



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

14-06
Housing Development
Division Audit Report

April 2014



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14-06 Housing Development Division Audit Report

April 2014

Purpose

The purpose of this audit was to review the internal controls related to planning, oversight, and reporting processes for grant funds at a high level. Our review period included activities related to the 2009-2012 grant program years through June 30, 2013.

Highlights

We concluded that the Housing Development Division's (HDD) planning, oversight, and reporting processes needed improvement in some areas. We identified eight observations and have listed our recommendations for each. We also included one opportunity for improvement in the following report.

Key observations from our review included:

- Significant unspent funds from previous years.
- \$1.625 million of commitments reported to HUD without required executed agreements.
- Lack of segregation of duties in some program areas.
- One HOME program commitment reported to HUD appeared to misrepresent the contract award amount.

The City of Colorado Springs Housing Development Division (HDD) manages the Federal Block Grant Funds granted through the federal
(Continued on page 2)

Management Response

Management was in general agreement with the recommendations. See the report for detailed responses.

Recommendations

1. HDD management should develop or ensure development of a project tracking system and work with City Administration to develop reports.
2. HDD management should develop policies and procedures that only allow funds to be committed after agreements are executed and that maintain appropriate segregation of duties.
3. HDD should use policies and procedures to ensure review of data prior to reporting to HUD, that committed funds are properly supported, and duties are appropriately segregated.
4. The City should transfer receipts processing to City Finance and revise policies and procedures accordingly. HDD should plan grant expenditures with an allowance for periodic program income to ensure compliance with HUD spending requirements.
5. HDD should ensure that grant funds are fully utilized for their specified purpose.
6. HDD should establish procedures to ensure internal reporting

(Continued on page 2)

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(Highlights continued from page 1)

Housing Development Division Available Funds				
Year	CDBG	HOME	ESG	Total
2009		\$840,083		\$840,083
2010		\$902,679		\$902,679
2011	\$696,166	\$1,086,615	\$63,636	\$1,846,417
2012	\$2,323,334	\$878,051	\$104,940	\$3,306,325
Total	\$3,019,500	\$3,707,428	\$168,576	\$6,895,504

Housing and Urban Development agency. These funds include: Community Development Block Grant (CDBG), HOME, and Emergency Solutions Grant (ESG). For the 2013 program year, the Housing Development Division was awarded a total of \$3.65 million for all three programs. The CDBG, HOME, and ESG programs received an allocation of \$2.5 million, \$984,217 and \$169,494, respectively. The chart above shows available funds from program years 2009 through 2012 for each grant program.

(Recommendations continued from page 1)

systems reconcile to the HUD system and maintain supporting documentation for the Consolidated Annual Performance and Evaluation Report.

- HDD should standardize contract signature pages to allow for individual dates on each signature line. The signature page should state the contract award amount along with a description or contract number as a unique identifier.
- City Administration should work with City Council to review the Affordable Housing Committee's purpose and scope of work.

Opportunities for Improvement

- HDD should consider alternatives to efficiently and effectively process, track, and report department activities.



Office of the City Auditor Public Report

Date: April 2, 2014

To: President King, President Pro-Tem Bennett, and Members of City Council

Re: 14-06 Housing Development Division

The Housing Development Division managed the spending of three Housing and Urban Development (HUD) Grant Entitlement Programs. These programs were Community Development Block Grant (CDBG), HOME Investment Partnerships Program (HOME), and Emergency Solutions Grant (ESG).

The purpose of this audit was to review internal controls related to planning, oversight, and reporting processes for grant funds at a high level. Our review period included activities related to the 2009-2012 grant program years through June 30, 2013. Grant compliance requirements were tested through third parties and include Housing and Urban Development (HUD) agency audits, and single audit work performed by the City's external auditor. Regulatory compliance requirements were not a focus of our review. However, in the course of our review, compliance requirements in some areas came to our attention and are included in this report.

We concluded that the Housing Development Division's planning, oversight, and reporting processes needed improvement in some areas. The following report includes eight observations and we have listed our recommendations for each. We also have included one opportunity for improvement for management's consideration.

