



City of Houston

Housing and Community Development Department

Performance Diagnostic Review

March 10, 2005



Wells Fargo Plaza
1000 Louisiana, Ste 5300
Houston, Texas 77002
Phone 713. 860.3900
Fax 713.860.3902
www.jeffersonwells.com

March 10, 2005

Mr. Gary Gray
Assistant Director of Finance and Administration
City of Houston
611 Walker
Houston, Texas 77002

Dear Mr. Gray:

We have completed our audit and high-level overview of issues within the Housing and Community Development Department as outlined in our engagement letter dated December 10, 2004, under Contract No. 55769.

Our observations and recommendations noted during the performance of the procedures are presented in this report. Our procedures, which accomplished the project objectives, were performed through the date of this report and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells International is pleased to have assisted the Finance and Administration Department, and we appreciate the cooperation received during this engagement from your office.

This report is intended solely for the information and use of the City and the Finance and Administration Department, and is not intended to be used for any other purpose.

Sincerely,

A handwritten signature in cursive script that reads "Laurie Robinson".

Laurie Robinson
Jefferson Wells International
Director

Background, Scope and Objectives

The mission of the Houston Housing and Community Development Department (HCDD or the Department) is to provide leadership in the preservation, revitalization and improvement of Houston's low and moderate-income neighborhoods. To accomplish this mission, HCDD operates various concurrent community and affordable housing development programs which include increasing home ownership through mortgage assistance programs, repairing or improving homes, and helping renovate and build affordable rental housing and transitional housing. These housing programs are funded from both Federal and non-Federal sources.

Several reviews of the Department's performance in recent years, including by the City of Houston and Department of Housing and Urban Development (HUD), resulted in formal findings of sub-optimal performance and the suspension of specific programs and Federal funding.

JeffersonWells was retained to perform a diagnostic assessment of the Department's performance and practices, including by comparison to those of best-in-class operations, to identify causal effects of current issues, and determine and recommend practical improvement and remediation actions to enable the Department's new management to develop best-in-class operations. For diagnostic purposes, JeffersonWells reviewed activities performed by various functional areas across the Department rather than solely those supported by a specific Federal funding program.

We thank the Department's management and personnel for the support and welcome extended to the JeffersonWells team during this review. We appreciate the opportunity to have been of service to the City of Houston.

Overall Assessment

JeffersonWells' diagnostic assessment of the Houston Housing and Community Development Department's performance over the last several years indicates that it is not commensurate with that expected of best-in-class operations. Examples of where the Department's practices diverge from those of best-in-class operations include: lack of documentation e.g. for regulatory compliance, conflict of interest issues which increase the risk of undetected fraudulent activity, and a lack of internal controls especially over stewardship of funds. Key characteristics of best-in-class organizations, and which attributes are generally lacking or not evident at HCDD, are noted in Table 1.

The significant deficiencies identified during our review fall into five primary categories:

- Governance and Tone at the Top,
- Organizational Structure,
- Policies and Procedures,
- Program and Project Management, and
- Documentation.

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In each of the five categories assessed, we found several less than acceptable business practices in the Department's operations. These include:

- An autocratic and preferential management culture with limited internal communication or collaboration, and active suppression of adverse news including but not limited to past HUD regulatory findings.
- No comparative analyses, required performance metrics or formal policies and procedures applied in the usually capricious selection of projects and agencies and determination of related funding allocations and conditions.
- Lack of individual accountability or ownership, especially for end to end management of (multi-million dollar) projects and programs.
- Inconsistent and irregular oversight practices with no timely disposition of identified compliance violations.
- As of December 2004, approximately \$36 million of the \$47 million (77%) outstanding principal balance on Multi-Family loans is classified as other than performing. The portfolio also reflects a further \$2.7 million in unpaid accumulated interest and \$6.5 million in missed payments. Several borrowers have missed 5-7 years worth of payments.
- \$14 million of approximately \$23 million (60%) in Section 108 loans are classified as in default.
- Potential non-compliance with various Federal statutes (i.e. usury laws, Uniform Relocation Act, Internal Revenue Code, etc.).

Further illustrative gaps between actual Department practices and those of best-in-class operations are tabulated below (Table 2) and evidenced in more detail in the respective sections within the body of the attached Report and Appendices.

The Department's newly appointed Director and senior staff are already taking action to address the inherited shortcomings in HCDD's operations. We recommend that Management obtain the appropriate City of Houston approval and funding for the immediate implementation of the best-in-class practices noted and as detailed in the recommendations contained within each Section. The Department should also seek appropriate assistance from outside entities, including but not limited to HUD and other professional resources, that have experience with reorganizations and process improvement implementations.

We believe that the Department has the potential through the adoption of these recommended practices to raise the level of its operations to that of best-in-class organizations.

Summary Recommendations

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JeffersonWells' recommendations are discussed in greater detail within the relevant sections of the main report, which follows.

The following ten projects comprise our key recommendations for improving the operational efficiency and effectiveness of the department in executing its multiple affordable housing programs in compliance with applicable regulations and best-in-class practices:

1. Determine the Departmental mission, objectives, goals and strategies. Establish congruent individual responsibilities and accountability for all internal and external constituents.
2. Improve organizational communication, coordination and collaboration.
3. Perform risk and needs assessments and revise the Department's organizational structure accordingly to align with program and activity needs.
4. Establish, revise and enforce compliance with formal written Department's policies & procedures for all significant activities, and specifically encompassing program management and fiscal stewardship.
5. Establish a Project Evaluation Team.
6. Establish a Project Review Committee, including representation by independent community and industry experts
7. Establish an independent Monitoring and Compliance function.
8. Improve documentation generation and retention controls.
9. Implement formal training, back-up and successor planning.
10. Implement a merit based hiring and promotion policy and ensure all positions are filled with the most qualified personnel.

TABLE 1 – Attributes of Top Performing Organizations versus HCDD Operations

<i>Explanation of Symbols:</i>			
√	<i>Attribute practiced and verifiable</i>	∅	<i>No or limited such practice identified</i>

<i>Attributes of Top-Performing Organizations</i>	<i>Best-in-Class Operations</i>	<i>HCDD</i>
Clearly defined and communicated mission statement and objectives, goals and strategy. Congruent individual (program, project, employee, partner) goals and activities.	√	∅
Sound corporate governance; advisory oversight board with independent expert representation from community/industry	√	∅
Tone at the top: leadership that promotes a culture of collaborative teamwork within an environment of integrity and open honest communication, exemplified by own actions	√	∅
Sound fiscal and fiduciary stewardship, including safeguarding of assets and optimized return on investments	√	∅
Formal policies and procedures established, documented, disseminated, and enforced	√	∅
Outcome driven management decisions based on sound principals, consistent with overall mission and objectives, policies and procedures and any specific criteria established	√	∅
Systematic planning, execution, reporting and analysis. Regular operational risk and needs assessments.	√	∅
Management by exception with “dashboard” of key performance indicators and immediate resolution of variances	√	∅
Mission driven organizational structure with responsibilities, ownership, and accountability clearly defined and enforced	√	∅
Meritocracy based on selecting the most qualified resources for each function with requisite training and support. Strong focus on employee performance, motivation and retention	√	∅
Formalized and documented internal controls, including segregation of duties	√	∅
Conflict of interest policy (applicable to, and formally acknowledged by, both employees and external constituents)	√	∅
Outsourcing used selectively as strategic complement to identified core competencies in-house and for scalability	√	∅
Quality and customer satisfaction focus; regular knowledge sharing and self-assessment to drive continuous improvement	√	∅
Complete and accurate documentation retained to support all operations performed, including related disaster recovery	√	∅
Information technology leveraged to drive increased operational efficiency	√	∅
Access to physical assets and data, including IT, is restricted to authorized personnel and protected by appropriate security	√	∅

