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**Audit Report**

**Affordable Housing: Rental Housing and  
Acquisition & Development Monitoring  
Audit**

May 25, 2011

Office of the City Auditor  
Austin, Texas

## **Audit Team**

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A full copy of this report is available for download at our website:  
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[oca\\_auditor@ci.austin.tx.us](mailto:oca_auditor@ci.austin.tx.us).  
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# City of Austin

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## Office of the City Auditor

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Date: May 25, 2011

To: Mayor and Council

From: Kenneth J. Mory, City Auditor

Subject: Affordable Housing: Rental Housing and Acquisition & Development Monitoring Audit

I am pleased to present this audit report on Rental Housing and Acquisition & Development Monitoring. This audit was conducted as part of the Office of City Auditor's FY 11 Strategic Audit Plan. Our office audited the Rental Housing Development Assistance (RHDA) and Acquisition and Development (A&D) programs for long-term monitoring requirements.

For the A&D program, we found that long-term monitoring is performed in accordance with applicable requirements. We also determined that long-term monitoring of RHDA-assisted units is not consistently performed in compliance with HUD and City requirements and does not ensure that the program is achieving its goals of long-term and deeper affordability. Lastly, we found that information management practices need improvement to ensure that monitoring data is complete, accurate, and reliable.

Based on our work, we recommend that Neighboring Housing and Community Development (NHCD) should improve existing procedures and controls for monitoring activities and support efficiency and effectiveness of information management practices.

We appreciate the cooperation and assistance we received from NHCD staff during this audit.

cc: City Manager  
Assistant City Managers  
NHCD Director  
Public Information Officer

## COUNCIL SUMMARY

This report presents the results of the Affordable Housing: Rental Housing and Acquisition & Development Monitoring Audit. This audit was conducted as part of the Office of City Auditor's FY 11 Strategic Audit Plan. Our audit objective was to evaluate the Acquisition and Development (A&D) and Rental Housing Development Assistance (RHDA) programs for long-term monitoring requirements. The audit scope includes departmental activities and projects monitored during FY 10 and FY 11 up to March 2011.

We found that:

- For the A&D program, long-term monitoring is performed in accordance with applicable requirements.
- For the RHDA program, long-term monitoring is not performed consistently and timely, and does not ensure that applicable requirements are met throughout the entire affordability period.
  - We reviewed a sample of four projects funded through Federal and City funds, and observed that for each of the sampled projects compliance documentation was incomplete or outdated.
  - We also reviewed the six projects funded with General Obligation Bonds which have been occupied for over one year and observed that:
    - No monitoring activity has been performed on four projects, and
    - For the remaining two projects, compliance documentation was outdated.
- Information management practices need improvement to ensure that monitoring data is complete, accurate, and reliable.

We made two recommendations that involve improving existing procedures and controls for monitoring activities and to support efficiency and effectiveness of information management practices.



**ACTION SUMMARY  
AFFORDABLE HOUSING: RENTAL  
HOUSING AND ACQUISITION &  
DEVELOPMENT AUDIT**



<b>Recommendation Text</b>	<b>Management Concurrence</b>	<b>Proposed Implementation Date</b>
1. The NHCD Director should improve existing procedures and controls for monitoring activities in order to have an efficient and effective monitoring process and ensure that staff is trained to implement those procedures and controls.	Concur	October 2011
2. In order to support the efficiency and effectiveness of information management practices for RHDA projects, NHCD Director should: <ul style="list-style-type: none"><li>▪ Continue efforts to ensure the completeness and accuracy of project information collected and maintained in the monitoring database by the Compliance Division; and</li><li>▪ Facilitate coordination between the Project Administration and Compliance Divisions.</li></ul>	Concur	FY 2012

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## **BACKGROUND**

As a Participating Jurisdiction in the HOME program, the City's Neighboring Housing and Community Development department (NHCD) assists eligible families with affordable housing and related services through various programs including:

- Home Owner Assistance
- Home Buyer Assistance
- Homeless/Special Need Assistance
- Housing Development Assistance
- Rental Assistance

In FY 2010, 69 percent of the total amount expended on HOME programs was used for the Housing Development Assistance program which comprises the following programs:

- Rental Housing and Development Assistance (RHDA)
- Acquisition and Development program (A&D)
- SMART Housing, and
- Community Housing Development Organization operating Expense Grants

About \$21 million, or 86 percent of the total amount expended on Housing Development Assistance programs in FY 2010, was used for the RHDA program. This program also used \$19 million of General Obligation (GO) Bond funding (comprising 91 percent of the total amount expended). The City also used HOME funds and other local funding sources, such as the Housing Trust Fund (HTF), to support this program. The A&D program used \$ 1.7 million of General Obligation Bond funding in FY10.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Affordable Housing audit was conducted as part of the Office of City Auditor's FY 2011 Service Plan, as presented to the City Council Audit and Finance Committee.

