



June 27, 2018

Performance Audit

Workforce Housing Trust Fund

Department of Family and Community Services

Report No. 15-113



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
WORKFORCE HOUSING TRUST FUND
DEPARTMENT OF FAMILY AND COMMUNITY SERVICES
REPORT NO. 15-113

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Workforce Housing Trust Fund

Performance Audit

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The purpose of this audit was to determine if the Department of Family and Community Services is awarding Workforce Housing Trust Fund money to low income housing projects in a timely manner and has an effective process to ensure expected outcomes have been accomplished.

Executive Summary

The Workforce Housing Trust Fund (WHTF) is managed by the Department of Family and Community Service (DFCS).

WHTF funding is often used as gap financing for multi-million dollar housing development projects. These funds make it easier for housing developers to bring in other investors and reduce the amount of high interest loans that they would otherwise have incur.

On average, it takes DFCS 168 days to review and approve WHTF project applications. Enhancing evaluation and approval policies and procedures will help DFCS ensure the timeliness, accuracy, and compliance of its approval process.

In addition, several compliance-monitoring issues were identified and include the following:

- Inaccurate recording of monitoring activities,
- Retention of compliance documentation for required low income housing units in development agreements, and
- Insufficient sample sizes for project monitoring.

Without an accurate and consistent process to determine requirement compliance, DFCS cannot ensure that expected outcomes have been accomplished for the \$44 million appropriated to the WHTF program.

DFCS agrees with the findings and recommendations. DFCS has begun to implement corrective revisions and commits to having such revisions to the Affordable Housing Committee for review by December 31, 2018.

Recommendations

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DFCS should:

- Enhance existing WHTF project evaluation and approval policies and procedures. Revised policies and procedures should address the unique requirements of the WHTF.
- Consider implementing a quality review process to ensure the completeness of project files upon the conclusion of the department's project evaluation and approval process.
- Enhance existing WHTF monitoring policies and procedures. Revised policies and procedures should include specific directives and forms to ensure WHTF requirements are met.



City of Albuquerque

Office of Internal Audit

June 27, 2018

Accountability in Government Oversight Committee
P.O. Box 1293
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Audit: Workforce Housing Trust Fund
Department of Family & Community Services
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FINAL

INTRODUCTION

The Office of Internal Audit (OIA) completed a performance audit of the Department of Family & Community Services' (DFCS) Workforce Housing Trust Fund (WHTF). This audit was included in OIA's fiscal year 2015 (FY15) audit plan. Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**.

DFCS offers a range of services designed to strengthen families, improve neighborhoods, enhance the quality of life for community residents, and focuses on low and moderate income individuals and families. The services offered and managed by DFCS include the WHTF Program.

WHTF funding is often used as gap financing for multi-million dollar housing development projects. These funds make it easier for housing developers to bring in other investors and reduce the amount of high interest loans they would otherwise incur. Developers also incorporate long term energy efficient amenities into their designs, which helps keep housing projects affordable for longer periods of time.

Section 14-9-4 (C) (3) (d) ROA 1994, of the City Workforce Housing Ordinance requires projects receiving funding or land under the Workforce Housing Opportunity Act to leverage non-city funds by at least a 4:1 ratio (non-city to city resources). This encourages a collaborative effort among

public agencies, housing development organizations, service organizations, and other interested parties to gather resources for the development of affordable housing.

The WHTF Program is funded by a biannual voter approved City bond. From the inception of the WHTF in 2007 through 2017, approximately \$44 million in WHTF funding has been approved to further affordable housing opportunities. The table below summarizes the amounts appropriated, expended, and encumbered for the WHTF program through March 2018.