TABLE 2 - Comparison of Best-in-Class Practices versus HCDD’s Practices

Best-in-Class Attributes	HCDD Practices	Supporting Information
Clearly defined and communicated mission statement, objectives, goals and strategy. All individual - program, project, employee and partner - goals and activities closely aligned with those of organization	<i>No internally distributed mission statement with specific objectives, goals, strategies and priorities clearly outlined. E.g. promote rental or personal ownership? No evidence of congruent individual goals, responsibilities and deliverable at all levels throughout Department.</i>	<i>Section 2 Section 3 Section 4</i>
Corporate governance, including advisory oversight board with independent external community/industry expert representation	<i>No independent external subject matter experts on any advisory board or the Project Review Committee (no PRC since 2000)</i>	<i>Section 1</i>
Tone at the top: organizational culture exemplified by leadership’s own actions in promoting collaborative teamwork and an environment of integrity and open honest non-discriminatory communication	<i>Autocracy with perpetuated favoritism and inner circle. Retaliatory environment with active suppression of adverse news, internally and externally, i.e. HUD and in-house findings.</i>	<i>Section 1 Section 1 Section 4</i>
Regular management and individual team meetings; periodic all employee meetings	<i>Past Directors held no all-employees meetings and issued no organization charts (new Director has already held several meetings and issued chart)</i>	<i>Section 1</i>
Readily accessible, regularly updated communications of relevant internal/external news, including via electronic media and employee newsletter	<i>Information seen as power; widely dispersed and generally not shared amongst employees</i>	<i>Section 1</i>
Sound fiscal and fiduciary stewardship, including safeguarding of assets and of return on investments	<i>Applications and projects are not evaluated, prioritized or selected i.e. by predetermined metrics (e.g. ROI, investment per unit) or for optimal congruence with stated Department goals, other than a general conformity with any published RFP where applicable</i>	<i>Section 3, Section 4</i>
Key internal controls identified and enforcement evidenced to ensure that e.g.:		<i>Section 3, Section 4</i>
All loans and significant accounts receivable are aged and overdue accounts pursued promptly for collection	<i>No evidence for different levels of per unit funding or affordability periods provided to similar multi-family projects or for different spending authority levels and reimbursable operating expenses</i>	<i>Section 3, Section 4</i>
Regular (monthly, quarterly)		