As audit issues were discovered and communicated to City Management, appropriate and swift corrective action was taken to improve the management and operations of the Division. Management responses in the detailed report highlight actions that have been taken and those in progress or planned to the operations and oversight.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Denny Nester".

Denny Nester, MBA, CPA, CIA, CFE, CGFM, CGAP
City Auditor

cc: Steve Bach, Mayor
Steve Cox, Chief of Staff
Wynetta Massey, City Attorney
Kara Skinner, Chief Executive Officer
Aimee Cox, Senior Economic Vitality Specialist



Office of the City Auditor Housing Development Division

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GLOSSARY

HDD	–	Housing Development Division
HUD	–	U.S. Department of Housing and Urban Development
HOME	–	HOME Investment Partnerships Program
CDBG	–	Community Development Block Grant
ESG	–	Emergency Solutions Grant
CAPER	–	Consolidated Annual Performance and Evaluation Report
OCA	–	Office of the City Auditor



REPORT DETAILS

PURPOSE AND SCOPE

The purpose of this audit was to review the internal controls related to planning, oversight, and reporting processes for grant funds at a high level. Our review period included activities related to the 2009-2012 grant program years through June 30, 2013. Grant compliance requirements were tested through third parties and included HUD agency audits, and single audit work performed by the City's external auditor.

The Office of the City Auditor had not performed a prior review of the Housing Development Division activities.

BACKGROUND

The Housing Development Division of Colorado Springs (HDD) manages the spending of three HUD Grant Entitlement Programs. They are: Community Development Block Grant (CDBG), HOME Investment Partnership Program (HOME), and Emergency Solutions Grant (ESG). For the 2013 program year, HDD was awarded a total of \$3.65 million for the three HUD programs. The CDBG, HOME and ESG programs received allocations of \$2.5 million, \$984,217, and \$169,494, respectively.

The Housing Development Divisions' Mission Statement is:

"Our mission is to make strategic investments and develop partnerships that strengthen neighborhoods, ensure availability of decent and affordable housing, and support economic opportunity for the whole community."

HDD was budgeted for 14 positions to administer the three grant programs. During 2013, three HDD positions were vacant. HDD reported to the City's Economic Vitality Division within the City of Colorado Spring's Mayor's Office.



Office of the City Auditor Housing Development Division

Historical funding and expenditures for the 2008-2012 program reporting years were as follows:

Housing Development Division Historical Activity (expressed in dollars)						
<u>Program Type</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
CDBG						
Awards	2,511,557	2,543,070	2,792,358	2,327,667	2,323,334	12,497,986
Income	287,123	272,219	172,634	178,167	393,485	1,303,628
Less Expenses	2,450,690	2,479,005	1,995,439	1,910,485	3,913,574	12,749,193
Net funds	347,990	336,284	969,553	595,349	(1,196,755)	1,052,421
HOME						
Awards	1,552,912	1,712,372	1,699,498	1,492,153	971,687	7,428,622
Income	381,123	437,166	264,630	963,281	467,266	2,513,466
Expenses	2,338,416	1,541,498	1,048,016	2,390,617	1,053,915	8,372,462
Net funds	(404,381)	608,040	916,112	64,817	385,038	1,569,626
ESG						
Awards	112,295	111,823	111,721	113,130	201,570	650,539
Expenses	112,249	110,399	121,596	104,724	113,130	562,098
Net funds	46	1,424	(9,875)	8,406	88,440	88,441

*Source: Respective year's Consolidated annual performance and evaluation plan
The program year is April 1st to March 31st. For example, 2012's program year ended on 03/31/2013.*

Each HUD Grant Program specified allowable uses for grant funds. These uses included but were not limited to: rental assistance, rehabilitation, infrastructure projects, and services for the homeless.

Program Descriptions

HOME Investment Partnership Program*

The HUD HOME program is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. Each year, it allocates approximately \$2 billion among the states and hundreds of localities nationwide. According to HUD, the program was designed to reinforce several important values and principles of community development.