### **Objectives**

Our objective was to evaluate whether the Acquisition & Development (A&D) and Rental Housing Development Assistance (RHDA) programs had procedures in place to ensure that:

- a) HUD and City program guidelines for long-term monitoring are complied with and;
- b) GO Bond goals are being met.

### **Scope**

The audit scope includes departmental activities and projects related to Neighborhood Housing and Community Development's (NHCD) affordable housing services during FY10 and FY11 YTD.

### **Methodology**

To accomplish our audit objectives, we performed the following steps:

- Conducted interviews of applicable divisions and management staff;

- Analyzed and tested a sample of projects to determine compliance with HUD regulations and NHCD program guideline requirements for long-term monitoring; and
- Reviewed affordability levels and affordability periods for GO Bond-funded projects.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## AUDIT RESULTS

We reviewed both A&D and RHDA projects for compliance with monitoring requirements. First, we found that A&D generally complies with the long-term monitoring requirements for assisted units. However, we also found that long-term monitoring of Rental Housing Development Assistance units is not consistently performed in compliance with U.S. Department of Housing and Urban Development (HUD) and City requirements and does not ensure that the program is achieving its goals of long-term and deeper affordability.

### **Finding 1: Monitoring of Acquisition and Development-assisted units appears to meet City occupancy requirements.**

For long-term monitoring of Acquisition and Development (Homeowner) assisted units, the City requires verification of owner occupancy of assisted units. NHCD staff asserted that owner occupancy is verified by reviewing Travis Central Appraisal District (TCAD) records, but no documentation is retained.

We sampled four projects out of 110 homeownership projects, which used HOME funds, and verified owner occupancy from TCAD records. For all four projects, the units were occupied by the borrower.

### **Finding 2: Monitoring of completed rental housing projects does not ensure that HUD and City eligibility requirements are met.**

The City uses HOME Investment Partnership Program funding, disbursed from the HUD funds to build rental housing units for low-income households. As per HUD guidelines, Participating Jurisdictions (PJ) should establish an effective monitoring process designed to determine whether housing services are being delivered in accordance with HOME requirements. The most significant requirements are that funds be used to provide housing services for low-income residents; that any housing produced with HOME funds meets quality standards; and that housing opportunities created with these funds are available and affordable for a defined period of time (typically five to twenty years). Monitoring is necessary to ensure that HUD housing policy objectives are met and to protect against fraud and misuse of public funds.



The City also uses local funding from the Housing Trust Fund (HTF) to increase or maintain the supply of rental housing for low-income households. Regardless of the source of funding, the City has elected to abide by HUD requirements as well as additional requirements spelled out in RHDA program guidelines.

Per HUD requirements, once a project is complete, ongoing monitoring should be performed to confirm that rent and occupancy standards have been met. Ongoing monitoring should include:

- requiring owners to annually complete and submit a project compliance report to PJs,
- reviewing the report submitted by owners to verify compliance with rent and occupancy requirements, and
- performing regular on-site visits throughout the affordability period to ensure continued compliance.

Further, the City requires owners to submit their previous year’s financial audit (or a completed audit certification form) and current property insurance certificates.

We sampled 4 projects out of the 34 completed rental housing projects, which used HOME and/or City funds, and observed that in each of these four projects HUD and City monitoring requirements were not consistently met.

**Exhibit 1:  
Universe and Sample for RHDA Completed Projects by Funding Source**

	HOME		CITY	
	Universe	Sample	Universe	Sample
# of Completed Projects	29	2	5	2
Total Funding Amount	\$15M	\$830K	\$2M	\$767K

SOURCE: OCA analysis of NHCD’s Roster of RHDA Loans, April 2011

As shown in Exhibit 2, our review determined that monitoring documentation was incomplete or outdated for the four projects reviewed.