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Best-in-Class Attributes	HCDD Practices	Supporting Information
<p>documented reconciliations approved by management of all applicable subsidiary ledgers to third party reports (e.g. bank, agencies, developers) and G/L maintained by City of Houston</p> <p>Random unannounced audits / inspections conducted regularly of work performed by outside service providers. All open issues and agreed remediation plans are revisited promptly to ensure appropriate disposition.</p> <p>Access to and use of organization’s assets is tightly controlled and restricted to authorized personnel only. All organization assets – including funded third party assets – are separately identifiable and subject to regular, at least annual, physical inspection (including for compliance with all prevailing regulations).</p> <p>Ineligible, unauthorized, or duplicated services are not provided</p> <p>All funds advanced are spent in accordance with conditions under which provided and are secured appropriately, including promptly executed liens, to safeguard recovery and avoid further advances as necessary</p> <p>All requisite compliance activities are identified, scheduled (including all resource requirements) and performed</p>	<p><i>(absolute and as percentage of program service costs) given to agencies performing same service</i></p> <p><i>No comparison of actual project results to initial applications and budgets or to similar projects</i></p> <p><i>Secondary (gap) funding given to projects unable to service first lien holder’s debt, including even increasing Department’s funding above initial requested amount). Issuance or later conversion to (non-repayable) grants of loans underperforming or made to less fiscally viable owners/projects</i></p> <p><i>Stewardship reduced, eliminated or abdicated to third parties with minimal oversight including performance of critical (including regulatory) compliance functions - and during a period of increasing department production goals (number of people assisted) as mandated by mayor’s office</i></p> <p><i>Inaccurate or unreliable loan records. Limited or no active attempts to collect aged (often several years old) loans to defaulting individuals or organizations valued individually and collectively at millions of dollars. Key current loan servicing personnel not hired until approximately 2001-2002.</i></p> <p><i>Liability for actual and potential financial penalties owing to non compliance with Federal and other regulations including misuse of Federal funds, non- timely filing of tax documents (e.g. 1098’s) and lien releases, not maintaining funds in interest bearing accounts, potentially usurious interest charges, non-compliance with URA</i></p>	<p><i>Section 3, Section 4</i></p> <p><i>Section 3, Section 4</i></p> <p><i>Section 3, Section 4</i></p> <p><i>Section 2</i></p> <p><i>Section 4</i></p> <p><i>Section 2, Section 4</i></p> <p><i>Section 3, Section 4</i></p>
<p>Formal policies and procedures are established, documented</p>	<p><i>With the exception of certain</i></p>	<p><i>Section 3</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
<p>are established, documented, disseminated, and enforced</p> <p>All exceptions to standing policy are approved and so evidenced at the appropriate pre-determined authority level(s)</p> <p>Policies and procedures are clearly communicated to and acknowledged by all employees and appropriate third party constituents, including appropriate training</p> <p>All non-compliance with any policy is addressed and corrected promptly</p> <p>Performances evaluated against established consistent criteria to identify “partners in good / best standing” and pool of “preferred providers”</p>	<p><i>individual activities, there is a general lack of formal policies and procedures in place and enforced for many mission critical activities, i.e. covering:</i></p> <p><i>Decision-making including the evaluation, selection, and performance measurement criteria for programs, projects, recipients, agencies, developers and contractors (with some exceptions), employees, etc.; the use, allocation and control of Department / City / Federal funds, including periods of affordability or other restrictions; risk assessments; project and program management, including end to end ownership and personal accountability; personnel resource selection, management and deployment; internal and external monitoring and compliance; investment criteria including ROI, amount per project / individual assisted; loan servicing including aging and collection of overdue accounts; determination and enforcement of various parties’ compliance with Federal and Department requirements including penalties for all non-compliance</i></p>	<p><i>Section 4</i></p>
<p>Outcome driven management decisions based on sound principals, consistent with overall mission, goals, strategy, policies and any specifically established criteria</p>	<p><i>Generally, no specific and consistent policies and procedures, guidelines or decision criteria established or enforced e.g. ROI, past work quality</i></p> <p><i>Project selection and funding criteria (amount, conditions) heavily influenced by past Directors and approved solely by them following their effective dissolution in 2000 of the quasi Project Review Committee</i></p> <p><i>A loan’s terms were modified by the Deputy Director (to rectify errors) without amending legal documents or obtaining Council approval</i></p> <p><i>Applications are processed and</i></p>	<p><i>Section 3</i></p> <p><i>Section 4</i></p> <p><i>Section 1</i></p> <p><i>Section 1</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
	<p><i>approved on first-come, first-served basis with no comparative analysis performed of alternative programs, applications or projects</i></p> <p><i>Flawed methodology is used to calculate Department's per unit investment causing (potentially significantly) understated costs to be presented to City Council for formal approval purposes</i></p>	<p><i>Section 3</i></p> <p><i>Section 4</i></p> <p><i>Section 3, Section 4</i></p>
<p>Systematic planning, execution, reporting and analysis. Regular operational risk and needs assessments performed</p> <p>Work flow planned and managed to minimize unscheduled fluctuations, and avoid possible omissions, including use of checklists</p> <p>The performance of all key investments should be monitored on a regular basis, including against budgets, goals or agreements and for future viability, the appropriate corrective action promptly taken to rectify significant variances.</p> <p>Sub-performing activities analyzed promptly to determine root causes and used as learning tool to identify improvements and avoid repetition in future</p> <p>Past personal and any related parties' experience with a given party is taken into consideration when planning reviews or in evaluating future investments</p>	<p><i>Limited planning or scheduling, especially of oversight activities, with considerable (sometimes multi-year) gaps between visits. Untimely or no follow up on adverse findings or action taken against violators. No continuous improvement learning process.</i></p> <p><i>General misconception by many employees that other sections (not responsible for such action) would perform control activity resulting in its omission</i></p> <p><i>No noted risk assessments or matching of skills and resources or consideration of scalability (personnel, funding, agency capabilities) e.g. when mayor increased (unit) production goals</i></p> <p><i>Infrequent or no use of standing checklists</i></p> <p><i>No evidence of performance analyses or comparison of past or actual versus budgeted results, especially for selection or later monitoring of specific program, project, agency performance.</i></p>	<p><i>Section 3, Section 4</i></p> <p><i>Section 4</i></p> <p><i>Section 4</i></p> <p><i>Section 4</i></p> <p><i>Section 5</i></p> <p><i>Section 4</i></p>
<p>Management by exception with "dashboard" of key performance indicators to afford efficient and effective control over key activities.</p>	<p><i>Past Directors' and managers' ability to manage effectively is questionable owing to lack of frequent or timely management reports and many unavailable or</i></p>	<p><i>Sections 1- 5</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
<p>Prompt and immediate resolution of variances problems when identified</p> <p>Period to period comparative reports and trend analyses performed and used to drive continuous improvements and selections between alternative programs and providers</p>	<p><i>contradictory data. Several data points and findings are indicative of particularly low levels of individual / section work output and missing management in several areas</i></p> <p><i>No qualitative or quantitative performance metrics or scorecard noted for in-house sections, sub-recipient parties and service providers</i></p>	
<p>Mission driven organizational structure determined by reference to overall mission and objectives and functional risk and needs assessments.</p> <p>Clearly defined and enforced constituent and individual functional responsibilities, ownership, and accountability</p> <p>Clear demarcation of responsibilities and deliverables</p>	<p><i>No personal ownership or accountability for most activities. No single point of contact and continuous end to end ownership of applications or projects</i></p> <p><i>Responsibility often perceived as ending with construction work, not upon conclusion of any affordability period (conditions placed on home and housing complex owners for 5 to 30 years)</i></p> <p><i>Abdication of responsibility based on mistaken presumption that other sections will perform them</i></p>	<p><i>Section 2, Section 4</i></p> <p><i>Section 4</i></p> <p><i>Section 4</i></p>
<p>Meritocracy based on selecting the most qualified resources for each function</p> <p>Strong focus on employee performance, motivation and retention. Provision of necessary job and technical training. Support levels sufficient to avoid overburdening personnel with low value responsibilities</p> <p>Regular assessment of skills and strategic core-competencies needed and available. Personnel cross-trained to develop talent pool for purposes of back-up, successor planning and promotions, best practice knowledge exchanges</p>	<p><i>Autocracy. Employees and key managers assigned, recognized and rewarded based on cronyism and personal connections, not merit.</i></p> <p><i>Department has reputation of being a political “dumping ground”</i></p> <p><i>No risk and skills assessment. No qualitative resource selection criteria. High turnover and loss of institutional knowledge. 27% of Department positions vacant (as at end of 2004) including most of middle managements; consciously not filled by past Directors</i></p> <p><i>High individual workload imbalance due to cuts in staffing key functions: e.g. from 14 to 3, 8 to 1, 5 to 1.</i></p>	<p><i>Section 1, Section 4</i></p> <p><i>Section 3</i></p> <p><i>Section 2</i></p> <p><i>Section 1</i></p> <p><i>Section 2</i></p> <p><i>Section 3</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
<p>Appropriately qualified in-house or external personnel are retained to ensure that organization is in continuous compliance with all Federal, State, County, City and other regulations.</p>	<p><i>Disproportionate training given to favored employees; others have no technical training in 10 years.</i></p> <p><i>No cross training, backfills or successor planning</i></p> <p><i>Universally low morale of many talented personnel. E.g. manager, not conscientious employees who did work, is recognized publicly for it</i></p>	<p><i>Section 2</i></p> <p><i>Section 1, Section 4</i></p>
<p>Formalized and documented internal controls, including segregation of duties</p> <p>Periodic management rotations</p> <p>Independent monitoring and compliance group reporting to the chief officer of the organization and also to (an independent external member of) its main advisory / oversight board</p>	<p><i>Key controls not identified or documented.</i></p> <p><i>Opaque segregation of duties with some employees reporting directly to past Directors outside the chain of command i.e. instead of to own manager</i></p> <p><i>Both the Monitoring & Evaluation group and the HOPWA Program group reported to the same assistant director during a period when the former was monitoring (and also identified sub-optimal performance by) agencies and activities managed by the program section</i></p>	<p><i>Section 2, Section 4</i></p> <p><i>Section 2, Section 4</i></p>
<p>Conflict of interest policy</p> <p>Annual signed acknowledgment of compliance by all employees and all appropriate third parties, including the full disclosure of any potential conflicts</p>	<p><i>On several occasions, we noted the appearance of potential conflicts of interest, and which may have influenced certain management’s actions, both internally and vis-à-vis external recipients of Department funding, including the overriding of internal controls</i></p>	<p><i>Section 1, Section 4</i></p>
<p>Outsourcing used selectively as strategic complement to identified in-house core competencies and for scalability</p> <p>Consistent criteria established and followed for all strategic outsourcing in line with overall organization strategy; “make or buy”(in-house or outsource) analyses</p>	<p><i>Outsourcing used to run one program shut down in-house by mayor’s office and other programs owing to lack of core skills and unfilled vacancies in-house</i></p> <p><i>No apparent agency selection or qualitative measurement criteria or comparative analyses; inconsistent agency funding levels by past Directors. Agencies allowed to</i></p>	<p><i>Section 2</i></p> <p><i>Section 3</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
<p>All funding related conditions are clearly communicated to recipients and outsourced providers and their acknowledgement obtained</p> <p>The appropriate eligibility and performance criteria are established and communicated to all second and third parties employed directly or indirectly by the organization, and validated on a regular (usually annual) basis</p>	<p><i>create “qualified” contractors pool</i></p> <p><i>Ineffective oversight and monitoring of outsourced program activities. Considerable evidence of lax or questionable performance by agencies, including: poor quality, incomplete, overcharged contractor work still approved by agency inspectors; suspiciously rounded costs; dubious reimbursement requests. However any related findings by Department personnel are rarely followed up on or are penalties imposed to recover funds, but even appear to have been consciously suppressed or overridden by section managers</i></p>	<p><i>Section 4</i></p>
<p>Quality and customer satisfaction focus. All customer complaints are documented and resolved in a pre-determined timely manner</p> <p>Regular knowledge sharing and self-assessment to drive continuous improvement.</p> <p>Any sub-performing activities are analyzed to determine root causes and used as learning tool to identify improvements and avoid repetition in future</p> <p>Appropriate quality and updated (improved) processes training is provided to all personnel including via - internal “university”; ”lunch and learn” sessions with expert internal and guest speakers; all employee meetings; internal organization / employee newsletter; dedicated internal website</p>	<p><i>No exchange of knowledge or best practices for improvement; no key quality performance indicators employed or analyzed</i></p> <p><i>High incidence of customer complaints over poor quality and incomplete work, as corroborated by in-house inspector</i></p> <p><i>Significant (sometimes multi-year) periods between physical, regulatory compliance and monitoring visits by various sections, including specific to housing quality standards, despite identified violations or deficiencies</i></p> <p><i>Several earlier HUD observations consciously ignored or allowed by past management to fester into more formal Findings and Concerns</i></p> <p><i>Generally limited or no evidence of any follow up or timely disposition of (internally or externally) identified violations / deficiencies by HCDD or its agents or recipients</i></p> <p><i>Past Directors reinstated a homeowner repair program suspended twice (by mayor, then</i></p>	<p><i>Section 3, Section 4</i></p> <p><i>Section 2</i></p> <p><i>Section 4</i></p> <p><i>Section 4</i></p> <p><i>Section 4</i></p> <p><i>Section 2</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
	<i>HUD) by using agencies or different funds, but with essentially same in-house team and practices</i>	
<p>Complete and accurate documentation retained to support all operations performed, including related disaster recovery</p> <p>All third party financial statements to be relied upon for contractual or business purposes are prepared in accordance with the appropriate practices (e.g. GAAP) and so verified by a suitably qualified independent party and open to audit by the organization</p> <p>All necessary documentation is identified, obtained, verified for completeness and accuracy, and retained securely for requisite period of time, with appropriate back up at a secure separate location. All critical documentation can be readily retrieved or duplicated.</p> <p>A single Master File is used for each application and, for ease of continuity, the subsequent project if approved, ideally maintained electronically, with scanned copies of all pertinent documents plus identification of location of all physical originals.</p> <p>All regulatory filings are performed on time as evidenced by supporting copies</p>	<p><i>We noted considerable disparities in the existence, completeness and accuracy of various key documents.</i></p> <p><i>Documentation pertinent to an individual application / project / service activity is often widely disbursed amongst sections and even outside parties and not always readily available when requested (i.e. during our review both we and visiting HUD personnel experienced delays or did not receive requested items). Although central files exist and are controlled, they do not contain a checklist of all required documents or location of documents available elsewhere in Department (thus not always provided to HUD)</i></p> <p><i>As previously noted, management was unable to provide current or historical management reports summarizing the status, value or outcome of several major Department programs and activities. Many customer complaint and inspection (Field Report) files are missing and unaccounted for</i></p> <p><i>Significant inconsistencies and inaccuracies and even missing pages were identified within and between various key documents, i.e. executed deeds of trust and loan agreements for substantial loan amounts, and which may render them legally unenforceable</i></p> <p><i>There is a potentially threefold difference between the number of Home Repairs administered by one agency as reported to HUD for re-inspection purposes and the numbers cited by in-house Monitoring reports</i></p>	<p><i>Section 3, Section 4</i></p> <p><i>Section 2</i></p> <p><i>Section 4</i></p>

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Best-in-Class Attributes	HCDD Practices	Supporting Information
	<i>As of our visit, various regulatory or legal documents had not been filed on a timely basis e.g. 2004 Form 1098's, lien releases for 1997-2000</i>	<i>Section 3, Section 4</i>
<p>Information technology is leveraged to drive increased operational efficiency</p> <p>Suitable back up and disaster recovery policies and procedures are established</p> <p>Single electronic database and on line program / project status logs used to monitor activity in real time mode and allow efficient timely updating and dissemination</p> <p>In-house newsletter produced, in electronically medium</p> <p>In house website</p>	<p><i>Data are captured and retained manually by diverse sections; the existence and location of critical information is not reflected in central file or readily accessible or distributable</i></p> <p><i>The Department's Project Management Reporting System (PMRS) is DOS based and can only be run on one old server</i></p> <p><i>The historic Loan Administrator system contained legacy errors and the current primary System of Record for Multi-Family Loans is Excel spreadsheets, which several people can potentially access.</i></p>	<p><i>Section 4</i></p> <p><i>Section 5</i></p> <p><i>Section 5</i></p>
<p>Physical access to and use of organization's assets is tightly controlled and restricted to authorized personnel only</p> <p>Unique user specific ID and passwords are established; such data are not shared with other personnel</p> <p>Physical assets are subject to regular systematic inspection</p>	<p><i>Access to Department offices is open to public; unauthorized personnel may gain access unchecked to assets and data, including potentially to confidential personal information protected by Federal regulations.</i></p> <p><i>Several employees had shared log-on IDs and passwords, including with their immediate supervisor / manager.</i></p> <p><i>Their owner and we discovered that someone had inexplicably but apparently consciously changed contents of specific cells in the Excel spreadsheets used as the system of record for Multi-Family Loans</i></p> <p><i>As noted previously, physical verification of assets funded by the Department is performed sporadically and on irregular basis</i></p>	<i>Section 4, Section 5</i>