HOME funds are awarded annually as formula grants to participating jurisdictions. HUD establishes HOME Investment Trust Funds for each grantee, providing a line of credit that the jurisdiction may draw upon as needed. The program's flexibility allows states and local governments to use HOME funds for grants, direct loans, loan guarantees (to include other forms of credit enhancement), rental assistance, or security deposits.

CDBG – Community Development Block Grant*

The HUD CDBG program provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to local governments and states.

* See Appendix A for source information



Office of the City Auditor Housing Development Division

The CDBG program works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. CDBG is an important tool for helping local governments address serious challenges facing their communities. Each activity must meet a national objective for the program. These include benefiting low and moderate income persons, prevention or elimination of slums or blight, or address community development needs having a particular urgency which pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.

ESG – Emergency Solutions Grant*

The purpose of the ESG program is to assist individuals and families in quickly regaining stability in permanent housing after experiencing a housing crisis or homelessness. ESG funds are available for five program components: street outreach, emergency shelter, homelessness prevention, rapid re-housing assistance, and data collection through the Homeless Management Information System. Recipients also receive administration funds with a statutory cap of 7.5 percent. Local government recipients may carry out all ESG activities directly.

Below is a summary of the components and related eligible costs:

- **Street Outreach:** funds may cover costs related to essential services for unsheltered persons including emergency health or mental health care, case management, and services for special populations.
- **Emergency Shelter:** funds may be used for renovation of emergency shelter facilities and the operation of those facilities, as well as services for the residents.
- **Homelessness Prevention and Rapid Re-Housing:** funds housing relocation and stabilization services (including rental application fees, security deposits, utility deposits or payments, last month's rent and housing search and placement activities).

HDD subrecipients included Urban Peak and The Salvation Army New Hope Center to meet the needs of the homeless population in Colorado Springs. These services include: providing temporary shelter, laundry facilities, medical assistance, transportation assistance, and individual case management.

Housing Development Division Loan Program

HDD provides three types of assistance for low income individuals: Serviced Loans, 0% Long Term Loans, and Loan Grants. Serviced Loans are low interest loans that must be paid back in monthly installment payments. The 0% Long Term Loans do not require monthly installment payments; instead, the loan must be paid back in full under certain conditions. Examples of qualifying conditions include: the property is no longer used by low income residents, the property owner dies, or property taxes are in arrears. Each year, HDD reviews these 0% Long Term Loans to determine whether a qualifying event would require repayment. Lastly, Loan Grants are awarded with no expectation of being repaid and are often for small rehabilitation projects.

* See Appendix A for source information



Office of the City Auditor Housing Development Division

Housing Development Division Loan Portfolio as of 04/30/2013 (expressed in dollars)				
Type of Loan	CDBG	HOME	Other	Total
Serviced Loans	1,200,147	1,011,472	3,953	2,215,572
0% Long Term Loans	5,833,801	12,242,328	85,786	18,161,915
Loan Grants	402,324	190,794		593,118
Total	7,436,272	13,444,594	89,739	20,970,605

COMMENDABLE PRACTICES

A compliance analyst position was created and filled within the Housing Division during 2013. This position was responsible for developing a monitoring program that centralizes compliance responsibilities. Centralization of the compliance function was recommended in the HUD On-Site Monitoring Report dated July 14, 2011.

CONCLUSION

We concluded that the Housing Development Division's planning, oversight, and reporting processes needed improvement in some areas. We identified eight observations and have listed our recommendations for each. We also included one opportunity for improvement in the following report. As these audit issues were discovered and communicated to City Management, appropriate and swift corrective action was taken to improve the management and operations of the Division. Management responses in the detailed report highlight actions that have been taken and those in progress or planned to the operations and oversight.



OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 - SIGNIFICANT ENTITLEMENT FUNDS FROM PRIOR YEAR ALLOCATIONS WERE UNSPENT

- Approximately \$6.9 million in previous years’ funds were unspent as of June 26, 2013, for the CDBG, HOME, and ESG programs combined.
- Formal controls did not ensure available program funds were monitored on a routine basis.
- Unspent funds were not effectively reported to City Administration.

