



***Community Development
Department***

***Housing
Program Administration***

April 2014

AU14-10

City Manager
Scott C. Barber

Internal Audit Manager
Cheryl L. Johannes

Office of the City Manager
Internal Audit Division
Riverside, California

REPORT SUMMARY



In accordance with the Internal Audit Work Plan for Fiscal Year 2013/2014, a performance audit was conducted of the Community Development's various Housing Assistance programs, to assess the efficiency and effectiveness of program administration processes and to ensure compliance with regulatory agencies.

Over the past several decades the City has served a selected demographic segment of Riverside's population by offering an opportunity for low-to-moderate income families to purchase a home or conduct renovation on an existing home located within the Riverside city limits. The City has also provided development loans for affordable rental housing.

Administration and Loan Servicing of the owner-occupied housing rehabilitation and down-payment assistance loans is managed by staff in CDD/Housing and coordinated with approved lenders. The lenders pre-qualify borrowers for both types of loans and submit the City application for staff review and loan approval. Once the loan has been approved it is processed through escrow (a check is disbursed to the title company not the borrower). Appropriate copies of loan documents are maintained by the CDD Fiscal Manager; the loan (accounts receivable) is recorded on the City's financial recording system, IFAS. If a property is sold during the term of the loan, the Fiscal Manager is responsible for providing payoff information to the borrower/title company, and recording the payoff of the loan in IFAS in a timely manner. ***Our review found that the current control environment surrounding origination and subsequent servicing of loans is adequate; fiscal year-end reconciliations are performed between the in-house loan management system (LSSI) and the City's financial management system (IFAS).***

Monitoring of the various Housing Assistance programs ensures that HUD¹ housing policy objectives are met and that the programs are achieving their goals of long-term housing affordability for low to moderate income City residents. ***Our review found that annual monitoring of development-assisted housing units appears to meet City and HUD occupancy requirements. However, on-going monitoring of housing rehabilitation and down-payment assistance properties to ensure compliance with loan agreements is not efficiently and effectively performed. Information management practices need improvement to ensure monitoring data is accurate, reliable and complete.***

¹ HUD – U.S. Department of Housing and Urban Development

OBJECTIVE, SCOPE and METHODOLOGY

Objective

Our audit objective was to assess the efficiency and effectiveness of activities and ensure compliance with City and Department policies/procedures and regulatory agencies such as HUD.

Scope and Methodology

The review was conducted during the months of January through March 2014, and included data from July 2011 through June 2013. Due to lengthy loan terms associated with housing assistance programs, we often reviewed loan files/loans that were granted to borrowers decades ago.

To address the objectives and as part of our assessment, we:

- Reviewed the City's *2012/2013 Consolidated Annual Performance Evaluation and Review (CAPER)* for background information;
- Reviewed HUD guidelines related to monitoring of low-to-moderate income housing requirements;
- Reviewed a comprehensive list of Housing loans (deferred loans, down payment assistance and housing rehabilitation loans and development loans) from the Department's loan management system (LSSI) to randomly select loan files;
- Interviewed Housing manager and staff to better understand staff responsibilities and operating processes/procedures;
- Reviewed the Housing Authority's most recent affordable housing inspection schedule to ensure compliance with regulatory agencies;
- Reviewed the *Down Payment Assistance Program* manual to gain an understanding of the internal processes and timelines; and
- Reviewed Housing's *2013 Single Family Owner Occupancy Certification* list (only the non-respondent list was provided for our review) to determine if properties are being annually monitored per HUD requirements.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

BACKGROUND

Over the past several decades the City has served a selected demographic segment of Riverside's population by offering an opportunity for low-to-moderate income families to purchase a home or conduct renovation on an existing home located within the Riverside city limits. The City has also provided development loans for affordable rental housing.

The delivery of program dollars into the community over the past decades by most measures has been successful, totaling over \$33 million in active or deferred loans as of June 30, 2013.

Community Development's Housing Authority division is responsible for administration, monitoring and loan servicing components of these programs.² The predominant sources of funding used to make these loans are grant funds from the federal *Home Ownership Investment Program (HOME)*³ or the *Cal HOME*⁴ program.

Housing Rehabilitation program is offered to income-eligible home owners (owner occupied) to improve deteriorating neighborhoods. These loans assist current homeowners by providing funds to address needs associated with emergency repairs, rehabilitation, and repairs and updates necessary to bring existing housing up to City code and improving home safety. Interest rates are below market and term of the loan is generous. This program is funded by federal HOME and Cal HOME grants awarded to the City.