Background

The mission of the Houston Housing and Community Development Department (HCDD or the Department) is to provide leadership in the preservation, revitalization and improvement of Houston's low and moderate-income neighborhoods by:

- 1. Expanding the supply of safe, quality, affordable housing;*
- 2. Improving the infrastructure;*
- 3. Providing financial inducement to encourage economic development; and*
- 4. By providing the social and other supportive services necessary for viable neighborhoods.*

To maximize results, HCDD leverages financial and other resources with those from the public, private and non-profit sectors for the benefit of the citizens of Houston. In accomplishing this mission, the HCDD operates various concurrent community and affordable housing development program which include increasing home ownership through mortgage assistance programs, repairing or improving homes, and helping renovate and build affordable rental housing and transitional housing.

These housing programs are funded through both Federal and non-Federal sources. Federal sources include:

- Community Development Block Grants (CDBG),
- Home Investment Partnerships Act (HOME),
- Emergency Shelter Grants (ESG),
- Housing Opportunities for Persons with Aids (HOPWA), and
- Section 108 Loans.

Local funding sources include:

- Tax Incremental Reinvestment Zones (TIRZ), and
- Affordable housing bonds.

Individual projects within a given program may be financed from a combination of both Federal and non-Federal fund sources. HCCD attempts to leverage these resources with community resources to further expand the supply of affordable housing.

Scope and Objectives

JeffersonWells performed a diagnostic assessment of the Department's performance and practices, including by comparison to those of best-in-class operations, to identify causal effects of current issues, and determine and recommend practical improvement and remediation actions to enable the Department's new management to develop best-in-class operations. The Department has historically been organized along both program and functional lines. For diagnostic purposes, we therefore reviewed programs and activities performed by various functional areas across the Department rather than solely those operations supported by a specific Federal funding program.

The Department's organization chart lists 135 positions, of which 36 were vacant as of January 2005. Owing to the reductions in middle management personnel over the past several years, we interviewed approximately 30 individuals in order to gain an understanding of the Department. These included both current and previous employees. See Appendix A. Of course, it was not possible to interview everyone who has knowledge of the Department or who would have liked the opportunity to speak with us. In addition, we examined an extensive list of documents from the Department including HUD monitoring reports and correspondence received over the past several years as follows:

- May 10, 2001 HUD monitoring report
- May 23, 2003 City of Houston Controller Housing and Community Development Department Financial Related Audit of Federal Grant Administration (Report 02-20)
- August 13, 2003 City letter to HUD regarding Finding on Citizen Complaints – HOME and CDBG Program
- November 5, 2003 HUD Monitoring Report on Housing Repair Program CDBG Program
- September 2, 2004 HUD Reasons for Disapproval and Corrective Actions; HOME portion, Fiscal Year 2004 Consolidated Plan/Annual Action Plan, City of Houston, Texas
- November 2, 2004 HUD Affordable Housing Technical Assistance and Monitoring Visit HOME Program, Project Number M-04-MC480206
- December 1, 2004 City response to HUD Affordable Housing Technical Assistance and Monitoring Visit HOME Program, Project Number M-04-MC480206
- December 10, 2004 City of Houston's Response to the HOME Program Monitoring Findings – Management Plan and Procedures and Master Review Checklist 2004
- December 17, 2004 Reply to the City's Response to Monitoring Finding No. 3B HOME Program

Scope and Objectives

Our objectives were to

- Develop a matrix of programs administered by HCDD and activities associated with each program (See Appendices B, C and D)
- Assess administrative guidelines outlined for all programs and policy and procedures documentation for specific activities under each of the programs
- Determine process & practices that led to loan defaults & HUD non-compliance issues.
- Assess and document sub-recipients/cost monitoring processes
- Assess alignment of internal processes w/HUD compliance requirements and document
- Assess organizational design/alignment & personnel resources within Department

In performing the above, we identified the following primary focus areas, which individually and collectively contribute to the current state of the Department:

- ❑ Departmental Culture and Tone at the Top
- ❑ Organizational Structure
- ❑ Policies and Procedures
- ❑ Program and Project Management
- ❑ Documentation

An analysis of these areas is presented in the body of this report. See Appendix G for a matrix of these focus areas with issue/gap, project, magnitude, and remediation suggestion.

Summary Recommendations

The following ten projects comprise our key recommendations for improving the operational efficiency and effectiveness of the department in executing its multiple affordable housing programs in compliance with applicable regulations and best-in-class practices:

1. Determine the Departmental mission, objectives, goals and strategies. Establish congruent individual responsibilities and accountability for all internal and external constituents.
2. Improve organizational communication, coordination and collaboration.
3. Perform risk and needs assessments and revise the Department's organizational structure accordingly to align with program and activity needs.
4. Establish, revise and enforce compliance with formal written Department's policies & procedures for all significant activities, and specifically encompassing program management and fiscal stewardship.
5. Establish a Project Evaluation Team.
6. Establish a Project Review Committee, including representation by independent community and industry experts.
7. Establish an independent Monitoring and Compliance function.
8. Improve documentation generation and retention controls.
9. Implement formal training, back-up and successor planning.
10. Implement a merit based hiring and promotion policy and ensure all positions are filled with the most qualified personnel.

Section 1: Departmental Culture and Tone at the Top

The tone at the top is a critical factor in establishing best-in-class operations as it directly impacts the overall climate and organizational structure. Significant elements noted at HCDD include:

- Autocratic management style
- Favored inner circle
- Limited communication and collaboration

Our analysis indicates that, for over a decade, HCDD has exhibited a culture of autocratic leadership in which Departmental information was concentrated in a few select individuals at the top level and not disseminated across the organization. Such information ranged from organization charts to past HUD findings. Information became the currency of power and secrecy was equated with job security. Many individuals interviewed were unable to identify a single internal contact for certain programs and projects or were unaware of the roles and responsibilities of other people, sometimes even within their own sections. Employees were often asked to perform discrete tasks specifically for the Director without going through normal control procedures or an existing chain of command.

Prior to November 2004, many employees were unaware that there had been prior audit findings from HUD or external auditors and only became aware of these through rumor and “press leaks.” Numerous employees observed that personnel, including senior management, learned not to bring any problems to the preceding Director(s) because of the perceived risk of retaliatory action.

We heard from several sources of an apparently privileged inner circle fostered and perpetuated by the preceding Directors. Although a number of long time employees retired in 2004, we noted that the loss of personnel was not a sudden phenomenon; many vacancies in key functional areas have existed for several years, even though the requisite funding was supposedly available. As of the January 5, 2005 draft organization chart, 36 out of the Department’s 135 listed positions are vacant (27%).

Alleged favoritism by past Directors and senior management in personnel hiring, deployment and advancement practices and a perception of Department as a political “dumping ground” fostered internal morale issues. This alleged cronyism also resulted in some personnel being placed in positions, including management roles, for which they did not have sufficient background or training or were not necessarily the most qualified individual. On several occasions, we also noted the appearance of potential conflicts of interest that may have influenced the respective management’s actions, both internally and toward external recipients of Department funding.

There is no Project Review Committee or advisory board with independent outside members (drawn from community or industry experts). The Department’s Project Review Committee, which had reviewed and approved individual projects, albeit under past Directors’ influence, was essentially dissolved during 2000 upon the departure or reallocation of several senior

Section 1: Departmental Culture and Tone at the Top

management personnel. Projects were then increasingly approved, if not also selected, by only the Director and Assistant Director. Subsequently when the Assistant Director was promoted to Director, many projects were approved solely at her discretion – allegedly contrary, on occasion, to the respective staff’s recommendations.

In one instance, the then Deputy Director arbitrarily changed the interest on a multi-family loan to attempt to rectify an incorrect amortization calculation without either modifying the loan agreement or obtaining requisite City council approval.