**Exhibit 2:  
Observations of Desk Review Documentation for RHDA Sample Projects**

Project reviewed	Funding Source	Funding Amount	# of Units	Initial Occupancy	Annual Report on Rent/Occupancy	Insurance Compliant	Annual Audit
Project #1	HOME	\$330,000	9	Apr-05	incomplete and outdated (one quarter of 2009)	Yes	Yes
Project #2	HOME	\$500,000	20	Sep-03	incomplete (none for 2009; for 2 units only for 2010)	Yes	No
Project #3	HTF	\$466,715	56	Jul-05	outdated (2009)	Outdated (2009)	No
Project #4	HTF	\$300,000	6	Jun-08	outdated (2009)	Yes	Yes

SOURCE: OCA analysis of RHDA project documentation, April 2011.

As mentioned above, HUD requires PJs to perform regular on-site visits throughout the affordability period to ensure continued compliance. Such visits should be performed periodically every one to three years, depending on the number of assisted units. On-site visits should include:

- a review of records and files retained on-site that document the owner's compliance with all HOME requirements, including verification of the data the owner submits on the rent and occupancy report; and
- a physical inspection to ensure that the property is maintained in accordance with applicable City code and property standards.

In addition, HUD guidelines require that after on-site visits, PJ monitoring staff send a report to owners that describes the results of the review. The report should include the specific actions the owners should take to correct any non-compliance or weaknesses identified, along with deadlines for completing these corrective actions.

During our review, we confirmed that an on-site visit was performed in September 2010 for all four sampled projects. However, we noted that the issues identified were not followed up on by sending a letter of non-compliance to the owners/developers. Documentation reviewed indicated that three of the sampled projects did not have the required Affirmative Fair Housing Marketing plan and related annual training and as of March, none of these issues had been followed up on.

Inconsistencies in the application of HUD and City requirements may be partly attributable to the absence of clear guidance to staff. While NHCD has developed RHDA program guidelines, there are only two general paragraphs that discuss requirements for long-term compliance (ongoing monitoring). NHCD has not adopted more detailed procedures to guide staff in conducting monitoring activities.

Monitoring serves many significant purposes including accountability, responding to community needs, and maximizing the use of resources. Without an effective monitoring system, the City cannot ensure that housing opportunities created using federal and local funds remain available and affordable throughout the agreed-upon period of time. Further, the City cannot ensure that the intended HUD and City housing policy goals are met and that public funds are used appropriately. Ultimately, the City may be at risk of jeopardizing current and future HUD funding.

### **Finding 3: Monitoring of General Obligation Bond-funded rental housing projects is not performed in compliance with City requirements.**

In 2006, the City issued General Obligation (GO) Bonds to fund affordable rental housing projects. GO Bond-funded projects are subject to specific program guidelines developed by NHCD, which include long-term compliance (ongoing monitoring requirements). These requirements apply once rental housing projects have been completed and have achieved their initial occupancy target.

Based on the City guidelines, NHCD should require owners to annually submit supporting documentation to confirm adherence to established requirements. Long-term project compliance requirements include:

- Federal Housing Quality Standards inspection reports,
- Income determinations for applicable tenants prior to lease up, and
- Appropriate/applicable rents charged under existing lease agreements.

We identified nine completed rental housing projects that used GO Bond funding (approximately \$11 million) and selected projects that were occupied for at least one year (six projects, totaling approximately \$8.2 million). Based on our review of all six projects that were occupied for more than one year, monitoring of GO Bond-funded projects is not performed consistently or in a timely manner. Specifically, as detailed in Exhibit 3:

- Three projects have not been subject to any monitoring activities;
- One project just recently passed one year initial occupancy, but we noted that no compliance documentation had been submitted or requested yet;
- For one project, we observed that the owner had submitted the required documentation supporting affordability requirements up to June 2009, but none since. Further, we could not confirm whether any review of such documentation had occurred; and
- For one project financed from GO Bonds and CDBG funding, documentation was available as of September 2009, though the project had been subject to an on-site visit in September 2010.

**Exhibit 3:  
Observations of Documentation Review of GO Bond-Funded Projects**

Project Reviewed	Funding Source	GO Bond Funding Amount	# of Units	Initial Occupancy	Compliance documentation available	# of months compliance documentation is overdue
Project #1	GO Bonds	\$2,300,000	37	Aug-09	none	7
Project #2	GO Bonds	\$1,765,294	24	Sep-09	none	6
Project #3	GO Bonds	\$60,000	1	Sep-09	none	6
Project #4	GO Bonds	\$2,500,000	130	Mar-10	none	-
Project #5	GO Bonds	\$1,516,850	100	Mar-08	Jun-09	9
Project #6	GO Bonds and CDBG	\$100,000	1	Oct-08	Sep-09	

SOURCE: OCA analysis of NHCD documentation, April 2011

We also noted that neither the program administration staff (who is responsible for monitoring projects through completion) nor the compliance staff (who is responsible for monitoring of completed projects) performs a verification of the documents submitted by the owner once the units are initially occupied. Owner-submitted documents include information on tenants' income and rent charged necessary to confirm that rent and occupancy requirements are met.