During our review, we obtained HUD reports of available program fund balances for the HOME, CDBG and ESG programs. The chart below is a breakout by program and by year the funds became available to HDD per the HUD report as of June 26, 2103.

Housing Development Division Available Grant Funds at 6/26/13 (expressed in dollars)				
<u>Year</u>	<u>CDBG</u>	<u>HOME</u>	<u>ESG</u>	<u>Total</u>
2009		840,083		840,083
2010		902,679		902,679
2011	696,166	1,086,615	63,636	1,846,417
2012	2,323,334	878,051	104,940	3,306,325
Total	3,019,500	3,707,428	168,576	6,895,504

Source: HUD IDIS report generated by HDD staff as of 6/26/13

Each HUD program had different requirements to enter into contracts and spend funds allocated to the City. If funds were not spent when required, HUD had the option to recapture unspent funds. For the HOME program, two years were allowed to place funds under contract for qualifying purposes, with another three years allowed to spend funds. For the CDBG program, the balance in unspent funds could not exceed 1.5 times the current year’s allocations. For the ESG program, 60% must be spent in the first two years with the remaining 40% expended by the third year after the fund award. Projects funded by grant programs must allow for compliance requirements such as environmental reviews, which can extend project timelines.

Due to the complexity of spending and regulatory compliance requirements, project management processes were critical to spend funds effectively and in a timely manner. HDD did not have project tracking reports. Tracking reports could be used to summarize upcoming project commitments or spending deadlines as well as identify projects in development that may meet upcoming deadlines.

HDD management indicated that most projects were initiated by third party developers rather than internal project development efforts. This approach may have contributed to the existence of prior year unspent fund balances. HDD management stated the division was developing a more proactive, strategic approach to project development.



AUDITOR'S RECOMMENDATION

HDD management should:

- Develop or ensure the development of a project tracking system that identifies critical grant related deadlines and projects in development to meet these deadlines, and
- Work with City Administration to develop reports that ensure transparency and accountability for timely and effective use of grant funds.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendations. Management is seeking outside technical assistance to develop better financial systems and a schedule of obligations that identifies grant fund deadlines and projects in development and under contract. In addition, the City budgeted for a Grants Manager position for 2014. This new position will assist in this process and will provide an additional level of review to ensure proper financial systems are in place.



OBSERVATION 2 – HOME PROGRAM COMMITMENTS DID NOT COMPLY WITH HUD REQUIREMENTS

The December 2012 HUD HOME Deadline Compliance Status Report stated HDD was required to commit approximately \$1.7 million in HOME funds by June 30, 2013. If not committed by that time, HUD could require the funds to be returned.

- \$1.625 million was reported to HUD as under contract without executed contracts.

Housing and Urban Development program regulations per HOME Final Rule Section 92.2 required commitments to be supported by properly executed agreements. The HOME program rule defines commitments as: *“the participating jurisdiction has executed a legally binding agreement with a State recipient, a sub recipient, or a contractor to use a specific amount of HOME funds to produce affordable housing or provide tenant-rental assistance.”*

We tested committed HOME funds to ensure they were properly supported by executed agreements. Four committed projects totaling \$1.625 million did not have properly executed agreements at the time of our review. A draft contract existed for one of the projects. HDD was unable to produce a project file for two of the four projects.

Controls were not in place related to these affordable housing projects. One employee was responsible for both contract development and reporting projects to HUD. No review or approval was required to ensure accuracy and program compliance. These duties were not properly segregated.

AUDITOR’S RECOMMENDATION

HDD should develop Home program policies and procedures to ensure:

- All committed funds are supported by properly executed agreements, and
- Duties related to affordable housing projects are properly segregated.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor’s recommendations. The employee that was responsible for ensuring compliance is no longer employed by the City. Job responsibilities are being shifted within the department to ensure proper segregation of duties. The department manager will be responsible for ensuring all commitments entered into IDIS are supported by properly executed agreements. Written program guidelines are currently being developed.