Recommendations

In order to improve communication and promote compliance, HCDD should consider implementing the following:

- Management should work to ensure both the appearance and reality of open communications through weekly management meetings, periodic staff meetings / communications, an open door policy, and cross-sectional collaboration.
- Management should implement a formal Conflict of Interest policy and require annual signed agreement of compliance by all employees, including the full disclosure of any potential conflicts.
- Personnel should be hired, assigned, recognized and rewarded solely on the basis of personal (and team) merit and such practices should be transparent.
- Establish a Project Evaluation Team to review and prioritize all potential project applications immediately upon receipt and make recommendations (to the Project Review Committee).
 - Include representatives from all key sections of the Department to ensure that all relevant project issues are identified and addressed (i.e. environmental reviews are initiated in a timely fashion)
 - Establish and publish formal and consistent criteria for the selection and approval of a project, including funding guidelines.
 - See the *Program and Project Management* segment of this report for additional suggested duties of the Project Evaluation Team
- Re-establish a Project Review Committee as an oversight body to review and approve any projects and the subsequent RCA of those selected.
 - Consider including independent external members on the Project Review Committee, comprising representation from such areas as the Mayor’s office and local industry experts (avoiding any conflict of interest).

Section 1: Departmental Culture and Tone at the Top

- Ensure that the reasons for selection or rejection of each proposed project, including level of funding, are clearly documented in formal minutes of regular Project Review Committee meetings.

Section 2: Organizational Structure

The Department's organizational structure reflected the following sub-optimal characteristics, which are not commensurate with best-in-class operations:

- Increased individual workloads owing to reduced staffing levels - arising from loss of personnel and resultant vacancies unfilled by management - and, for several years, increasing Departmental production targets (number of people assisted) required by the mayor's office
- Reduced oversight and direct management of day to day program execution activities performed both internally & externally
- Lack of technical and regulatory job specific training
- No cross training of personnel to provide talent pool for backfill and successor planning purposes, or to promote exchange and retention of institutionalized knowledge and best practices
- Opaque segregation of duties, conflicts of interest
- Circumvention of chain of command with many employees also reporting directly to the Director on various special assignments, an inefficient use of key management resources and with risk of inadequate supervision of details of tactical execution
- No assignment of individual ownership and accountability to internal and external constituents or alignment of their goals and activities with the overall Department mission

Reductions in staffing levels over the past several years, especially in middle management, have created:

- Doubled or even tripled individual work loads in many critical functions, i.e.
 - Staffing of several sections cut drastically, including: from 14 to 3 (Program Operations), from 5 to 2 (Underwriting), from 5 to 1 (Relocation).
 - Various individual technical specialists became responsible for from 20-25 projects each to as many, in one case, as 53 discrete projects totaling \$28 million.
 - The number of in-house inspectors dropped from eight to just one for Single Family (Emergency Home Repair / Rehabilitation) and one reassigned to Multi-Family (Affordable Rental Housing) projects following the suspension by the mayor's office of the in-house program in the mid 1990's. (The Department continued the program by outsourcing day-to-day program execution to various agencies).
 - The section responsible for releasing liens on homes purchased with down payment assistance (upon the 5th annual anniversary of continuous occupancy) is currently running 3 years in arrears (i.e. releases have been completed for those homes

Section 2: Organizational Structure

purchased in 1994-96; the section is currently prioritizing release of liens on 2000 purchases; those for 1997-99 are still outstanding).

- Reduced supervision and management of both internal personnel and external service providers and fund recipients, with the increased associated risk that any sub-standard or even non-performance of critical program execution or compliance activities went undetected.
- Reductions in morale, production and work quality.
- Loss of institutionalized knowledge and of specific functions, i.e. as many functions – such as relocation - have dwindled from many to only a single experienced practitioner, if that individual were to leave, so would the Department’s regulatory knowledge and expertise in that area.
- Over the past several years, the Department has increasingly relied upon second party agencies / sub-recipients and even third parties (first level lenders) to perform (sometimes all) critical program administration, execution and control functions.
 - In some circumstances this may have been dictated by circumstances, i.e. when the Mayor’s office closed down the Department’s internally run (home repairs) program in the mid 1990’s, management promptly continued the program by outsourcing much of the program’s day to day operations to four agencies.
 - However, as the program grew with targets in late 1990’s of assisting 1,000 Homeowners per annum and spending of approximately \$6 million by 1997, there was no increase in the in-house personnel required to oversee (and inspect) these increased activities.

Owing to the complexity of HUD regulations, it is critical that employees remain current on technical issues. While some select employees received substantial technical training annually, most of those interviewed have not received any in the past five to ten years. Chosen participants’ attendance at various several out-of-town classes or conferences is perceived by many non-attendees as an unearned “perk”, i.e. some personnel responsible for performing critical regulatory functions were not sent to some specific job related training but other less involved employees were sent to it. The most recent HUD specific training - provided to only 57 of approximately 100 total employees – was in 2000.

There are no identified formal training plans for employees, including any cross training and back up of individuals or successor planning. Back up for critical functions while individuals are at training or on vacation is not present. Many perceive this as job security for incumbents. At least one retiree did not train her successor while still with Department and has been brought back as a paid consultant for several weeks solely to perform this task, thus requiring the Department to incur otherwise unnecessary and avoidable expenses.

Section 2: Organizational Structure

Although we understand that approved funding existed to fill the organization's internal vacancies; management appears to have pursued a conscious strategy not to replace internal functions lost through attrition. This increased individual workloads at a time when management was also increasing production targets reducing the amount of time available for appropriate due diligence, whether in evaluating projects or authorizing agency activities. We noted that an increasing number of functions and individuals reported directly to the respective Director, often circumventing those chains of command, which still existed. However, the thinning of senior management ranks also placed greater authority and autonomy in the hands of specific Assistant Directors and individual Section Managers to filter whatever information was disseminated upwards as well as downwards.

The organizational and reporting structure of the Department does not create an adequate segregation of duties or avoidance of potential conflicts of interest, i.e.

- The same Assistant Director (AD) managed both the Program Section responsible for running a specific program, HOPWA - including performing regular oversight of sub-recipient agencies and approving their program funding and related reimbursement requests - and the Monitoring and Evaluation Section responsible for independently monitoring such Agencies' compliance. This situation was further exacerbated by additional factors which may constitute a conflict of interest:
 - The AD was allegedly instrumental in the hiring of that Program's Manager (and any possible mismanagement might also reflect badly on her);
 - The Program Manager is allegedly a close personal friend of the President of a primary agency which the Department funded to provide those program services;
 - The agency – consisting primarily of a few pay-rolled management personnel – appears not to have provided such services directly, but to have acted as a funnel for rent payments to, and liaison between the Department and, the medical facility that provided services – a facility which the Department also funded directly;
 - The Assistant Director's two respective Section Managers appear to have circumvented internal controls and suppressed communication of related adverse internal findings.

Recommendations

We recommend that management consider the following actions to improve organizational structure and effectiveness:

- Management should perform a needs assessment for each program including all critical functions, and minimum and ideal technical skills, formal qualifications and experience required to perform each function.

Section 2: Organizational Structure

- Perform a risk assessment of each program to ascertain which required functions are most critical and to determine which functions to perform in-house, which to outsource, and which to manage with a hybrid model.
- Determine Department's current and planned core competencies.
- Perform a documented skills assessment of all current employees to facilitate optimal assignments and training needs.
- Ensure all required internal functions are staffed with appropriately qualified personnel - through hiring and continuous training.
- As a generalization, management should ensure that it has the requisite minimum degree of technical talent on board to perform a sufficient level of control and oversight. This is also particularly important in initial project evaluation and later monitoring functions to ensure consistency in application of related Departmental policies and procedures.
- When the specific technical skills required are in short supply in the market place or are unique to the Department's operations (i.e. HUD regulations), management should consider bringing the function in-house to ensure the resources are readily available.
- Where the specific skills sets required for a function are widely available such that the Department will not need to pay a premium or may even be able to leverage other organizations' economies of scale and specialization – especially if the functions are only required periodically – management should consider an outsourced model.
- If the Department's need fluctuates (e.g. owing to circumstances beyond its immediate control such as timing and volume of emergency repair applications), management should consider a hybrid model: a base level of in-house personnel supplemented by a pool of pre-qualified external specialists leveraged on an as needed basis.
- Management should establish specific documented criteria for the selection of external service providers for each outsourced function, including key deliverables and performance metrics and ensure that they are applied consistently. Their eligibility should be re-verified regularly, ideally annually, including through communication with other City or neighboring County departments.
- For those functions to be performed in-house, management should evaluate existing resources and re/train and assign existing personnel and hire new personnel as appropriate based on the specific skills identified. Subsequent advancement should be based on merit.
- Implement a formal annual training plan at Department and individual employee levels.
- Have the designated in-house Federal fund subject matter experts publish periodic (monthly) highlights to in-house file or web site of any regulatory changes including impacts on specific current programs, compliance activities, data capture for related reporting, etc.