Without timely receipt and review of required documentation, the City cannot provide assurance that assisted rental units are occupied by eligible tenants throughout the affordability period and ultimately that the City goals of longer and deeper affordability are met.

According to management, more emphasis has been placed on monitoring of federally funded projects. As a result projects fully funded with GO Bond have not been monitored.

#### **Finding 4: Information management practices need improvement to ensure that monitoring data maintained is complete, accurate, and reliable.**

As per best practices<sup>1</sup>, management should have controls in place to ensure the integrity of data. Information integrity relates to the accuracy and completeness of information, as well as to its validity based on business needs. In our review, we observed that information related to project monitoring is not always complete, accurate, or reliable. Further, HOME Program Rules requires Participating Jurisdictions to maintain project records that demonstrate that each family living in a HOME-assisted unit is income eligible. We observed issues relating to reliability and completeness of information management in our prior audit of Rental Housing and Development Assistance in March 2003. We have noted lack of controls related to information management practices in our current audit as detailed below:

##### *Issues with completeness of information*

Per City processes, once initial occupancy requirements are met, the Project Administration Division should deliver the completed projects' files to the Compliance Division for long-term monitoring. During our review, we noted that two projects files were not turned over to the Compliance Division after all initial occupancy requirements were satisfied.

The Project Administration and Compliance Divisions use various information systems to record project status and monitoring information and there is no formal coordination between the two divisions to communicate the status of a project. As a result, projects that are complete may not be monitored timely after meeting initial occupancy requirements.

##### *Issues with accuracy of information*

During our review, we noted that incomplete and inaccurate information was captured in the Nortridge information system, which is the information system used by the Compliance Division to plan and track long-term monitoring on completed projects. Issues identified include:

- Incorrect information contained in Nortridge regarding project funding sources and loan categorization;
- Information in Nortridge not being updated on a timely basis; and
- Information recorded in Nortridge which is not supported by documentation in the compliance file.

Further, we observed poor record management practices, including incomplete and untimely filing of documents in the projects files.

Management asserted that the lack of supervisory review controls over information entered in Nortridge leads to incomplete and inaccurate information.

As a result, information captured in Nortridge and in compliance files cannot ensure completeness and accuracy of the monitoring status of affordable housing projects.

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<sup>1</sup> Control Objectives for Business Information and Technology (COBIT) framework.

## Recommendations:

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

1. The NHCD Director should improve existing procedures and controls for monitoring activities in order to have an efficient and effective monitoring process and ensure that staff is trained to implement those procedures and controls.

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**MANAGEMENT RESPONSE: Concur**

The Compliance Division will update the NHCD Monitoring Procedures to be inclusive of all funding sources and rental housing monitoring requirements.

Program Administration will update AHFC program guidelines, loan documents, processes and procedures documents to ensure they include Monitoring Procedures as developed by the Compliance Division.

The department has budgeted training funds to ensure that staff is trained to implement regulatory requirements and recommended procedures and controls for rental housing monitoring.

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2. In order to support the efficiency and effectiveness of information management practices for RHDA projects, the NHCD Director should:
  - Continue efforts to ensure the completeness and accuracy of project information collected and maintained in the monitoring database by the Compliance Division; and
  - Facilitate coordination between the Project Administration and Compliance Divisions.

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**MANAGEMENT RESPONSE: Concur**

NHCD recently completed a business process re-engineering effort with CSDC, owner of the AMANDA software and CTM.

Under development are Standard Operating Procedures (SOPs). Programming will begin once SOPs are completed.

Testing and training will follow. A “go live” date is scheduled for fiscal year 2012.

The department’s loan servicing software called Nortridge will be aligned with AMANDA to ensure completeness and accuracy of project information collected and maintained in both systems.

Program staff will perform initial monitoring of RHDA projects through initial lease-up.

Compliance staff will perform the 1<sup>st</sup> annual monitoring at the 1 year anniversary date of the initial occupancy.

