

OFFICE OF AUDITS & ADVISORY SERVICES

HOME & CDBG PROGRAM LOAN ADMINISTRATION

FINAL REPORT



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JUAN R. PEREZ
CHIEF OF AUDITS

May 24, 2024

TO: Tracy Drager
Auditor and Controller

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: HOME & CDBG PROGRAM LOAN ADMINISTRATION AUDIT

Enclosed is our report on the HOME & CDBG Program Loan Administration Audit. We have reviewed your response to our recommendations and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:EH:nb

Enclosure

c: Ebony N. Shelton, Deputy Chief Administrative Officer/Chief Financial Officer
Judy Ying, Group Finance Director, Finance and General Government Group
Katherine Lineback, Accounts Payable Manager, Auditor and Controller



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May 24, 2024

TO: David Estrella, Director
Housing & Community Development Services

FROM: Juan R. Perez
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FINAL REPORT: HOME & CDBG PROGRAM LOAN ADMINISTRATION AUDIT

Enclosed is our report on the HOME & CDBG Program Loan Administration Audit. We have reviewed your response to our recommendations and have attached it to the audit report.

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Enclosure

c: Patty Kay Danon, Chief Operations Officer, Health and Human Services Agency
Tracy Drager, Auditor and Controller
Amy Thompson, Executive Finance Director, Health and Human Services Agency
Christy Carlson, Director of Agency Operations, Health and Human Services Agency

About the Office of Audits & Advisory Services

The mission of the Auditor and Controller's Office of Audits & Advisory Services (OAAS) is to provide independent, objective assurance and consulting services designed to add value and improve the County of San Diego's operations. OAAS helps the County accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Audit Authority

OAAS derives its authority to conduct audits of County departments and programs primarily from the County Charter, County Administrative Code, Board of Supervisors Policy Manual, and California Government Code.

Statement of Auditing Standards

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.



AUDIT OBJECTIVE & SCOPE

The Office of Audits & Advisory Services (OAAS) completed an audit of the loan administration for the HOME Investment Partnerships Program (HOME) and the Community Development Block Grants (CDBG) Program Loan Administration. The objective of the audit was to evaluate the efficiency and accuracy of the processes and systems used by Housing and Community Development Services (HCDS) in administering loans (for the lifetime of the loan) for HOME and CDBG programs through the Notice of Funding Availability (NOFA).

The scope of the audit focused on evaluating HCDS' processes over the administration of HOME and CDBG awarded loans and that the loans were issued in compliance with federal regulations and terms of each NOFA. In addition, OAAS evaluated the efficiency of the loan payment processes performed by Accounts Payable (AP).

AUDIT RESULTS

Within the scope of the audit, OAAS determined HOME and CDBG awarded loans were issued in compliance with federal regulations and terms of each NOFA; however, we identified opportunities for improvement in the administration of the program loans. Specific details regarding these potential improvements are outlined in the following findings and related recommendations.

Finding I:

Loan Payment Processing – Upgrade to ACH

OAAS evaluated the efficiency of the processes established to manage CDBG and HOME program loan payments. As part of this review, we assessed HCDS' methods for establishing payment requests and/or progress loan payments through AP, examined AP's policies regarding loan payments, and determined if any potential inefficiencies existed in the loan payment process.

AP issues a manual check for the first loan payment on awarded affordable housing loans before using electronic Automated Clearing House (ACH) payments for each subsequent payment. Manual checks are initially issued when no loan payments were made through the escrow process and when the vendor is new to the County. Issuing the initial manual check is an existing control within the AP department that guarantees payment and the associated tax form 1099 is accurately sent and deposited by the intended vendor before initiating ACH payments.

During our review, we found that HCDS performs an extensive threshold and financial feasibility review on all affordable housing applicants, ensuring that organizations awarded funds have been thoroughly vetted and verified before any payment requests are made with AP. Furthermore, OAAS inquired with another local government agency about their payment process for CDBG vendors noting they only use ACH to make payments.