Section 2: Organizational Structure

- Invite HUD and other City Departments (identified by HUD or others as having best in class practices) to provide related classes and seminars.
- Cross train personnel, implement a formal program to train a back-up for each position, and implement successor planning.
- The Department should implement a formal Code of Conduct / Conflict of Interest policy for which every employee, contractor and agency is required to sign and reaffirm regularly. This compliance document should be placed in the respective employee (HR), contractor or agency file. This process should be performed annually to remind employees, contractors and agencies of the policy.
- Program Managers should not be appointed to programs where they have any close personal relationships with key management of Agencies that the program oversees – or be precluded from sole oversight of those specific Agencies.
- Program Managers should be rotated on a periodic basis not only to provide cross training and for possible advancement purposes, but also to avoid any appearance of potential personal conflicts of interest.
- The current *Monitoring & Evaluation Section* should be set up as a separate section from all other Operating sections and be renamed “Monitoring & Compliance”. It should only contain monitoring and compliance functions, not any regular program / project execution ones. The head of *Monitoring & Compliance* should report directly to the HCDD’s Director – and if the Department has external members on the Project Review Committee, then on a dotted line basis to those members (ideally the Committee Chair if s/he is an external member).

Section 3: Policies and Procedures

Best-in-class operations include the establishment and enforcement of formally documented and disseminated policies and procedures. Our review highlighted a general lack of such practices, and in particular concerning:

- The Department's mission, objectives, strategies - and the related procedures and controls critical to their execution - including
- Fiscal stewardship and the individual roles, responsibilities, and accountability owned by each internal and applicable external constituent
- Project and partner (agency, owner/developer, contractor, etc.) evaluation and selection criteria and practices
- Funding selection, allocation, conditions (affordability or other restrictive usage periods) and related compliance
- End-to-end management and oversight, including monitoring (as part of the regular execution of programs and as a distinct separate independent function)
- Numerous individual program sections and specific functions

We observed that many sections and functions appear to lack specific policies, procedures and guidelines for the performance of their activities, including specific sections' roles and responsibilities. Although some policies and procedures may exist for some of these areas, they have not been widely disseminated to the functional performers or to a wider audience of personnel in general. Many respondents observed that they received little or no management direction or were left to work out procedures for themselves.

Owing to the high level and scope of our review, the following findings are not intended to be an exhaustive list of all possible policies and procedures that may be required for those areas we reviewed.

There is no clearly articulated and disseminated Department mission with associated objectives, goals and strategies, including related guidelines, criteria and priorities, and the alignment of internal and external constituents' individual responsibilities and activities. For example, management does not appear to have determined a preference for supporting affordable (long term) individual home ownership for low- to moderate-income earners versus funding (potentially shorter term) affordable multi-family rental units. The latter also remain in the related investors' ownership and revert back to market rate units after some affordability period, potentially reducing volumes of low- to moderate-income affordable property. This would also theoretically reduce the net volume of assistance provided and claimable by the Department in years when such existing properties' affordability expires. The mission does not address how cash flow from repayments of multi-family project loans would be reinvested to promote additional housing (currently moot, given the high default rate on such loans) or the circumstances under which funds would be provided as grants instead of loans - or later converted to grants; these decisions were allegedly made personally by the past Directors.

Section 3: Policies and Procedures

Similarly, the Department does not appear to have any traceable rationale for the level of investment in or expected return on investment (ROI) from specific types of projects. For example, in providing land subsidies to developers and an additional \$10,000 in down payment assistance to low-income buyers to enable their purchase of homes in a selected development in a higher cost area, the Department's mission statements and policies do not address how those buyers will meet higher and potentially increasing taxes and insurance and sustain long term ownership. Instead such buyers may be forced to sell their property, even during the required five-year occupancy period. After sales transaction expenses, the owner may not have sufficient funds to purchase a replacement home elsewhere – and may even apply under the scheme again, precluding assistance to an additional potential homeowner. There is also no economic analysis of the additional number of (several) homeowners who could be assisted by using those subsidies and amortizing loans to fund purchases in other areas receiving the lower regular levels of assistance.

Conversely, the Department's investment per unit in affordable multi-family rental projects – several owned or sponsored by the same individuals – can exceed \$50,000 per unit. In some instances, in conjunction with other public funds, the total investment can approach the full cost of many single-family homes funded by the Department (which received lower funding i.e. \$9,500 per unit). A best in class organization would use clearly defined metrics to analyze investment opportunities to maximize the use of its funds.

The Department's home repair / rehabilitation program operated under the guise of the Emergency Repair Program with apparently little differentiation made in practice by the Department and administering agencies, including whether all repairs approved and performed met the primary criterion of alleviating a life, health or safety hazard. The policies do not address the (inconsistent) amounts paid to each of the four administering agencies to cover their respective operating expenses. The Departmental policy (per past Directors instructions) was that the section responsible for overseeing the program would specifically not inspect any work done by one of the agencies. Policies do not address how agencies' expenses will scale up or down as the level of Department funding and activity changes; we understand that at the time of our visit an agency used for another program was allegedly experiencing serious cash flow issues and was several months in arrears on phone and director's lease vehicle payments. The lack of internal controls such as policies, procedures, and oversight in such cases as this could lead to potential fraud.

There is no single set of consolidated policies and procedures, including any clear definitions and assignments of roles and responsibilities by Departmental section.

We observed that several similar functions are performed during a project's lifecycle by different sections throughout the Department. Many employees have limited or no knowledge of what responsibilities other sections perform. We frequently heard assumptions that other sections, especially Underwriting and Monitoring & Evaluation, are performing certain oversight and control activities; however in many instance, these respective sections are neither performing, nor believe they are responsible for, such tasks. Individual responsibilities and accountability are not clearly prescribed, communicated and acknowledged.

Section 3: Policies and Procedures

There are no formalized procedures for the end to end processing and management of a given application for assistance.

- Some, usually larger scale, projects (i.e. multi-family housing, both rehabilitation and construction) pass through several in-house sections, which each may generate their own related work product, without any single person assigned overall responsibility.
- More individual centric projects (i.e. home repairs, home buyer assistance, HOPWA) are often outsourced to second parties (agencies) with no formalized policy for their management from receipt to resolution.
- There are limited or no procedures for performing various activities which arise subsequent to physical completion of a project, often in part owing to the lack of consistent procedures followed when structuring and managing the project during the application and execution phases, i.e. for later loan servicing, collections and workouts.

Project Selection

Formal policies and procedures do not appear to exist or to have been followed with respect to the prioritization of projects or applicants for the receipt of funding.

- For most programs the Department published open RFPs; funding would primarily be allocated on a first come – first served basis to those meeting the general RFP qualification criteria.
- Although subsidiary layering reviews were included in the Department’s underwriting guidelines and the Department at one point issued a bulletin containing a general guideline of amount of per unit subsidies, there is no indication that any formal policy was followed to compare returns from different / alternative projects or to ensure that the Department maximized the overall number of affordable units obtained per dollar of total (Federal or other) funding.
- We believe that the Department’s investment per unit calculation methodology currently understates the Department’s true cost by as much as 100%, providing a potentially misleading metric to management and to City Council for both comparative analysis (between alternative uses) and project approval purposes. The current practice by Underwriting is to divide the Department’s total funding by the total units in the project; however that investment amount should only be divided by the number of designated affordable housing units, since not all units in each project are designated as affordable. In many projects only 50%-51% are so designated.
- From discussions with personnel, there do not appear to have been any guidelines or policies determining how agencies would be selected for specific programs or, subsequently, the level of funding they would receive. Funding appears to have been arbitrary and primarily at Senior Management’s or the Director’s discretion.

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- There are no specific qualitative or financial performance metrics established for and consistently applied to projects, agencies, contractors, employees, etc.
 - No comparative analyses are performed between similar or alternative projects, agencies, contractors etc. or between budgeted (per initial application or annual plans) and actual results.
 - Several times we noted that certain recipients appear to have been particularly fortunate in securing funding for successive projects. (Anecdotally, we heard that some Council members allegedly privately questioned Department staff why they were being asked to approve successive loans / grants to certain individuals. On one occasion, the primary parties were allegedly substituted on the Request for Council Approval - RCA - with other members of the consortium because of a perceived adverse impact their inclusion might have).
- Even when external guidelines existed i.e. HUD criteria for classification of a requested Home Repair as an Emergency Repair, they were not fully followed. Rather the Department / past Directors appear to have pursued favored projects even contrary to, or almost arrogantly regardless of, any established policies or procedures, even regulatory or external to the Department. I.e. after the Mayor's office suspended the in-house Home Repair program, the Director continued it by using outsourced agencies and other (Federal versus City Bond) funding. Similarly, successive HUD concerns and even findings appear to have been largely ignored (and their internal and external communication actively suppressed); when HUD finally suspended the program's related HOME funding, Department management re-established it using City of Houston TIRZ funds.