WHTF Funding Through March 31, 2018

Year	Bond Amount	Appropriated	Expended	Encumbered	Unencumbered
2007	\$10,000,000	\$10,000,000	\$10,000,000	\$0	\$0
2009	\$10,050,000	\$10,050,000	\$10,050,000	\$0	\$0
2011	\$11,250,000	\$11,250,000	\$8,147,770	\$3,044,225	\$58,005
2013	\$2,812,821	\$2,812,821	\$1,393,974	\$1,440,996	(\$22,149)
2015	\$5,310,182	\$5,310,182	\$4,297,029	\$700,976	\$312,177
2017	\$4,571,775	\$4,571,775	\$0	\$2,500,000	\$2,071,775
Total	\$43,994,778	\$43,994,778	\$33,888,773	\$7,686,197	\$2,419,808

Source: CIP Financial Status Report, and appropriation legislation from Legistar

At the time the audit was initiated, in April 2016, 13 WHTF projects had been completed. OIA used the completed projects as the population to select projects for testing. The table below lists the projects and includes the amount of WHTF funding, the total development cost, and the year the project was completed.

Completed WHTF Projects

Project	WHTF	Total Development Cost	Year Completed
3525 4th St. NW	\$1,200,000	\$0*	2015
Casitas de Colores	\$2,774,500	\$16,272,205	2014
Plaza Ciudadana	\$2,581,500	\$13,698,236	2014
Sundowner	\$2,278,857	\$8,846,479	2013
Luna Lodge	\$1,241,523	\$4,339,523	2012
Silver Gardens Phase II	\$2,500,000	\$8,983,668	2012
Sunport Plaza Phase II	\$1,118,390	\$1,118,390	2012
NLH4	\$1,051,561	\$6,965,802	2011

Completed WHTF Projects

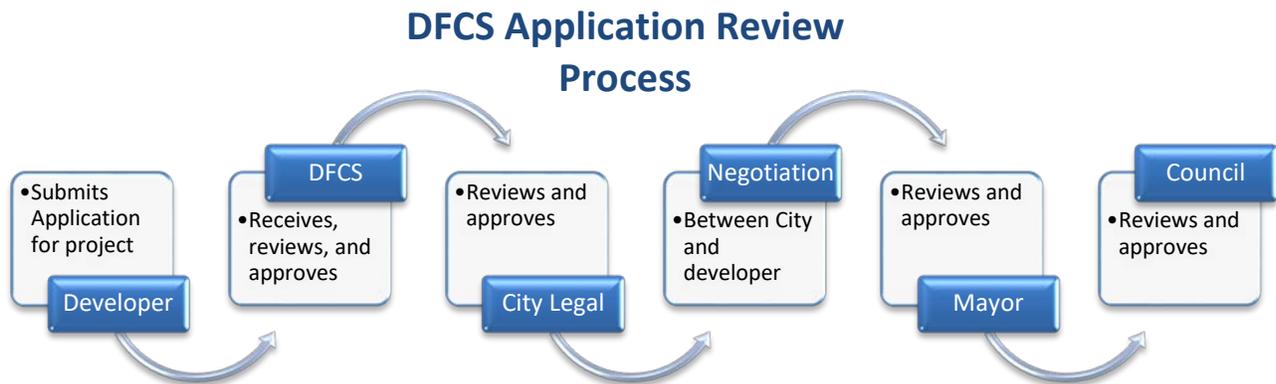
Project	WHTF	Total Development Cost	Year Completed
Villa Nueva/ Senior	\$544,000	\$9,190,475	2011
Artisan @ Sawmill Village	\$760,000	\$11,386,591	2011
Blue Linx	\$1,069,140	\$0*	2011
Downtown @ 700 2nd	\$2,607,441	\$12,399,604	2010
Silver Gardens Phase I	\$1,898,412	\$13,215,758	2010
Total	\$21,625,324	\$106,416,731	

* Land purchase for future development

Source: DFCS

Review of Project Applications

DFCS management stated that it can take between 60 to 270 days from the date a low income housing project application is received until it is submitted to the City Council for approval. The graphic below is a simplified illustration of the application review and approval process. In practice, there are many bilateral negotiations between each application phase.