The Government Finance Officers Association (GFOA) provides extensive guidance to local governments on a wide range of financial management practices. This includes best practices, policy recommendations, case studies, training programs, and resources aimed at improving the efficiency, transparency, and accountability of financial operations in local government entities.

The GFOA recommends that governmental entities use electronic means to make payments as often as possible.

Switching from manual checks to ACH payments for all loan payments offers numerous benefits for organizations, addressing efficiency, cost, security, and record-keeping improvements.

Efficiency and Cost Savings: ACH payments, being electronic, are processed more quickly than paper-based methods, thus facilitating faster fund transfers between bank accounts on a scheduled date. This automation also significantly reduces the manual efforts required, offering both time and monetary savings. The cost associated with processing ACH transactions is lower than that of mailing checks, which involves postage and various material expenses.

Enhanced Control and Security: ACH payments provide organizations with greater control over the timing of payments and processing, aiding in more effective cash flow management. This control extends to improved security measures; since ACH transactions are conducted online, they are less susceptible to the risks of mail interception, forgery, and cashing by unauthorized parties compared to paper checks.

Implementing best practices by streamlining the loan payment process would improve the efficiency, security, and tracking to ensure organizational excellence continues in alignment with the County's Strategic Plan.

RECOMMENDATION:

To address the efficiency issues of the current loan payment processes, AP should:

1. Transition the processes for all requested loan payments from initial manual check to ACH payments only.
2. Document and communicate the new payment processes with impacted departments once implemented.

Finding II: HCDS' Record Retention Practices Need Revision

OAAS conducted in-depth testing to verify the completeness of NOFA applications and whether awarded applicants were eligible to receive HOME or CDBG program loans. We reviewed the following awards that were issued throughout the lifetime of both programs:

- Seven affordable housing developments awarded CDBG funds.
- Two down payment and closing cost loans awarded with HOME funds.
- One home repair loan awarded with CDBG funds.

For two of the seven affordable housing CDBG loans awarded, HCDS could not provide the board letter or authority approving the loan. OAAS reviewed the HCDS record retention policy and identified the authority for long-term notes receivables (loans) should be retained for the duration of the loan plus five years. However, per HCDS management, their current retention practice for applications and supporting documentation, including authority for awarded loans, was the duration of the affordable housing construction plus five years.

According to 24 CFR § 570.490(d), which outlines the record keeping requirements for CDBG funds, records of the State and units of general local government, including supporting documentation, shall be retained for the greater of three years from closeout of the grant to the state, or the period required by other applicable laws and regulations as described in §570.487 and §570.488.

OAAS found that HCDS' retention schedule for the affordable housing loans is in compliance with federal requirements; however, HCDS' current practices do not align with the HCDS retention schedule or federal requirements.

Failure to maintain adequate retention of loan documentation could lead to noncompliance with U.S. Department of Housing and Urban Development (HUD) regulatory requirements for CDBG funds and noncompliance with the County's record retention policies, including County Administrative Manual Item 0040-09 and 0400-11 mandating departments to define record retention schedules for documents to ensure compliance with federal requirements.

RECOMMENDATION:

To ensure compliance with HCDS' CDBG and HOME loan programs retention policies, HCDS should perform the following:

1. Revise current retention policies and procedures for all loan applications and supporting documentation to ensure they are in compliance with federal requirements and HCDS record retention schedules.
2. Ensure that all staff engaged in administering loans for HOME and CDBG programs possess a comprehensive understanding of the applicable retention policies.

Finding III:

Need for Centralized Administration Program

During OAAS' initial walkthroughs of HCDS' CDBG and HOME processes, it was communicated that affordable housing loans are administered by different teams within the department. Specifically, HCDS has an affordable housing team that administers the loan process, a team to monitor compliance of loan terms, and a financial team to track loan payments.