Fourteen loans/grants were approved for funding in FY2012/2013; of these, 13 were HOME funded and one was a combination of HOME/Cal HOME funds.⁵

The rehabilitation loan program appears to be serving a demonstrated need. As of June 30, 2013 active loans totaled over \$498k.

Down-Payment Assistance (DPA) program is offered to income-eligible first time home buyers. These 30-year term loans are intended to assist home buyers by providing additional funding above and beyond what traditional lenders will provide. Interest rates (3%) are well below market and payments are deferred for the term of the loan. The loan is payable when the property is no longer owner-occupied, if the property is sold during the term of the loan, or at loan maturity date. The home being purchased through the DPA program must be either in foreclosure, already foreclosed on or a short sale. This program is funded with Cal HOME grant awards to the City.

² In March 2012, the City Council approved the transfer of housing-related functions previously performed by the Redevelopment Agency (RDA), and transfer of related notes receivables made up of down payment assistance, housing rehabilitation and affordable housing development loans, to Community Development – Housing Authority. Transactions are recorded in IFAS Funds 220, 221,222,223,225 and 281 (Non-major Government Funds in the CAFR).

³ HOME is administered by the U.S. Department of Housing and Urban Development (HUD); Cal HOME is administered by the State on behalf of HUD.

⁴ In FY2012/13, the City was awarded a \$1 million Cal HOME grant to provide additional opportunities for residents to obtain down payment assistance for low income first-time homebuyers and housing rehabilitation loans.

⁵ Per the FY2012/2013 CAPER, page 32.

In FY2012/13 the City Housing Authority assisted five first-time homebuyers with the purchasing of single-family houses with Cal Home funds.⁶

CDD/Housing appears to be partnering successfully with lenders in the community in its efforts to provide lower income families the opportunity to acquire principal residences. Active deferred and down-payment assistance loans total over \$9 million as of June 30, 2013.

Affordable Rental Housing is available to qualified individuals and families at various housing developments/projects within the City. These developments have received loans from the City (RDA) based on condition that a certain number of housing rental units will be provided at adjusted/lower rental rates for qualified low-to-moderate income residents as per HUD guidelines. Refer to *Appendix A* for a list by project/development of affordable housing that is monitored annually by CDD/Housing.

Loans/Notes Outstanding as of June 30, 2013

Fund	Deferred Loans	Rehab Loans	Down Payment Assistance Loans	Housing Development Loans
220	17	2		
221	15	1	37	8
223	33	1	24	
281	157	30	52	6
TOTAL	222	34	113	14

Notes Receivable as of June 30, 2013

Fund	Deferred Loans K\$	Rehab Loans K\$	Down Payment Assistance Loans K\$	Housing Development Loans K\$ ⁷	TOTAL K\$
220	258.7	32			290.7
221	420.5	4.8	1529.9	7682.5	9637.7
223	1197.1	27.8	979.6		2204.5
281	2987	433	1901.4	15145.3	20466.7
TOTAL	\$4,863	\$498	\$4,411	\$22,828	\$32,600

⁶ Per the FY2012/2013 CAPER, page 28.

⁷ For details regarding Housing Assistance Development Loans refer to *Appendix B*.

ASSESSMENT of ADMINISTRATIVE OPERATIONS

Administration & Loan Servicing

Up-front processes with lenders and borrowers for the *Rehabilitation* and *Down Payment Assistance* programs appear to be adequate. The operating manual for the DPA program was recently updated. New lenders have recently been added to the qualified list, in order to target the socio-economic stratum of Riverside's population. The CDD's Fiscal Manager is responsible for timely recording of loan transactions in the loan management system (LSSI) and on the City's financial system (IFAS). These two systems are reconciled at year-end to ensure all transactions have been recorded in the proper Non-Major Governmental Fund and GL accounts.⁸ Loan payoffs are also managed by Fiscal Administration to include the Deed of Re-conveyance recording process. Loan files and related documents are maintained by the Fiscal Manager.

