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Office of the County Auditor
Shelly A. Banks, C.P.A.
Cook County Auditor
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September 22, 2015

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted an audit of the Cook County Planning and Development Department – HOME Program. We conducted our audit in accordance with the Cook County Auditor Ordinance.

Our objectives for this examination were to assess and evaluate the administration and monitoring of the Planning and Development Department – HOME Program.

Please refer to the following audit report for the results of the audit. The audit report contains five audit findings. The Executive Summary provides an overview of the audit with the main finding areas.

We express our appreciation for the assistance of the Planning and Development staff extended to Julie Stack during the course of our audit. We have discussed our findings with the Planning and Development staff and would be pleased to discuss our recommendations in greater detail in order to assist Planning and Development with their implementation of our recommendations.

Respectfully Submitted,

Shelly Banks

Shelly A. Banks, CPA
Cook County Auditor

cc: Michael Jasso, Bureau Chief, Economic Development
Susan Campbell, Director, Planning and Development

COOK COUNTY GOVERNMENT

OFFICE OF THE COUNTY AUDITOR

Planning and Development Department - HOME Program

Internal Audit Report

Report Date: September 2015

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Julie Stack, Field Auditor V
Nancy Campanella, Audit Supervisor

EXECUTIVE SUMMARY

We have examined the program records of the Cook County Planning and Development Department - HOME Program ("HOME") for the period ended November 30, 2014.

The federal HOME Investment Partnerships Program is the largest federal block grant awarded to State and local governments designed exclusively to create and increase the supply of affordable housing for low- and very low-income households. These HOME funds are the primary source of funds for affordable housing development initiatives in Cook County.

The scope and objectives of the HOME audit were designed to assess the record keeping and internal control procedures. This was accomplished by gathering, reviewing and testing relevant and sufficient supporting documentation to reach a conclusion on each of our audit objectives.

During our audit of the HOME program, it was noted for the files sampled that there was documentation to support the approval of the HOME loans.

As a result of our testing we noted the following findings:

- The Department is not adequately tracking the loan accounts to ensure funds are appropriately identified and collected. (Finding #1)
- The Department is not in compliance with the Monitoring Policy detailed in Section 8 of the Department's Policies and Procedures manual. (Finding #2)
- The Department does not have strong controls in place for monitoring the loan accounts and maintaining the documentation. (Finding #3)
- There is a lack of segregation of duties due to the use of Department resources for the annual HOME Program monitoring. (Finding #4)
- The Department does not have formal written policies and procedures for forgiving HOME loan accounts. (Finding #5)

The findings noted were presented and discussed with the Department of Planning and Development (Department). Please refer to the Findings section of this report for additional details on the findings, recommendations, management responses, corrective action plans and estimated completion dates.

BACKGROUND

The HOME Program provides funding to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low and very low-income Americans. HOME funds may be used for a variety of housing activities, according to local housing needs, including housing rehabilitation; assistance to homebuyers; and new construction of housing.

For rental housing, at least 90 percent of the families benefited must have incomes at or below 60 percent of the area median income; the remaining 10 percent of the families benefitted must have incomes at or below 80 percent of the area median income. Homeownership assistance must be offered to families at or below 80 percent of the area, adjusted for family size. Each year, HUD publishes the applicable HOME income limits by area, adjusted for family size.

Home-assisted rental units must have rents that do not exceed the applicable HOME rent limits. Each year HUD publishes the applicable HOME rent limits by area, adjusted for bedroom size. For projects with five or more HOME-assisted rental units, 20 percent of the units must be rented to very low-income families.

Home-assisted homebuyer and rental housing must remain affordable for a long-term affordability period, determined by the amount of per-unit HOME assistance or the nature of the activity. HOME assisted homebuyer is also subject to resale or recapture requirements.

AUDIT SCOPE AND OBJECTIVES

Our audit was designed to assess and evaluate the administration and monitoring of the HOME loans in order to reach a conclusion on our audit objectives. Our objectives were to determine:

- The Department performs an annual risk assessment.
- On-site monitoring has been performed on those projects identified as high risk.
- All loans are tracked, monitored and at a minimum have completed annual desk audits.
- The repayment of loans is being collected and balances due maintained.
- There is adequate documentation to support the approval of HOME loans.