HCDS management confirmed that each of these teams perform their administration duties through their own files and spreadsheets and have little collaboration with each other. Based on the information provided by HCDS management and reviews performed by OAAS, the lack of a system or central repository to monitor and track each loan prevents staff from operating at maximum efficiency.

Board of Supervisors Policy A-111 states that the major goal of the County information systems solutions is to improve the efficiency and effectiveness of service delivery or organizational operation of the County, its departments, offices, and agencies. To this end, proposed County information systems should:

- Improve the collection, processing, distribution/communication, or management of public or organizational data/information in any media;

- Improve the use of County resources including data/information, services, personnel, facilities, equipment, material or supplies;
- Enable efficient delivery of services to citizens online not inline whenever possible.

To assist with the administration of HCDS' CDBG and HOME program loans, HCDS should utilize established County procurement processes to explore the possibility of procuring an information system that would enable efficient and effective monitoring of all program loans. Procuring an information system would ensure all teams responsible for administering different aspects of the CDBG and HOME loans are effectively collaborating, and all information would be available in one centralized location.

RECOMMENDATION:

To promote the efficiency of operations and ensure proper collaboration of program loans, HCDS should:

1. Utilize established County procurement processes to explore the possibility of establishing a system that can be used in the administration of its loan programs, including document repository and information updates.

BACKGROUND

HUD provides CDBG and HOME funds to the County to assist with affordable housing goals. Specifically, the CDBG program provides annual grants to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low-to moderate-income (LMI) persons. The County allocates CDBG funds for both housing and non-housing activities, including neighborhood revitalization, workforce and economic development, community and nonprofit facilities, and infrastructure and public services in LMI communities.

HUD's HOME program provides grants to states and localities to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. The County uses HOME funds for building, acquiring, and rehabilitating affordable housing for rent and homeownership. The funds are also be used to provide direct rental assistance to low-income residents.

HUD requires recipients of federal grant funding to prepare consolidated plans every five years that identifies needs within LMI communities and to outline how the County will address those needs. HCDS is responsible for the preparation of the five-year consolidated plan and an annual plan that is a subcomponent of the consolidated plan. The annual plan provides a demographic profile, an assessment of housing and community development needs in the County and strategies for addressing those needs each year.

The most recent five-year consolidated plan was prepared by HCDS for the period of 2020-2024. During this five-year period, HCDS anticipated receiving approximately \$4.2 million annually in CDBG funding and approximately \$3.5 million annually in HOME funding.

METHODOLOGY

The audit was performed using the following methods:

- Examined HCDS' policies, procedures, and relevant controls over the administration of CDBG and HOME loan programs to obtain an understanding of the processes performed to ensure loans are properly awarded, monitored, and tracked.
- Identified and reviewed applicable HUD guidance over CDBG and HOME loan programs and additional federal regulations applicable to these federally funded programs.
- Interviewed key personnel on policies, procedures, regulations, and processes relevant to administration of CDBG and HOME loan programs.
- Conducted specific audit procedures on the following processes:
 - Verified the completeness of HOME and CDBG applications per terms of the NOFA.
 - Reviewed the efficiency of processes from preliminary loan commitment to loan closing.
 - Verified the processes in place to request and issue loan payments.
 - Verified the monitoring and tracking performed on awarded loans.
 - Reviewed user access over loan monitoring and tracking files.

DEPARTMENT'S RESPONSE
(AUDITOR AND CONTROLLER)



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May 16, 2024

TO: Juan R. Perez
Chief of Audits

FROM: Tracy Drager
Auditor and Controller

**DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: HOME & CDBG PROGRAM
LOAN ADMINISTRATION AUDIT**

Finding I: Loan Payment Processing – Upgrade to ACH

OAAS Recommendation:

To address the efficiency issues of the current loan payment processes, AP should:

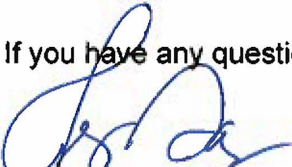
1. Transition the processes for all requested loan payments from initial manual check to ACH payments only.
2. Document and communicate the new payment processes with impacted departments once implemented.