In our review of the *Notes Receivable Detail* worksheet prepared by the CDD Fiscal Manager at year-end to ensure LSSI reconciles to IFAS, we found:

- Three deferred loans (23-047B, 23-071B, 24-005) awarded in FYE2012 were not recorded timely in IFAS; the FY2012 CAFR for Fund 221 (HOME program) Assets was understated in the amount of \$14,930. The three loans were recorded on the financial records and CAFR in FYE2013.
- Three *Down Payment Assistance* (DPA) program loans (11-32, 11-33, 11-34) awarded in FYE2012 were not recorded timely in IFAS; the FY2012 CAFR for Fund 223 (Housing and Community Development) Assets was understated in the amount of \$113,300. The three loans were recorded on the financial records and CAFR in FYE2013.
- Ten deferred loans (totaling \$352,344) were not recorded in the proper fiscal year (FYE2012), understating the CAFR for Fund 223 – Assets (Notes). The loans were recorded in IFAS and CAFR in FYE2013.

Fiscal oversight of the various Housing loans granted in the past fiscal years has greatly improved; the recently implemented year-end reconciliation process indicates there are adequate internal controls in place to ensure all Housing program loans are properly recorded by fiscal year end.

Monitoring

Without an effective monitoring system, the City cannot ensure that housing opportunities created using federal and state funds remain available and affordable throughout the agreed-upon period of time.

Affordable Rental Housing

Over the years the City has partnered with developers to build rental housing units for low-income households in Riverside. Currently there are 14 outstanding loan balances totaling \$22.8 million as of FYE2013. Refer to APPENDIX B for a listing of the developers/loan balances.

Once a project is complete, on-going monitoring should be performed to confirm that rent and occupancy standards are being met per Housing Quality Standards (HQS) and in accordance with HUD/HOME program regulations.

⁸ Transactions are recorded in loans receivable (notes), and Per GASB 65, offset to deferred/unavailable revenue.

On-going monitoring should include:

- A requirement that owners annually complete and submit to the City/CDD a project compliance report;
- CDD/Housing should review the submitted report by owners to verify compliance with rent and occupancy requirements;
- CDD/Housing should perform regular on-site visits throughout the affordability period to ensure continued compliance; and
- A requirement that owners provide CDD/Housing with a copy of a current property insurance certificate.

On-site visits should include:

- A review of records and files retained on-site by the owner that documents compliance with all HUD/HOME requirements, including verification of the data the owner submits on the rent and occupancy report; and
- Physical inspection to ensure that the property is maintained in accordance with applicable City code and property standards.

In our review we noted that CDD/Housing has established an effective monitoring and on-site inspection process.⁹ Some developments are inspected annually; others every two years. Units for inspection are selected randomly. Any non-compliance (finding) is documented to ensure corrective action/resolution. In FY2012/2013, 252 affordable housing units were inspected to ensure regulatory compliance.¹⁰

Housing Rehabilitation and Down Payment Assistance Programs

Once a loan has been finalized (funded), the Deed of Trust has been recorded by the County Assessor's office, and the loan has been recorded on the City's financial records and in LSSI, CDD/Housing is required to annually monitor the property to ensure it remains owner (borrower) occupied, per the loan agreement. In addition, proof of certificate of insurance for the property is required annually.

A CDD/Housing administration analyst annually (usually during May-June) mails out a notice letter with an attached verification form to the name and address on record. Returned confirmation forms are noted in an Access database; forms not returned or letters returned as non-deliverable are also noted in the database.

In our review of the on-going monitoring of housing rehabilitation and down-payment assistance properties we noted that the information from the Access database used to prepare annual verification letters was neither reliable nor up-to-date. The borrower/loan information was not consistent with data in LSSI; properties that had been sold and/or loans paid off (as noted in LSSI) were not updated in Access. Due to the incomplete/incorrect data, unnecessary tasks were performed. The overall process is inefficient and ineffective and should be redesigned to streamline the owner-occupancy confirmation process utilizing current data from LSSI.

⁹ Refer to *Appendix A*

¹⁰ Per FY2012/2013 CAPER, page 36-37.

CONCLUSION

- Our review found that the current control environment surrounding origination and subsequent servicing of loans is adequate; fiscal year-end reconciliations are performed between the in-house loan management system (LSSI) and IFAS.
- Annual monitoring of development-assisted housing units appears to meet City and HUD occupancy requirements.
- On-going monitoring of housing rehabilitation and down-payment assistance properties is not efficiently and effectively performed. Information management practices/procedures need improvement to ensure monitoring data is accurate, reliable and complete. To streamline the manual process, we recommend staff utilize the year-end Excel *Notes Receivable Detail* worksheets from the CDD Fiscal Manager to establish a more accurate and comprehensive list of active loans for the annual owner-occupied confirmation process.

We recognize that management best understands their operations and may be able to identify more efficient and effective approaches to streamlining the *Owner Occupancy* confirmation process than have been recommended.