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**APPENDIX A**  
**MANAGEMENT RESPONSE**

DRAFT



# City of Austin

## Neighborhood Housing and Community Development

P.O. Box 1088, Austin, TX 78767-1088

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### MEMORANDUM

TO: Kenneth J. Mory, City Auditor

FROM: Betsy Spencer, Director  
Neighborhood Housing and Community Development Office

DATE: May 20, 2011

SUBJECT: Response to Affordable Housing Audit – Report dated May 9, 2011

Attached please find the Neighborhood Housing and Community Development (NHCD) Office response to the Affordable Housing Audit. The audit included a review of the Acquisition and Development (A&D) and Rental Housing Development Assistance (RHDA) programs administered by the Austin Housing Finance Corporation (AHFC). The objectives of the audit were to ensure that (a) HUD and City program guidelines for long-term monitoring are complied with and; (b) General Obligation goals are being met.

The Office of the City Auditor (OCA) offered two recommendations as follows: (1) NHCD Director should improve existing procedures and controls for monitoring activities in order to have efficient and effective monitoring process and ensure that staff is trained to implement those procedures and controls; and (2) in order to support the efficiency and effectiveness of information management practices for RHDA projects, NHCD should: (a) continue efforts to ensure the completeness and accuracy of project information collected and maintained in the monitoring database by the Compliance Division; and (b) facilitate coordination between the Project Administration and Compliance Divisions.

We concur with both recommendations and have outlined our proposed strategies for implementation, status of strategies, responsible person / phone number and proposed implementation date on the attached Action Plan. Steps taken to remedy the recommendations since the draft report was issued include completion of on-site monitoring visits for the completed General Obligation Bond projects. Physical inspections and responses from owners are in progress.

Additionally, in the current fiscal year and the 2012 fiscal year the department has identified staff training as a horizon issue. Steps have been taken to ensure that staff is adequately trained in various regulatory areas and business matters. The department is also spearheading a business process re-engineering effort that is currently addressing standard operating procedures and systems.

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Page 2 of 2:

We want to thank the audit team for their professionalism and for their recommendations that will help NHCD and AHFC become more efficient and effective in serving the low income community of Austin.

cc: Anthony J. Snipes, Chief of Staff

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**ACTION PLAN**  
**Affordable Housing: Rental Housing and Acquisition & Development Audit**

<b>Rec #</b>	<b>RECOMMENDATION TEXT</b>	<b>Concurrence</b>	<b>Proposed Strategies for Implementation</b>	<b>Status of Strategies</b>	<b>Responsible Person/ Phone Number</b>	<b>Proposed Implementation Date</b>
01	The NHCD Director should improve existing procedures and controls for monitoring activities in order to have an efficient and effective monitoring process and ensure that staff is trained to implement those procedures and controls.	Concur	<p>The Compliance Division will update the NHCD Monitoring Procedures to be inclusive of all funding sources and rental housing monitoring requirements.</p> <p>Program Administration will update AHFC program guidelines, loan documents, processes and procedures documents to ensure they include Monitoring Procedures as developed by the Compliance Division.</p> <p>The department has budgeted training funds to ensure that staff is trained to implement regulatory requirements and recommended procedures and controls for rental housing monitoring</p>	<p>Underway</p> <p>Underway</p> <p>Implemented</p>	<p>Program - David Potter 974-3192</p> <p>Compliance- Letitia Brown 974-3132</p>	<p>October 1, 2011</p> <p>October 1, 2011</p>

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
02	<p>In order to support the efficiency and effectiveness of information management practices for RHDA projects, NHCD Director should:</p> <ul style="list-style-type: none"> <li>▪ Continue efforts to ensure the completeness and accuracy of project information collected and maintained in the monitoring database by the Compliance Division; and</li> <li>▪ Facilitate coordination between the Project Administration and Compliance Divisions.</li> </ul>	Concur	<p>NHCD recently completed a business process re-engineering effort with CSDC, owner of the AMANDA software and CTM.</p> <p>Under development are Standard Operating Procedures (SOPs). Programming will begin once SOPs are completed. Testing and training will follow. A “go live” date is scheduled for fiscal year 2012.</p> <p>The department’s loan servicing software called Nortridge will be aligned with AMANDA to ensure completeness and accuracy of project information collected and maintained in both systems.</p> <p>Program staff will perform initial monitoring of RHDA projects through initial lease-up.</p> <p>Compliance staff will perform the 1<sup>st</sup> annual monitoring at the 1 year anniversary date of the initial occupancy</p>	Underway	<p>Program- David Potter 974-3192</p> <p>Compliance- Letitia Brown 974-3132</p> <p>Director’s Office – Diana Domeracki 974-3156 (AMANDA Lead)</p>	Fiscal Year 2012