Action Plan: Agree. For this program A&C will no longer send a paper warrant to a physical address prior to implementing ACH payments. However, A&C will continue to require the payee to submit ACH documentation through USPS and will conduct a dollar test prior to making any payment via ACH. If the department requests a physical check, we will still allow it. A&C will notify the program staff of the changes and will implement by May 31, 2024.

Planned Completion Date: May 31, 2024,

Contact Information for Implementation: Katherine Lineback, Manager, A&C

If you have any questions, please contact me at (858) 694-2324.



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Auditor and Controller

ADM:TD:tw

DEPARTMENT'S RESPONSE
(HOUSING AND COMMUNITY DEVELOPMENT SERVICES)



County of San Diego

DAVID ESTRELLA
DIRECTOR, HOUSING AND COMMUNITY
DEVELOPMENT SERVICES

HEALTH AND HUMAN SERVICES AGENCY
HOUSING AND COMMUNITY DEVELOPMENT SERVICES
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NICHOLAS MARTINEZ
ASSISTANT DIRECTOR, HOUSING AND
COMMUNITY DEVELOPMENT SERVICES

May 21, 2024

RECEIVED

MAY 21 2024

TO: Juan R. Perez, Chief of Audits

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: David Estrella, Director
Housing and Community Development Services

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: A24-003 HOME and CDBG Program Loan Administration

Finding I:

Loan Payment Processing – Upgrade to ACH

OAAS Recommendation:

1. Transition the process for all requested loan payments from initial manual check to ACH payments only.
2. Document and communicate the new payment processes with impacted departments once implemented.

Action Plan:

In relation to implementing ACH payments upon initial disbursements (outside of the escrow process) HCDS agrees with the recommendations. While the ideal solution for disbursing loan payments would be through a wire transfer, this avenue is currently not available to our department for instances other than for the closing of escrow on affordable housing loans. In the absence of wire transfers, HCDS strongly believes issuing ACH payments without first issuing a check is an acceptable solution and agrees with the recommendation.

Planned Completion Date:

This item is not within the control of HCDS however we will continue to work with AP to streamline process and more efficiently administer payments through ACH.

Contact Information for Implementation: Kelly Salmons, Deputy Director

Finding II:

HCDS' Record Retention Practices Need Revision

OAAS Recommendation:

1. Revise current retention policies and procedures for all loan applications and supporting documentation to ensure they are in compliance with federal requirements and HCDS record retention schedules.

2. Ensure that all staff engaged in administering loans for HOME and CDBG programs possess a comprehensive understanding of the applicable retention policies.

Action Plan:

HCDS agrees with the recommendation. Staff will incorporate the recommended record retention updates, update the records retention policy and ensure applicable staff are aware of these policies.

Planned Completion Date:

June 30, 2024

Contact Information for Implementation: Kelly Salmons, Deputy Director

Finding III:

Need for Centralized Administration Program

OAAS Recommendation:

1. Utilize established County procurement process to explore the possibility of establishing a system that can be used in the administration of its loan programs, including document repository and information updates.

Action Plan:

HCDS agrees with the recommendation. A dedicated system for the monitoring and tracking of loans will improve the efficiency and effectiveness of service delivery and organizational operation of the HCDS affordable housing team, the loan compliance monitoring team and HCDS fiscal operations. HCDS staff will explore options for procuring such a system that best suits the needs of the department.

Planned Completion Date:

June 30, 2025

Contact Information for Implementation: Kelly Salmons, Deputy Director

If you have any questions, please contact me at (858) 694-8750.



David Estrella, JD
Director, Housing and Community Development Services
Health and Human Services Agency