During our review, we met with CDD Housing management to discuss the review and our assessment. A draft report was provided. Comments and feedback were evaluated prior to finalizing this report.

No formal management response to our report is required although we welcome your feedback.

We would like to thank all of the personnel of CDD/Housing for the assistance and cooperation we received during this review.

Respectfully,

Cheryl Johannes, Internal Audit Manager

APPENDIX A

Affordable Housing Project Inspection Schedule

Project	No. of Units	Years	2011/2012 Inspection	2012/2013 Inspection
Breezewood Apartment	156 (31-VL, 125-L)	Annually	June 2012	June 2013
Canyon Shadows	124 (112-L)	Annually	June 2012	June 2013
Goldware Senior Apartments	152 (79-VL, 58-L, 23-AM Seniors, 2-AM Non-senior)	Annually	June 2012	June 2013
Indiana Avenue Townhomes	53 (11-VL, 21-QVL, 19-L, 2-M)	Annually	June 2012	June 2013
Mission Pointe	64 (23-VL, 40-QVL, 1-MNGR)	Annually	June 2012	June 2013
Mt. Rubidoux Manor (Riverside First Baptist Homes)	11 (3-VL, 8-L Seniors)	Every 2 yrs.	June 2012	
Oak Tree Apartments	51 (25-L)	Annually	June 2012	June 2013
Riverbrook Apts. (10594 & 10661 Burton St., 10680 Collett Avenue, 4171 & 4205 Lively)	20 (20-L)	Every 2 yrs.	June 2012	
Riverbrook Apts (10560 - 10590 Burton Street)	16 (5-VL, 5-L)	Every 2 yrs.	June 2012	
Sandra Apartments	25 (2-VL, 6-L)	Every 2 yrs.	June 2012	
Cambridge Apartments	75-VL	Annually	June 2012	June 2013
Cypress Springs	100-VL	Annually	June 2012	June 2013
TELACU- Las Fuentes	75-VL	Annually	June 2012	June 2013
Riverside Park Apartments	144 (7-VL, 29-L, 43-M)	Annually	June 2012	June 2013
Riverside Silvercrest (Salvation Army)	75-VL	Annually	June 2012	June 2013
Victoria Manor	112 (14-VL, 98-L)	Annually	June 2012	June 2013
TELACU - El Paseo	75 (74-VL)	Annually	June 2012	June 2013
Vintage at Snowberry Senior Apartments	224 (222-VL)	Annually	Completed in April 2012	June 2013
1740 Loma Vista	28 (27-VL)	Every 2 yrs.		June 2013
1725 7th Street	8 units (4-EVL, 4 L)	Every 2 yrs.		June 2013
1824 Ohio Street	4 units (4-VL)	Every 2 yrs.		June 2013
1833-1837 7th Street	3 units (3-EVL)	Every 2 yrs.		June 2013
3065-3067 Fairmount Blvd.	2 units (2-VL)	Every 2 yrs.		June 2013
3556 Dwight Avenue	2 units (2-VL)	Every 2 yrs.		June 2013
3590 Dwight Avenue	4 units (4-VL)	Every 2 yrs.		June 2013
3675-3681 Dwight Avenue	2 units (2-VL)	Every 2 yrs.		June 2013
10640 Collett Avenue	4 units (1-L)	Every 2 yrs.		June 2013
10680 Burton Street	4 units (1 LI)	Every 2 yrs.		June 2013
10640 & 10652 Burton St.	4 units each (1 LI each)	Every 2 yrs.		June 2013

APPENDIX B

Affordable Housing Project Loans

FUND	Development/Borrower	K\$
221	Riverside Housing Development Corporation	383
	Snowberry Senior Apartments, L.P.	1,674
	Riverside Housing Partners, L.P.-Topaz&Turquoise(Mission Pointe)	2,695
	Riverside Housing Development Corporation - La Sierra Manor	195
	Riverside Housing Development Corporation	231
	Cypress Springs - Note 2	1,039
	Goldware Senior Housing	1,375
	Gray/Home Rehabilitation	91
281	Riverside Housing Partners, L.P.-Topaz&Turquoise, Mission Pointe	3,518
	Riverside Housing Development Corporation,Cypress	1,558
	RHDC, 8845/8851 Indiana	375
	Snowberry Senior Apartments, L.P	2,995
	Breezewood (residual loan)	2,504
	J.E.Wall Victoria Manor ,L.P	4,195
	Total as of FYE2013	\$22,828