COSO Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed the *Internal Control-Integrated Framework (COSO Framework)*, to assist organizations in “designing, implementing, and conducting internal control and assessing its effectiveness.” The *COSO Framework* has gained global acceptance and is considered best practices for internal controls. OIA uses the *COSO Framework* as a standard by which to measure the design and effectiveness of

internal controls.

Audit Populations for Test Work

Audit test work included two populations. Test work was separated based on ease of verification. The first population was comprised of the 13 completed projects to verify compliance with easily confirmable information such as the 4:1 leverage ratio. The second population was used to review four judgmentally selected projects for in-depth compliance such as monitoring activities, and to calculate the average number of days it takes DFCS to evaluate and approve projects.

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. **DFCS SHOULD ENSURE WHTF FUNDING IS AWARDED AND REVIEWED IN A TIMELY AND CONSISTENT MANNER.**

DFCS should enhance existing policies and procedures to review and approve/disapprove WHTF project applications. Inconsistent evaluation approaches increase review time, and delay projects and services to the intended low-income recipients waiting for affordable housing options. For example, the current review process does not include a structured time schedule for each phase of the application review process. As a result, DFCS's review process may take longer than expected.

On average, it takes DFCS 168 days to review and approve WHTF project applications. The following table lists the four reviewed projects and the number of days from the date the application was received to the date the application was approved by DFCS.

Average Number of Days to Review and Approve WHTF Applications

Project	Days
Villa Nueva Senior	280
Silver Gardens Phase I	220
Plaza Ciudadana	130
Casistas de Colores	43
Average	168

Source: DFCS

In addition, WHTF projects have not always complied with the regulatory requirements established by City Ordinance and Administrative Instructions. Compliance issues identified during the audit include the following:

- Projects not leveraged at the 4:1 funding ratio,
- Financial integrity verification of developers,
- Authorization of pre-payments to developers, and
- Retention of documentation to justify project selections.

The following sub-sections contain detailed information about WHTF’s compliance issues.

4:1 Leverage Funding Ratio

Three of thirteen completed WHTF projects did not fully comply with the leverage funding ratio. Two project files did not contain justifications explaining why the projects were not leveraged at the 4:1 ratio, and one project was never granted an exception by the Director of DFCS. Unleveraged funding does not maximize WHTF dollars as intended by City Ordinance. The table below illustrates the three projects that were not leveraged at the 4:1 ratio requirement.

Projects Not Leveraged at the 4:1 Ratio

Project	WHTF	TDC (1)	Ratio (2)
Downtown @ 700 2nd	\$2,607,441	\$12,399,604	3.76
Sundowner	\$2,278,857	\$8,846,479	2.88
Luna Lodge	\$1,241,523	\$4,339,523	2.50

(1) - Total Development Cost

Source: DFCS

(2) - (TDC - WHTF)/TDC

Section 14-9-4 (C)(3)(d) ROA 1994, of the City Workforce Housing Ordinance does allow for exceptions to the required leverage ratio for certain hard to develop projects, but does not define them. The City’s 2008-2012 5-Year Consolidated Plan & Workforce Housing Plan Section (V)(B)(4)(i) Conditions that May Provide an Exception to the 4:1 Leverage Ratio, states, “Projects that may be exempted have a large funding gap because they pose a high risk to investors and address the needs of the most difficult households to serve. An exemption may also be granted to projects that have high costs because of unanticipated infrastructure deficits.”

DFCS stated it was unable to determine why the projects did not comply with the leverage ratio requirement.

Financial Integrity of Developers

When evaluating projects, DFCS does not always ensure project developers have undergone current financial audits, or addressed unresolved findings by certified letter. Financial audits provide reasonable assurance about the financial integrity of the audited organization. Without the financial audit assurance, DFCS should not rely on the financial information provided by potential developers. DFCS is also required to ensure developers are actively addressing unresolved audit findings by formally documenting this activity through a certified letter.