FINDINGS

Finding #1

The Department is not adequately tracking the loan accounts to ensure funds are appropriately identified and collected. Our Office requested a listing of all accounts, but the Department was not able to provide a comprehensive list of all loans issued, the balance of the amount due, amount collected and amount outstanding. We were provided with various conflicting listings of accounts. Due to the fact that the Department does not have an adequate tracking of the loans outstanding, the HOME Program has not been collecting on all outstanding loan amounts to ensure optimal use of the funding. Without an accurate listing of all loan accounts, the Department may not be collecting on funding that could be reinvested into the program to be used for other participants. The HOME Program's purpose is to expand the supply of decent, safe, sanitary, and affordable housing for low- and very low-income persons.

The Department entered into a contract with Amerinational Community Services, Inc. (#1388-12982 approved by the Cook County Board of Commissioners on April 9, 2014) to provide professional services related to loan servicing and accounts payable. Amerinational began the loan processing in November 2014. By August 2015, the Department had provided all the loan documentation for Amerinational to process all loans for collection.

Recommendation

We recommend that the Department implement the following process improvements to ensure optimal use of the HOME Program funding and that the maximum number of participants can be provided assistance:

- Develop an accurate comprehensive listing of all loan accounts by coordinating with Amerinational. Even with Amerinational processing loans for collections, the Department needs to ensure they maintain an accurate listing of all accounts.
- Maintain a balance of the monthly fees charged by Amerinational in order to verify that they do not exceed the $300,000.00 per year maximum compensation level as noted in the contract terms.

- Establish a strong working relationship with Amerinational so that the County's HOME Program can understand the processes and tools needed to establish their own tracking and collection process.
- Perform a cost benefit analysis to determine the cost effectiveness of utilizing existing County resources to continue the loan processing after the expiration of the Amerinational contract.

Management Response

- *Comprehensive Listing of Funds Issues and Loan Accounts:*

Many of the recommendations outlined above have been implemented or are in the process of implementation.

The Department entered into a contract with AmeriNational Community Services, Inc. (#1388-12982 approved by the Cook County Board of Commissioners on April 9, 2014) to provide professional services related to loan servicing and accounts payable. Several months were required to transition 20 years of existing loan data to AmeriNational. Historically, the Department maintained loan documents in hard copy in multiple places. Staff spent significant time reviewing and reconciling records as well as scanning them for electronic upload to ensure that the new system for loan tracking was setup properly from the beginning. The Department and AmeriNational worked together to inform borrowers regarding the loan servicing change. AmeriNational's initial loan processing began in November 2014. By August 2015, the Department had provided remaining loan documentation to AmeriNational for processing all existing loans for collection.

A complete list of all the loans, i.e. for properties that have completed construction and are leased up was provided to the County Auditor. AmeriNational is currently booking the last set of loans that were sent in August – once those are in their system, they will send verification to the Department, which must be signed and sent back to them.

At the end of our Loan List is a summary of funds for projects that are currently in construction. Once construction is complete and the project receives a "certificate of occupancy", its respective funds are then considered a "loan" and documents are forwarded to AmeriNational as loans for processing. Funding distributed prior to this point according to the Department of Planning and Development's designed HOME program is not considered a loan for tracking.

- *Maintain a balance of AmeriNational monthly fees*:

Monitoring staff currently oversees this contract and tracks expenditures against available funds. This includes review of monthly reports submitted by AmeriNational pertaining to their expenses and loan activities. Finance staff reviews and signs off on draws and payment requests to ensure that funds requested do not exceed the contract terms and yearly fee levels.

- *Establish strong working relationship with AmeriNational*:

The Department has scheduled quarterly meetings via conference call with AmeriNational regarding their processes and tools. These meetings include both program and finance staff to ensure a strong working relationship between the County and AmeriNational and to facilitate the incorporation of best practices for loan processing in house before termination of AmeriNational's contract in 2016.

- *Cost/Benefit Analysis of Utilizing an External Loan Processing Entity*:

The Department has recently conducted conversations with a number of other banks as part of the selection for an entity to service our Commit to Cook Loan program. These conversations have yielded some "Comps" for similar external services and will be used to compare to internal costs for similar work.

Estimated Completion Date
November 30, 2015

Finding #2

The Department is not in compliance with the Monitoring Policy detailed in Section 8 of the Department's Policies and Procedures Manual. With approximately 100 open loan accounts, it is essential to establish an effective and efficient monitoring program. Monitoring is fundamental to ensuring that program participants are appropriately spending funding and operating according to program requirements.