Funding Allocations

Formal policies and procedures do not appear to exist or to have been followed which detail how Funding should be allocated – including between programs, projects, and individual agencies and applicants, including prioritization. The lack of such guidelines appears to have been universal across the Single and Multi-Family Programs. In some instances, as informal standing practices were followed over time, they appear to have gained the appearance, and even presumption by personnel (including an Assistant Director), to be policy.

There is no evidence of the fiscal stewardship associated with best-in-class operations. We frequently noted an apparent lack of consistency in funding levels offered to different providers of ostensibly the same services and to different recipients under the same program. Department investment in various virtually identical enterprises (e.g. ranging from similar multi-family rental projects to recipients of single family homebuyer assistance projects) demonstrated considerable variances in per unit / per person funding; investments in some enterprises only helped a fraction of the number of people that other projects did.

Examples, which our reviews and discussions with personnel identified, include:

Section 3: Policies and Procedures

- Lack of documented procedures regarding how funding was to be apportioned between several Agencies each engaged, but funded at different levels, to provide ostensibly the same services, including for the homeless and for emergency repairs to single family homes;
- We also understand that past Directors increased some agencies' funding levels arbitrarily;
- One of four agencies retained to administer Home Rehabilitation and Emergency Repairs – ostensibly the best managed, based on reviews by Monitoring & Evaluation Section and during recent re-inspections – was capped at \$7,500 while others were empowered to authorize repairs costing twice as much, despite numerous Homeowner complaints.
- The absolute amount provided to different agencies to cover their operating expenses to provide the same program services varied considerably (both in absolute terms and as a percentage of actual program funding provided).
- An informational booklet (reputedly later withdrawn from public distribution) indicates a guideline Departmental investment of \$5,000 per affordable low -income rental unit. However we noted investments in such multi-family units that ranged from \$10,000 to over \$50,000.
- In addition, no comparative analysis between projects appears to be performed comparing leverage obtained by Department's funds (in conjunction with private sector and owner's personal investment) and of related total costs per affordable unit. We noted that the total cost per unit (including substantial Department loan or grant funding) for some affordable multi-family rental units – which always remain in Landlord's ownership and will revert back for leasing by them at market (i.e. effectively removing affordable housing) at end of affordability period – is not dissimilar to the outright purchase cost of single family housing supported by the Department and which could remain in individual ownership.
- In addition, the specific methodology used by the Department and Underwriting to calculate the per unit investment uses the project's *total* number of units as the denominator instead of only the number of units actually *designated as affordable*. Since most projects contain both market rate and affordable units – the Department appears to have generally sought 50% affordable - this methodology has the effect of significantly understating the Department's effective investment per affordable housing unit (as presented to both Management and to City Council for project approval purposes).
- Similarly, there is no fixed policy for determining the affordability period which appears to vary considerably from project to project, owner to owner - despite related HUD guidelines - and was allegedly often determined solely by the past Directors.
- There are no policies covering feasibility which would preclude investment in projects shown as unable to service debt; we noted at least one development whose plan forecast

Section 3: Policies and Procedures

an inability to cover its debt servicing. Instead of reducing or rejecting any investment by the Department, the Director almost doubled the Department's investment.

- There are no guidelines over repeat investments with same owners, even when late or recently delinquent on other loans, including avoidance of over concentration of funding in any given district or to any one contractor or developer. We noted that some groups' activities appeared to receive perennial favor despite performance issues; one developer received an over-concentration - of approximately \$27 million in - Departmental funding (exacerbated by his subsequent loan defaults). There do not appear to be any policies establishing a consistent objective methodology that loan originators should follow when analyzing financial statements and for ensuring at least annual receipt of audited financial statements from owners (including enforcement procedures if not received).
- The choice of Funding source (i.e. CDBG or HOME) for individual projects appears to be determined more by the personal experience of specific Grants Management personnel or Director's discretion than by formal policy and on at least one occasion the funding source was changed mid-project without (additional) funding specific regulatory environmental review being identified and performed. We noted that a past Director was allegedly not a strong proponent of using TIRZ funds while in office, but after departing is acting as a consultant on a project, which applied for Department funding via TIRZ funds and for which, according to related documentation, the past Director will receive a significant personal fee.
- There does not appear to have been any formal policy and procedure for determining the amount of down payment assistance afforded to qualifying (low income) homebuyers. Although we understand that the normal policy was to provide \$9,500 for new housing, we learned that the Department provided purchasers in certain select new developments in the Fourth Ward with \$19,500 of down payment assistance in addition to a further land subsidy funded by the Department via another agency.
- Although we understand that the Department's unstated policy is for affordable units in multi-family units to "float", there is no formal policy to this effect nor is this explicitly covered in any of the loan agreements we reviewed. Similarly, there is no stipulation – or subsequent monitoring to ensure compliance with a requirement – that the floating units be physically identified in the loan agreement, in periodic reports, and during all on-site inspections.

These examples indicate that the Department did not maximize the leverage or return that it could have obtained from the uses of its funding (with the better fiscal stewardship policies, procedures and management exercised by best-in-class operations).

Loan Agreements and Servicing

- As of December 2004, approximately \$36 million of the \$47 million (77%) outstanding principal balance on Multi-Family loans is classified as other than performing and only \$10.5 million (23%) is classified as performing. \$9 million of this \$36 million classified as other than performing is shown as vulnerable. In addition to the current \$47 million

Section 3: Policies and Procedures

total unpaid principal, the portfolio also reflects a further \$2.7 million in unpaid accumulated interest. The portfolio reflects \$6.5 million in missed payments. Several borrowers have missed 5-7 years worth of payments.

- The Department provided funding on several projects owned by the same individual, Donald W. Sowell. Including foreclosed loans, these currently represent 40% of the total unpaid principal balance of all multi-family loans with an aggregate value of approximately \$19 million.
- In 2001, the Department provided \$300,000 of TIRZ funds for a second related project whose recorded owner, Reverend Harvey Clemons, Jr., has not made a single payment on an earlier, November 1996 CDBG funded loan by the Department for \$757,000.
- In addition, \$14 million of approximately \$23 million (60%) in Section 108 loans are classified as in default.
- Several areas related to subsequent Loan Servicing do not appear to have any well documented and distributed policies and procedures, specifically including loan agreements / contracts and their subsequent servicing. Furthermore, some current practices may render the Department non-compliant with various Federal, state and HUD laws and regulations.
 - The content and format of Loan Agreements is not clearly and consistently prescribed or followed.
 - The procedures for determining the first pay period and methodology used for handling missed payments varies by – and is almost unique to each – loan agreement.
 - Loan Agreements are not consistent in stipulating when a first payment is due.
 - Some Loan Agreements require any missed payment to be added to principal in its entirety i.e. increasing total principal by the unpaid principal element as well as by the unpaid interest element of that month’s payment.
 - This practice may render the Department non-compliant with Federal and state usury laws.
 - Others treat both the principal and interest portions as “deemed paid” if the borrower can demonstrate insufficient cash flow to service that month’s payment. However, the related cash flow statement requirements are somewhat nebulous and ill-defined.
 - Loan Servicing personnel are not authorized to perform (or require an) audit of those cash flow statements.
 - There does not appear to be a policy requiring the borrower to be able to service even the first lien holder’s debt, let alone any subordinated loan by the Department.

Section 3: Policies and Procedures

- In one instance the Department (Director) still approved – and with increased level of – Department funding subsequent to a project losing its initial private funding (which was replaced by other Federal construction loans) and whose costs increased, transforming it – as recorded by Underwriting – into a negative debt service ratio, and indicating inability to service even the primary loan.
- In another the then Director decided (allegedly arbitrarily) to convert a similar non-serviceable loan into a (non-repayable) grant – and which change was approved by City Council.
- There is no policy for servicing (and working out) defaulted loans, including sale or management of any properties.
 - Past management has apparently been reluctant to pursue defaults owing to secondary lien position, which might require Department to pay off first lienholder and assume management of related property (for which Department is neither staffed nor qualified). Such filings would also negate restrictive affordable housing covenants, allowing first lien holder to resell to a new owner who would not be so obligated.
- We identified several loans where draws occurred before the note was executed or where the title company did not immediately disburse funds. (Any value from interim use of funds / float would apparently accrue to benefit of title company or recipient, not the Department).
 - In such situations the Department may not be in compliance with Federal and HUD regulations requiring Federal funds to be deposited in interest bearing accounts.
- There do not appear to be any well documented and disseminated policies addressing several other areas, including:
 - Disbursement of developer's fees;
 - Requiring receipt, review and approval of a final budget prior to funding;
 - How low-income properties are to be appraised;
 - Determining who is responsible for filing Land Use Restrictive Agreements (LURA) and ensuring they are filed
 - Reconciliation of payments (deposits) to on-line bank statements
 - Monthly reconciliations of sub-ledgers to City's general ledger
 - Determination whether properties subject to loans are in a flood zone and that flood insurance is not only obtained initially, but also renewed annually

Section 3: Policies and Procedures

during any affordability period (single and multi-family and capital construction projects)

- There are no policies and procedures to ensure timely filing and compliance with related regulations, such as issuance of Form 1098's.

