

- Management has failed to develop policies addressing the risk of foreclosure upon affordable units

- Management does not have a policy on mortgage loan refinancing and home equity loans

Affordable Housing Program - Covenant Compliance

- We identified a significant number of violations or suspected violations by affordable unit owners with the occupancy and rental clauses of the covenants
- 19 verified cases of non-occupancy
- 10 verified cases of additional real property owned at the time of the affordable unit purchase
- 36 verified cases of one or more real property purchases subsequent to the affordable unit purchase
- 38 verified cases of deed violations

Affordable Housing Program – Compliance Monitoring & Enforcement Program

- HCD has an ineffective compliance monitoring and enforcement program

- HCD management slowed or terminated enforcement efforts in response to violation enforcement uncertainty raised by County Counsel

- The home buyer advocacy role and the enforcement role are performed by the same individual

- The lack of an adequate monitoring and enforcement program has created an adverse compliance environment

Affordable Housing Program – Data Gathering & Document Retention

- Management has failed to implement formal data gathering and document retention policies

Affordable Housing Program – Program Policies & Procedures

- Program and administrative policies and procedures are outdated and insufficient

Affordable Housing Program – Building Code & Public Health Complaints

- We received various complaints by Program participants and neighbors of affordable units regarding perceived building code and public health violations

Affordable Housing Program – HCD Management Responses

- Are included as Appendix A of the report

Audit Scope: Housing Finance

- Accounting for funds and compliance with specific funding guidelines

Housing Finance –
Audit Scope Limitations

- Notice of Funds Available (NOFA) Process
- Measurement of Program Success

Housing Finance – Audit Conclusions

- Management lacks effective and focused oversight of the finance activities within HCD

- Programs are dormant, balances are accumulating, and revenue sources have been lost

Housing Finance - Findings

- **_General Program Findings_**
  - _A. Management Oversight (pg 4)_
  - _B. Accumulated Funds (pg 5)_

- **_Program Specific Findings_**
  - _1. Trust Funds (In-Lieu Fees) (pg 7)_
  - _2. Isla Vista Redevelopment Agency (pg 8)_
  - _3. Portfolio Recapitalization Loan (pg 10)_
  - _4. Inclusionary Housing – Shared Equity (pg 10)_
  - _5. Housing Assistance Program (HAP) (pg 11)_
  - _6. Housing Rehabilitation Loan Program (HRLP) (pg 13)_
  - _7. Supportive Housing Program (pg 15)_
  - _8. Community Development Block Grant (CDBG) (pg 16)_
  - _9. HOME Grant Program (HOME) (pg 18)_
  - _10. Orcutt Community Facilities Fund (pg 19)_

Housing Finance – Management Oversight

- We found that the management of the Housing Finance division does not have a comprehensive, clearly articulated view of the finance and accounting activities of the division

Housing Finance – Accumulated Funds

- We noted that balances are accumulating in the funds and accounts used to manage and support the various housing programs

Housing Finance – Trust Funds (In-Lieu Fees)

- We found that historical organizational changes of where in-lieu fees are calculated and collected, and a failure to guide the transition with formal procedures and documented exception policies, has caused
  - Lost revenue to the County,
  - Inconsistent application of rules, and
  - Inaccurate calculation of fees

Housing Finance – Isla Vista Redevelopment Agency (IVRDA)

- We found that Isla Vista program objectives for affordable housing are not being met due to
  - a lack of proactive management within Housing Finance, and due to
  - the annual NOFA process, which the IVRDA is subject to in order to receive project funding
- At 6/30/06, $3 million was sitting in reserves, with another $750,000 to be received by 6/30/07

Housing Finance – Portfolio Recapitalization Loan

- As of November 2006, HCD has yet to use any of these funds ($1.1 million) or locate projects that can use the funding

- This loan has cost the County $64,000 in interest

Housing Finance – Inclusionary Housing (Shared Equity)

- We found that HCD calculated the equity share incorrectly, costing the County $13,680 on the 4 homes sold during the audit period

Housing Finance – Housing Assistance Program (HAP)

- Our review revealed weaknesses within all the HAP program components:
  - initial eligibility,
  - ongoing monitoring and compliance,
  - loan tracking, and
  - the County's shared equity calculation

Housing Finance – Housing Rehabilitation Loan Program (HRLP)

- This program has been dormant for the last 4 years

- There is no formal process for collecting delinquent payments

- We found 2 out of 10 files selected for review contained loan rates inconsistent with the HRLP guidelines

- A substantial number of the files reviewed failed to contain adequate support for the calculated household income

Housing Finance – Community Development Block Grant (CDBG)

- We found several instances in which total grant revenues were not being reconciled against total grant expenditures.
- This resulted in situations where
    - 1) HCD failed to pay a contractor's invoice even though HCD had been reimbursed for that particular expenditure by the granting agency,
    - 2) HCD failed to request reimbursement for qualifying grant expenditures, and
    - 3) HCD failed to meet the grant matching requirements.

Housing Finance – HOME Grant Program

- Except for the lack of segregation of duties, we found that Housing Finance followed HUD procedures for draw-downs and properly recorded them in the County's financial system without exception

Housing Finance – Supportive Housing Program Grants

- HCD was unaware of a grant's 20% match requirement, and therefore, failed to meet the grant requirement by roughly $17,000

- The HCD program administrator failed to accurately code his time to the program

- Housing has yet to develop written procedures related to the on-going maintenance, monitoring, and implementation of the Homeless Management Information System grant

Housing Finance – Orcutt Community Facilities District

- We found that the tax proceeds being collected have yet to be disbursed to the service departments because Housing has not yet established a "threshold" dollar amount or policy for initiating the transfer of monies to the various service departments

- It is unclear how this program fits into the overall goals of the division

Housing Finance – HCD Management Responses

- Are included in the body of the audit report after each finding

The End