We noted the following control deficiencies:

- An annual risk assessment of the HOME funded activities is not being performed. As the policy states, this risk analysis would assist the Department by applying monitoring resources to those funded entities that pose the greatest risk to the integrity of the program. The policy continues to note that this assessment would help identify which funded entities should be monitored on-site and which can be monitored remotely with a desk review. Since projects have not been classified as high or low risk, the Department's attempt to perform on-going and on-site monitoring for all projects does not utilize their resources in the most effective manner.

- An annual monitoring plan is not being developed. As the policy states, the Department should formalized an annual monitoring plan reviewing ongoing compliance with HOME affordability requirements for HOME-assisted rental and homebuyer housing during the affordability period. At a minimum, all properties are subject to a desk review at least annually. In addition, the annual monitoring plan would identify which properties in the portfolio of assisted projects will be subject to on-site monitoring visits each year.

- Support documentation verifying that all projects are monitored annually was not available for our review.

The Department was provided with the following resources to help run an effective and efficient monitoring program:

- In January 2014, ICF International worked in conjunction with the Department to create a policies and procedures manual. This manual includes policies and procedures that the Department should utilize in administering all programs that support affordable housing, community development, and economic development. The manual is comprised of two sections: policies that describe what is required in administering these grants, and procedures that describe how to carry-out the policies.

- In addition, S.B. Friedman Development Advisors was paid $234,637.23 (contract #11-88-045 approved September 10, 2012 by the Cook County Board of Commissioners) for the purpose of providing a loan portfolio assessment and asset management system to support the HOME program. A Portfolio Risk Assessment Tool Guide was completed and provided to the Department in March 2014. In addition to the Portfolio Risk Assessment Tool Guide, a "Risk Tool" was designed to merge the disparate HOME Program monitoring functions and processes into a more systematic approach to evaluate individual project viability, risk and portfolio performance as well as ongoing monitoring. The "Risk Tool" also is intended to evaluate individual project activity in a given year and provide Home Program staff an overall "snapshot" of the project's viability and issue alerts when select programmatic or financial metrics are not met, as well as, a table that distinguishes between all missing data and only those data that are needed to trigger risk alerts.

Recommendation
We recommend that the Department utilize the resources provided to develop an effective and efficient monitoring program to include an annual risk assessment and monitoring plan. The "Risk Tool" paid for by the Department will strengthen internal controls over monitoring documents, provide a risk assessment, provide tracking of the loan accounts, and assist with developing an annual monitoring plan.

Management Response
Please note – while the SB Friedman Risk Tool was developed and purchased by the department, work was previously completed, implementation of related policies/procedures and risk analysis tools were still in progress at the time of this audit. Additionally, updated guidance from HUD regarding implementation of provisions of the new HOME rule has been ongoing which has impacted implementation. The Department is nearing full implementation of these practices.

A new Monitoring Schedule for 2016 was provided to the County Auditor. Note – some portions of monitoring can be completed remotely via a desk review (for example, occupancy documents) whereas others must be completed on site (for example, unit inspections). Given other HUD requirements and workload impacts, on-site monitoring will only occur as HUD requires. In order to maximize limited available staffing and conserve related administrative costs, any monitoring that can be conducted via desk review and still be HUD compliant, will follow this practice.

A follow-up training on the risk analysis tool is also being scheduled for October for financial and programmatic staff and management. This will ensure that everyone, including newer staff, understands related requirements and resources. Additionally, it will enhance review of project financial statements so that any related issue can be identified and appropriately addressed early. A legal extern is working with the County over the next few months as part of their law school program to populate the Risk Tool database and to assist with these efforts.

Estimated Completion Date
January 30, 2016

Finding #3
The Department does not have strong controls in place for monitoring the loan accounts and maintaining the documentation. As noted in Finding #1, the Department does not have an accurate comprehensive listing of the approximately 100 open loan accounts so we had to utilize various listings to determine an audit test sample. With approximately 100 open loan accounts requiring proper documentation and recordkeeping, it is imperative that strong controls are in place for monitoring these accounts.

We noted the following control deficiencies:

- The electronic monitoring documents provided to our office for testing were not secure and could be edited.
- Support documentation tested contained errors and/or was incomplete.
- Documents provided did not indicate a monitor review or supervisor approval.
- Follow up correspondence to the funding recipient was not in the file. The correspondence is required as part of the monitoring review (desk/onsite) to communicate the conclusions of the review and identify the following: findings of noncompliance, with a deadline for the funded entity to make appropriate remedies; areas of concern with required actions to address; and good performance by the funded entity that the Department would like continued.