In addition, the department manager discussed the observations with the HUD Region 8 Representative and Region 8 Director on December 3, 2013. Certain projects will be cancelled in IDIS, and replacement projects are currently being identified



OBSERVATION 3 – A HOME PROGRAM CONTRACT AMOUNT APPEARED TO BE INCORRECTLY REPORTED TO HUD

- HDD appeared to misrepresent the amount of funds committed to HUD.

We tested HOME program funds reported as committed to related support in HDD files. We identified some documents that appeared to contain misrepresentations. Details were as follows:

- HUD notified HDD in July 2013 that \$68,681 would be recaptured unless HDD could provide evidence of an executed contract in place before June 30, 2013, to properly commit the funds.
- HDD notified HUD that an error occurred in the contracting process and a contract should have been reported as \$430,750, instead of the original contract amount of \$344,600. The letter indicated that after adjusting the commitment by \$86,150, HDD would be able to meet the commitment shortfall.
- The HDD file included a copy of the contract with the previous amount of \$344,600 crossed out and a handwritten notation replacing the amount with \$430,750.
- The HDD file included a letter to the developer stating that there was an error in the contract amount and HDD was adjusting the contract award accordingly to \$430,750.
- We contacted the third party developer to determine whether the contract amount had changed. The developer indicated they had not received the correspondence referenced above and the original contract amount was correct.
- The City's Procurement and Contracting Division verified that the amount that was contracted per their records was \$344,600.

As reported in Observation 2, one employee had responsibility for all aspects of contract development and HUD reporting. No review or approval was required to ensure accuracy and program compliance. These duties were not properly segregated.

AUDITOR'S RECOMMENDATION

HDD should develop policies and procedures to ensure:

- All committed funds are accurately reported,
- All committed funds are supported by verifiable documentation, and
- Duties are properly segregated.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendations. The referenced contract was not properly executed per existing policies and procedures and has subsequently been corrected to ensure compliance. The employee responsible for contract oversight is no longer employed by the City. Job responsibilities are being shifted among staff to ensure proper segregation of duties. Further, the City



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Finance Department is in the process of hiring a Grants Manager to review policies and procedures and implement stronger internal controls in this area.



OBSERVATION 4 – CDBG PROGRAM INCOME WAS NOT REPORTED IN THE PROPER PROGRAM YEAR

- On January 4, 2013, HDD received a check for \$150,000 to repay a CDBG loan. The check was not deposited or recorded in the accounting system until February 15, 2013.

HUD reviewed the CDBG program annually as of January 31 to determine compliance with the spending ratio requirement. If the \$150,000 check had been recorded in January 2013, the spending ratio would have been 1.52 or slightly out of compliance with a requirement that the spending ratio not exceed 1.5.

For the 2012 program year, the ratio was 2.17 times the program year's allocation. This ratio exceeded the requirements of 1.5 times the current year's allocation. A workout plan was in place, under which HDD was making efforts to increase the timeliness of grant fund spending.

HDD policy requires funds to be deposited within two business days. This policy was not followed. The delay in depositing funds allowed HDD management to manipulate the compliance ratio requirements.

HDD was responsible for loan origination, tracking, and processing of loan receipts. Internal controls could be strengthened if receipt processing was not performed by the HDD Division.

AUDITOR'S RECOMMENDATION

Receipt processing should be transferred to City Finance and HDD policy and procedures should be revised accordingly. HDD should plan grant expenditures with an allowance for periodic program income, such as loan repayments, to ensure compliance with HUD spending requirements.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agree with the Auditor's recommendation and will implement a receipting process in conjunction with the City Finance Department and will document all procedures to be utilized. The Grants Financial Analyst position within the department has been vacant for nearly nine months. Management will hire a Grants Financial Analyst during the first quarter of 2014 to more rigorously monitor revenues and expenditures and forecast program income.