Of the 13 completed projects reviewed;

- Four projects did not have evidence of a financial audit, in which three of the projects were for the same developer, and
- Three developers with audit findings did not have evidence of the findings being addressed by a certified letter.

Section J(b) of the *Administrative Requirements* states, “Contractors who receive \$25,000 or more in funding from the City, and who do not fall under A-133, shall have an a financial statement audit conducted by an independent auditor in accordance with generally accepted auditing standards.” Section 14-9-4 (B)(2)(c) and (B)(3)(d) ROA 1994, also requires both for-profit and nonprofit organizations to have no significant outstanding or unresolved monitoring findings from the city, or its most recent independent financial audit, or if it has any such findings, it has a certified letter from the City, the MFA [Mortgage Finance Authority], or auditor stating that the findings are in the process of being resolved.

DFCS did not obtain the required financial audit information for three of the projects, but will correct this oversight for future projects. DFCS also stated that the fourth project was not a typical development project and was a directive of City Council to be a land banking project, which consists of a specific land purchase for future development.

Authorization of Pre-payments

DFCS authorized and paid three invoices totaling \$509,639 for work performed before the City Council approved and DFCS executed the development agreement for the Plaza Ciudana project. Pre-payments for services are prohibited before contracts/agreements are finalized. The table below illustrates the three pre-payments for the Plaza Ciudana project.

Pre-payments Prior to Signing of Development Agreement

Project	Request Period	Amount
Plaza Ciudadana	January 17, 2012 - September 18, 2012	\$398,906
Plaza Ciudadana	September 19, 2012 - October 3, 2012	\$90,326
Plaza Ciudadana	October 3, 2012 - October 9, 2012 (1)	\$20,407
Total		\$509,639

(1) - Development Agreement signed on October 10, 2012. Request period & amount pro-rated.

Source: DFCS & PeopleSoft

Administrative Instruction (AI) 3-7 requires operating departments to ensure that goods or services are not acquired before a purchase order or contract is finalized.

DFCS stated that generally it is an acceptable practice in affordable housing development to reimburse developers for front end costs prior to contract execution. However, going forward they will comply with AI 3-7.

Documentation Retention for Project Selections

DFCS has not retained some of the documentation needed to support the department's due diligence for the selection of WHTF projects. Of the 13 completed projects;

- Three projects did not have evidence of a project evaluation, and
- One did not have a project file.

Project evaluation documentation provides the basis and support for departments due diligence efforts. Without supporting documentation, DFCS will not be able to support its decision or rationale for funding WHTF projects.

According to DFCS, the three missing project evaluations were due to a record keeping error, and the project with the missing file was not a typical development project and was a directive of City Council to purchase specific land for future development.

Enhancing existing policies and procedures to address the aforementioned issues will greatly enhance DFCS's ability to review projects in an efficient and consistent manner. The COSO Framework, Principle 12, states that management should periodically reassess policies and procedures and related control activities to determine their continued relevance and effectiveness, and should revise them when necessary.

RECOMMENDATIONS

DFCS should:

- Enhance existing WHTF project evaluation and approval policies and procedures. Revised policies and procedures should address the unique requirements of the WHTF and should include sections to ensure the following:
 - Each phase of the application review process has a structured time schedule that includes information submission and response timeframes,
 - All projects are in compliance with the 4:1 leverage ratio,
 - Project application files contain documentation and justification for exempted projects that do not meet the 4:1 leverage ratio,
 - The financial integrity of all developers is reviewed and addressed by obtaining the developers current financial audit and addressing unresolved findings by certified letter,
 - No pre-payments are authorized prior to the execution of development agreements, and
 - Documentation is retained to support the department's due diligence for the selection of WHTF projects.
- Consider implementing a quality review process to ensure the completeness of project files upon the conclusion of the department's project evaluation and approval process.