Recommendation

We recommend that the Department implement the following process improvements to strengthen controls:

- Develop a checklist of all documentation required to be included in the monitoring review files for both onsite and desk reviews.
- State on the checklist the items that require supervisory review and approval signatures.
- Require a monitor signature on the checklist indicating that the file has been completed, reviewed and approved.
- Electronic files should include the supervisor's electronic signature along with the date reviewed.
- Electronic monitoring documentation should be saved in PDF format with document restrictions set so that information cannot be changed.
- Follow up letters should be sent to all funding recipients after the completion of a monitoring review. The Department should require the recipient to submit a corrective action plan with reasonable estimated completion dates for any findings and areas of concern. The Department should establish a process to track all open issues to ensure the corrective action plans are fully implemented.

Management Response

The Department at HUD's suggestion, has collaborated with other HOME grantees in the region (namely the City of Chicago and the Illinois Housing Development Authority) to standardized some monitoring forms and practices. Additionally, monitoring staff have updated County specific monitoring documents and procedures to ensure compliance with HUD requirements and County grant management standards. Staff is working to ensure that each project file will include relevant checklists, inspection reports, supporting documentation, summary letters, follow-up correspondence, and appropriate evidence of supervisor review and approval. We have provided to the County Auditor a portfolio spreadsheet/census that staff updates monthly to maintain a schedule for performance monitoring. In addition we have provided checklists currently being used for both our Single Family and Multi-Family Home programs outlining the file structure and monitoring expectations for internal staff and sub-recipients.

The Department of Planning and Development is currently updating all signatory processes and protocols in an effort to correct and bring consistency to these practices and to ensure that staff understand which items require supervisor approval and sign off. Electronic signatures will be applied as allowed by our funders (HUD).

Estimated Completion Date

October 31, 2015

Finding #4

There is a lack of segregation of duties due to the use of Department resources for the annual HOME Program monitoring. The HOME Program has two staff members assigned to perform all the on-site project monitoring and file review for the program. In most instances, the two person team investigates the sites together.

Recommendation

We recommend that since there is a larger staff of project managers performing on-site monitoring for the Planning & Development Department grants, staff should be cross-trained to allow for more autonomous monitoring. With a larger pool of monitoring staff, the Department will be able to utilize the resources more efficiently to ensure focus is on the higher risk recipients. Rotating staff will add the benefits of having a fresh perspective on monitoring reviews as well as preserve monitor independence and ensure objectivity.

Management Response
Financial and programmatic staff will be cross-trained in use of the Risk Analysis tool. Staff are presently cross-trained in HUD monitoring requirements. The Monitoring Team currently consists of two individuals who may complete monitoring throughout the year. Given relaxation of some on-site components of monitoring by HUD through the HOME regulation revision and the expected dramatic decrease in program funding expected from Congress, this number of staff should be sufficient to complete related tasks and ensure compliance. Finance and program staff will continue to coordinate with each other and AmeriNational via quarterly discussions as previously noted.

Estimated Completion Date
December 31, 2015 and On-Going

Finding #5
The Department does not have formal written policies and procedures for forgiving HOME loan accounts. In addition, documentation was not provided to support the specific criteria used for each HOME loan account that was listed as forgiven. During our review of the various listings provided, we noticed a number of loans on subsequent listings were no longer included. The Department informed us that the loans had been forgiven, but the Department did not provide a formal policy or the support documentation on each loan forgiven. Without a formal policy and support documentation, it is unclear what steps were taken to decide what loans were deemed uncollectable and the approval that was obtained to forgive the loans. A formal policy and support documentation will provide assurance that there is not an unfair advantage and that the program is operating as effectively as possible by collecting on loans that could be reinvested in the program to assist other participants.

Recommendation
We recommend that the Department implement formal policies and procedures documenting the process and the criteria for determining and allowing a loan account to be forgiven. Each loan that is forgiven should be documented and included in the case file. In addition, the homeowner should be notified in writing that the loan had been forgiven and that the owner is responsible for any future tax implications that may be associated with the forgiveness of the loan. A copy of this letter should also be kept on file. A written policy will help ensure that the Department operates the HOME Program by maximizing the loan funding received so that the funding can be reinvested in the program to continue to assist other participants.

Management Response
We have developed and provided to the County Auditor a draft policy. This policy will be discussed with HUD by senior management to ensure program compliance. Processes for recording the Department's decisions and record keeping will be added to the HOME Program Policies and Procedures Manual.

Estimated Completion Date
December 31, 2015