OBSERVATION 5 - PROGRAM GRANT FUNDS WERE NOT UTILIZED AND WERE RECAPTURED BY HUD

- HUD notified HDD that \$77,500 in Shelter Plus Care Grant program funds, awarded for the 2007 program year, had not been utilized and would be recaptured or lost.
- We were unable to locate documentation that HDD reported the recapture of grant funds to City Administration.

The HUD Shelter Plus Care program grant provided funding for rental assistance and support services for hard-to-serve homeless persons with disabilities and their families. HDD staff indicated that the grant served a narrow target population, defined as the disabled homeless persons and their families. The amount granted for the 2007 program year was \$158,760. HUD notified HDD in May 2013 that \$77,500 of this amount would be recaptured.

The Office of the City Auditor did not determine why the funds were not expended in a timely manner. Reporting was not in place to ensure City Administration was aware of HDD's efforts to utilize this grant as well as deadlines to spend grant funds to avoid recapture. Serving the homeless population of Colorado Springs was a key objective for City Administration.

AUDITOR'S RECOMMENDATION

HDD should ensure that grant funds are utilized for their specified purpose. To accomplish this goal, HDD should:

- Review grants such as the Shelter Plus Care Grant to ensure project management processes are in place to maximize the use of grant funds to serve the City's homeless population, and
- Work with City Administration to develop reporting that ensures transparency and accountability for timely and effective use of grant funds.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendations. Project monitoring and reporting procedures will be developed and documented. HUD requires an Annual Performance Report for these grants and information will be shared with City Administration as part of the City-wide quarterly budget update report.

It is important to note that these grant funds are made available on a competitive basis to serve a challenging population and can be difficult to fully expend. Under past program guidelines, funds not utilized during the grant period could not be carried forward and were recaptured by HUD. This grant is now renewed annually, subject to continued funding from HUD.

In this case, the Shelter Plus Care Grant was a five (5) year grant that provided tenant based rental assistance for chronically homeless individuals with disabilities. The grant award was based on the



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anticipated amount of rental assistance and administrative costs required to fund the program for five (5) years. HUD determined the amount of rental assistance based on the allowable Fair Market Rents (FMR) and the number of clients to be assisted by the grant. This grant was not utilized during the first two (2) years of its term, August 17, 2007 – August 16, 2009, because of capacity issues with the host agency. Consequently, no funds were expended during this two (2) year period. A new host agency was subsequently identified and utilized. It is also important to note that actual rents were less than the allowable FMR, resulting in lower overall program expenditures.



OBSERVATION 6 – THE HOUSING DEVELOPMENT DIVISION DID NOT DOCUMENT THE RECONCILIATION OF KEY REPORTS

HUD required HDD to produce a Consolidated Annual Performance and Evaluation Report (CAPER).

- Available funds in the HOME program at the end of the 2012 per the CAPER did not agree with the HUD System.
- We were unable to obtain supporting documentation for the 2012 CAPER produced by HDD.

As of June 26, 2013, HUD's system showed approximately \$3.7 million in available funds from previous years' allocations. HDD could not reconcile this amount to the \$2,033,000 HDD reported in the March 31, 2013, CAPER. HDD staff did not provide an explanation for the difference. We also noted other differences between HDD records and the reports from the HUD system. Reconciliations between the HDD internal system and HUD reports did not appear to have been performed.

We also inquired about the supporting documentation for the annual CAPER report. HDD did not provide work papers supporting amounts presented in the CAPER.

AUDITOR'S RECOMMENDATION

HDD should:

- Establish procedures to ensure internal reporting systems reconcile to the HUD system, and
- Maintain supporting documentation for the annual CAPER.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendations. The department staff person responsible for preparing the CAPER left the City in May 2013 and a permanent replacement was not hired. The staff person was brought back on staff on a temporary basis in October 2013 to update financial reports. Supporting documentation for the CAPER had in fact been maintained and was located upon the staff member's return. The Department will hire a Grants Financial Analyst in the first quarter 2014 to help ensure compliance. Procedures will be developed to ensure internal reporting systems reconcile with the HUD system. Supporting documentation for the annual CAPER will continue to be maintained in a central file accessible to the department manager.