RESPONSE FROM DFCS

“DFCS agrees with the finding and acknowledges the need to enhance existing policies and procedures to address the aforementioned inconsistencies and to further improve evaluation procedures of projects. DFCS has already begun revamping its Policy-Based Ranking Matrix and other project evaluation tools in conjunction with its federal grants. As previously mentioned, the upcoming WHTF Policies and Procedures will solidify structured review requirements, disbursement requirements, and quality control measures. Additionally, DFCS acknowledges that a formal Request for Proposals (RFP) procurement process with strict deadlines would alleviate many of the issues associated with the previous DFCS Request for Qualifications (RFQ), "Rolling" procurement process. Therefore, DFCS plans to implement such a process to be able to evaluate projects competitively, rather than on a random case by case basis.”

ESTIMATED COMPLETION DATES

“DFCS commits to having such documents for review by the Affordable Housing Committee by December 31, 2018.”

2. DFCS SHOULD ACCURATELY AND CONSISTENTLY MONITOR WHTF PROJECTS TO ENSURE LOW INCOME HOUSING REQUIREMENTS ARE MET.

DFCS should enhance its existing project monitoring process to include specific directives to ensure WHTF requirements are met. Several accuracy and consistency issues were identified with DFCS's monitoring practices. Monitoring issues include the following:

- Inaccurate recording of monitoring activities,
- Retention of compliance documentation for required low income housing units in development agreements, and
- Insufficient sample sizes for project monitoring.

Without an accurate and consistent process to determine requirement compliance, DFCS cannot ensure that expected outcomes have been accomplished for the \$44 million appropriated to the WHTF program.

The following sub-sections contain detailed information about DFCS's monitoring issues.

Inaccurate Recording of Monitoring Activities

Monitoring results recorded by DFCS do not always agree to the supporting documentation. A re-verification of information from 39 tenants of the 4 judgmentally sampled projects, initially verified by DFCS, identified the following;

- Eight monitoring records had income amounts that did not agree with the supporting documentation,
- Five monitoring records had an income source that did not agree with the source listed on DFCS's *Long Term Compliance Form*,
- Four monitoring records had a Median Family Income percentage that did not agree with the set aside percentage in the respective developer's rent log,
- Three monitoring records had verification dates that did not agree with the supporting documentation, and
- One monitoring record did not have documentation available to verify any of the low income housing requirements.

The *COSO Framework* acknowledges that policies reflect management's statement of what should be done to effect control. According to the *COSO Framework*, Principle 13, maintaining quality of information is necessary to an effective internal control system, particularly with today's volume of data and dependence on sophisticated, automated information systems. The ability to generate quality information begins with the data sourced. Inaccurate or incomplete data, and the information derived from such data, could result in potentially erroneous judgments, estimates, or other management decisions. The quality of information depends on

whether it is accessible, correct, current, protected, retained, sufficient, timely, valid, and verifiable.

Retention of Low Income Housing Unit Compliance Documentation

DFCS does not document how they confirm each property is in compliance with the required low income housing units for each development agreement. All of the four properties selected for detailed reviews did not have supporting documentation that demonstrated whether DFCS reviewed each property for low income unit compliance.

In addition, one of the four reviewed properties was not in compliance with its development agreement. The development agreement required 44 housing units be dedicated to low income individuals. However, 41 units were dedicated to low income individuals and the remaining 3 units were designated as market rent units, which allows the developer to charge higher rent rates and realize increased profits.

The City's *Social Service Contracts Procurement Rules and Regulations* states:

All contracts shall be monitored annually prior to contract renewal to determine if the service performance standards/goals established by the Department have been met.

The Department shall keep for public inspection written documentation of whether goals have been met.

DFCS management stated, the review is not documented on an official form or checklist, but is included in the Monitoring Report as compliance without findings or non-compliance with findings.