OBSERVATION 7 – THE CONTRACT SIGNATURE PAGE DID NOT FOLLOW GOOD BUSINESS PRACTICES

- HDD contract signature pages did not have individual dates by each signature.
- One HOME affordable housing project contract was identified as being backdated to meet a June 30, 2013, commitment deadline.

During our review, we determined that one contract was backdated to meet a June 30, 2013, HOME commitment deadline. This contract was for the amount of \$300,000 and the contract signature page showed an execution date of June 26, 2013. The third party vendor did not execute the contract until the first week of September 2013.

AUDITOR'S RECOMMENDATION

HDD should standardize contract signature pages to allow for individual dates on each signature lines. The signature page should state the contract award amount along with a description or contract number as a unique identifier.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendation. Contract forms have been modified to include dates on each signature line and each signature page states the contract award amount along with a unique identifier. The updated form contract will be utilized for all future contracts.



OBSERVATION 8 – THE AFFORDABLE HOUSING COMMITTEE WAS NOT AUTHORIZED OR APPROVED BY CITY COUNCIL

- The Affordable Housing Committee (AHC) was not established by City Council as required in the City Charter. Appointments were made by the HDD Manager, who served on the Committee.

Under City Charter Section 9-10, all City Boards and Commissions, including advisory and appeal boards, must be established by ordinance or resolution. This charter section also states that committee members must be appointed by City Council, and term limits should be specified. We were unable to locate an ordinance or resolution establishing the Affordable Housing Committee. Committee members had served over ten years at the time of our review.

AUDITOR'S RECOMMENDATION

City Administration should work with City Council to review the AHC purpose and scope of work. If merited, City Council may want to develop a resolution or ordinance which prescribes the powers and duties delegated to the AHC by City Council, and specifies term limits. City Council may need to appoint members to the AHC as mandated by the City Charter.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendation. The Affordable Housing Committee is not required by HUD and will be disbanded. Department staff will develop policies and procedures for evaluating and underwriting affordable housing projects, as well as satisfying HUD requirements for community input, instead of depending on the recommendations of a committee. The future need for a committee will be evaluated when the department receives the recommendations in the Affordable Housing Needs Assessment scheduled to be completed by August 1, 2014.



OPPORTUNITIES FOR IMPROVEMENT

OPPORTUNITY FOR IMPROVEMENT 1 - THE HOUSING DEVELOPMENT DIVISION'S INTERNAL SOFTWARE DID NOT INCLUDE NEEDED FUNCTIONALITY AND REPORTING

HDD utilized software developed by a third party vendor to track projects and maintain the loan portfolio. During our review, the OCA noted that certain key reports were not available and the loan portfolio could not be accurately tracked without manual intervention. Technical support was not adequate to meet HDD's ongoing needs.

The vendor contract allowed for minimal hours of vendor maintenance support to develop reports and address functionality needs. Functionality and technical concerns identified by HDD staff and confirmed during the audit were as follows:

- Information changed in one module does not flow through to other modules and may have to be entered in several places.
- The Loan Portfolio reporting lacks the ability to produce interest paid statements, short sale reports, released loan reports and foreclosure reports.

AUDITOR'S RECOMMENDATION

HDD should review the functionality and support issues noted by staff. HDD should consider alternatives to efficiently and effectively process, track, and report department activities.

COLORADO SPRINGS MANAGEMENT RESPONSE

Management agrees with the Auditor's recommendation. Management is seeking outside technical assistance to develop better financial systems and a schedule of obligations that identifies grant fund deadlines and projects in development and under contract. Management is also investigating software and systems for managing the loan portfolio.



ATTACHMENTS

APPENDIX A

Sources:

U.S. Department of Housing and Urban Development; "HOME Investment Partnership Program"

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/programs/home/

U.S. Department of Housing and Urban Development; "Community Development Block Grant Program"

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs

U.S. Department of Housing and Urban Development; "Emergency Solutions Grants Program"

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/homeless/programs/esg

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

The audit was conducted in a manner that conforms with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.

The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.