Each development agreement includes a section that discusses defaults and remedies for non-compliance. For example, Article XI of the *Development Agreement for the Sawmill Senior Housing/Workforce Housing Development Project* defines events of default. When DFCS identifies incidents of non-compliance, it should refer to the development agreement, and consider enforcing the available remedies.

Insufficient Sample Size

The sample size used by DFCS to ensure compliance with regulatory requirements is not always sufficient when monitoring WHTF properties. Sample sizes for two of the four reviewed properties were below the minimum 15 percent recommended percentage by the United States Department of Housing and Urban Development (HUD).

HUD's *Chapter 6 – Rental Housing Activities* states that a sufficient sample should be selected to verify compliance – and a good rule-of-thumb is to inspect at least 15 percent to 20 percent of the units in a project, and a minimum of one unit in every building.

DFCS stated that the wrong sampling percentages were used for both properties. If a sufficient sample is not selected, monitoring efforts may not ensure affordable housing requirements are being met and the expected program outcomes have been achieved.

RECOMMENDATIONS

DFCS should enhance existing WHTF monitoring policies and procedures. Revised policies and procedures should include specific directives and forms to ensure WHTF requirements are met and should include sections to ensure the following;

- Accuracy of monitoring activities,
- Testing and documentation retention to confirm each property is in compliance with the required low income housing units for each development agreement, and
- Selection of sufficient sample sizes when performing monitoring activities.

RESPONSE FROM DFCS

“DFCS agrees with the finding and acknowledges the need to enhance existing policies and procedures to address the aforementioned inconsistencies and to further improve the monitoring and its documentation of such to remain in compliance with applicable regulations and agreements. DFCS has already begun addressing inconsistencies through staff training. However, DFCS is also aware that it must improve its current monitoring documents to better capture data and provide for consistent, verifiable supporting documentation. Once complete, DFCS will provide additional staff training to ensure consistent monitoring across all staff.”

ESTIMATED COMPLETION DATES

“DFCS commits to having such documents for review by the Affordable Housing Committee by December 31, 2018.”

CONCLUSION

DFCS should enhance existing WHTF policies and procedures for evaluating and approving project applications, and monitoring low income housing projects. The revisions should reflect the unique requirements of the WHTF.

Enhancing policies and procedures will enable DFCS to ensure WHTF funding is reviewed and awarded timely. The revisions will also assist DFCS in accurately and consistently monitoring low income housing projects to ensure that requirements are met and program objectives have been accomplished.

We greatly appreciate the assistance, involvement, and cooperation of DFCS's management and staff. Their time, assistance, involvement and cooperation are greatly appreciated.

Senior Information Systems Auditor

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APPENDIX A

OBJECTIVES

The audit objectives were to determine:

1. Is the City awarding Workforce Housing Trust Fund (WHTF) money to low income housing projects in a timely manner?
2. Are affordable housing properties built using WHTF money being monitored appropriately to ensure low-income housing requirements are met?

SCOPE

Our audit did not include an examination of all functions and activities related to the WHTF. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from projects completed using WHTF project files between the City and the developers of low income housing during fiscal years 2009 through 2015 and does not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on May 25, 2018 and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Reviewed existing laws, regulations, City ordinance, and policies and procedures to gain an understanding of the WHTF;
- Gained an understanding of the WHTF, the contracts between the City and the developers who use WHTF funds to build low income housing, and the application qualifications that individuals have to meet to be awarded low income housing;
- Identified key controls related to the WHTF, and interviewed key personnel in DFCS;

- Performed reviews to determine how long it takes to award WHTF money to projects;
- Performed reviews to verify the monitoring process performed by DFCS to ensure low income dwelling units built using WHTF money are being used for low income housing, and to ensure that individuals currently occupying the low income dwelling units qualified as low income individuals;
- Selected a judgmental sample of WHTF projects; and
- Reviewed correspondence between DFCS personnel and the contractors.