Oversight practices

Specific oversight responsibilities are spread across several discrete sections within the Department with limited or no close co-ordination.

Although personnel visited multi-family construction sites to confirm that specific work (phases) were completed, the Department appears to have relied heavily on sign off by the (developer's / owner's) architect that work was completed to the required standard and invoiced correctly. Similarly, indications are that strong reliance was placed on the general contractor to ensure that sub-contractors were compliant.

The Department's Single Family Home Rehabilitation and Emergency Home Repair program was outsourced to four separate agencies from approximately 1996 until 2003 (when HUD pulled the funding.) There is no formalized systematic policy or process for inspecting home repairs administered by three of these agencies. Although we understand that management specifically instructed its inspectors not to inspect property repairs handled through the fourth agency, which was engaged through Houston Housing Finance Corporation (HHFC) there still do not appear to have been any systematic inspection and compliance confirmation policies nor any to ensure that HHFC performed such activities.

After the Department's two Home Repair programs were essentially merged in the mid-1990's, the Department's definitions of what constituted emergency home repair and home rehabilitation appear to have blurred. The Department classified and recorded repairs as either minor or major based on a dollar cut off. We understand from management that the Department did not adopt HUD's full definition of emergency repairs – including a condition of recent occurrence – even though successive Federal (HUD) funds were used to finance the program(s).

From the late 1990's through 2003, the on-site inspections conducted by the Department's in-house personnel were increasingly performed in reaction to complaints from Homeowners, not pro-actively in line with any standing policy to verify reimbursement requests or to spot check compliance, completeness, quality and cost appropriateness of work performed.

Several program activities include some form of continuing or continuous monitoring throughout the various affordability periods. As a generalization, we did not identify any formal policy and procedure in place to ensure that all projects or activities, which required some regular (i.e. annual) compliance visit, did in fact receive one. The Department's specific policy for the Monitoring & Evaluation Section was not to perform a review until a given property had been active for 12 months.

Recommendations

Section 3: Policies and Procedures

We recommend that management consider performing the following steps to improve governance, especially over critical activities:

- Establish written policies and procedures for all compliance and oversight activities and ensure that the functional groups responsible for each are clearly identified and held accountable. Ensure that this information is maintained in a format and location accessible to all employees.
- Provide all employees with initial and periodic refresher training on the Department's Policies & Procedures.
- All entities subject to any periodic i.e. annual compliance verification should be clearly identified and included in a documented annual compliance plan and schedule.
 - Continuing compliance confirmations, which form an integral element of a program (i.e., 5 years occupancy under Homebuyer Assistance Program; home quality standards – HQS – of designated Multi-Family Rental Housing units during affordability period, etc.), should be scheduled and performed as part of that program's regular operations.
 - Such activities should be clearly differentiated from monitoring reviews designed to ensure that both the internal sections and any external Agencies responsible for operating the program are actually performing such activities and in accordance with related Departmental and regulatory policies. (The monitoring function should not be responsible for performing the regular control functions for those groups assigned such responsibility day to day).
 - Also see below under *Program and Project Management* section of this report for additional performance recommendations, which will need incorporation into formal oversight Policies and Procedures.

Note: The Department's lack of related policies and procedures, or their enforcement, may also render the Department susceptible to financial penalties owing to its non compliance with Federal and other regulations including timely filing of tax documents and lien releases, maintaining Federal funds in interest bearing accounts, potentially usurious interest charges, non-compliance with Uniform Relocation Act. These compliance issues should be investigated and addressed immediately.

Section 4: Program and Project Management

Our review of the Department's program and project management practices revealed a general lack of those practices and activities associated with high performing organizations; rather we identified:

- Abdication of control to outside agencies and even developers with limited or no oversight by Department of those entities' day to day execution of the program
- No objective, transparent selection criteria or consistent application of criteria with appearance of decisions being made arbitrarily and capriciously by Directors and senior management.
- Limited or no established or demonstrated personal ownership and accountability, heightened by abdication of daily control over programs, including no centralized coordination of applications / projects from initiation to completion.
- Misconception by personnel that other sections (especially Monitoring & Evaluation) are performing control activities, which are strictly those personnel's own responsibility, or will catch any omissions by them.
- Misconception by personnel that their / Department's specific responsibilities concluded with completion of construction / repair rather than – in reality - at conclusion of any affordability period and all related reporting, compliance, and monitoring.
- Lack of formal annual or rolling plans and schedules to perform requisite regular reviews and oversight.
- Lack of standing management reports and analyses, including identified year to year trends of oversight coverage achieved and schedule to remediate any gaps
- Lack of fiduciary stewardship over Department's physical assets
- No timely follow through or enforcement when violations / deficiencies are noted (consistent failing across all programs and core activities reviewed)

We also noted a number of anomalies between the results of our reviews and those of same activities by Monitoring & Evaluation personnel; in particular we noted a higher apparent incidence of sub quality services by some parties than is reflected in their reports. We are also concerned, in reviewing several related compliance visits by various sections, at the significant gaps (stretching to years, rather than weeks or months) between

- The date when a visit occurred and the date when the respective section issued its related report, and
- The date of visits when violations or deficiencies are noted and that of the section's subsequent visit, including the documented (or not) disposition of those issues identified previously.

Section 4: Program and Project Management

General Program Management

There is no single focal point responsible for coordinating the processing of each Application and any subsequent related Project: from receipt/inception through to rejection/completion and to subsequent conclusion. Only one Program – HOPWA – appears to have had a formal Program Manager.

- Several groups within the Department may receive and act upon funding and specific program related requests. No process exists for coordinating and prioritizing such requests or for ensuring timely action. Therefore, there is no centralized perspective on total pipeline activity or ability to coordinate, rank and prioritize related work (including all related resource needs).
 - Subsequent project workflow critical functions are also spread across several discrete Sections with often limited or no intra-Departmental communication or coordination, increasing the risk of potential duplication or omission of key tasks. This is especially applicable to various compliance and oversight activities and during any post completion “affordability” period.
 - Several interviewees observed that although their groups performed significant functions, they were sometimes not consulted or included early enough in a project to provide proper direction.
 - Many people interviewed expressed beliefs that other groups - usually the Underwriting or Monitoring & Evaluation sections - are performing greater compliance or oversight activities than are actually being performed, potentially creating false levels of confidence and omission of critical tasks.
 - Limited differentiation is generally made or comprehended internally between management and control activities which constitute regular best-in-class program execution practices (i.e. physical inspections, verification of agency or developer activities, receipt and analysis of reports, etc.) and the separate, independent verification that such activities are actually executed as mandated, regardless who - an in-house or external party - is responsible for that execution (i.e. independent monitoring and compliance functions).
 - Related project management and oversight functions are performed during a project by different Sections of the Department, with little or no communication and coordination, which increases the risk that significant activities are either duplicated or overlooked.
- The Department has historically used open RFPs for projects, which can result in unscheduled fluctuations and peaks in project activity, resulting in bottlenecks, delays or potentially suboptimal evaluations

Section 4: Program and Project Management

- There does not appear to have been a systematic plan and time schedule for performing some annual reviews and visits, even for 2005. We noted a considerable time gap between monitoring visits of many properties subject to annual reviews, including subsequent follow up on ones with identified violations.
- The Department operates several programs, but receives funding from several sources including both Federal and local. Potential confusion may arise because the program to funding relationship may be one to one, or one to many. There is no formal process to ensure intra-Departmental communication of funding specific requirements.
- Although data generally exist on activities within each Program, such data are dispersed throughout the organization or captured at the individual activity or sub-category level.
 - Owing to the loss/lack, until recently, of many middle management personnel and the past Directors' frequent practice of having multiple personnel reporting directly to them, some management reports were only generated infrequently or no longer forwarded up the chain of command.
 - On several occasions we were unable to readily locate and obtain a summary "Management Report" to perform top-level reviews or comparisons. Examples include:
 - a. Multi-family projects comprising names, locations, key constituents, loan values and aging, funding sources and composition, number of total and designated units, cost/investment per unit, status of several (annual) compliance requirements
 - b. Schedule / timetable of all organizations/locations in population to be visited or to supply data to Department including status of last visits or submissions, any findings and status of action plan to remediate, and those not visited

Recommendations

We encourage the Department to take the following steps to improve the overall general management of its programs and related projects:

- Establish written policies and procedures for processing applications, including the use of requisite checklists and turnaround within a stated time of receipt.
 - Where applicable, such checklists should be incorporated into informational documentation and application forms furnished to potential applicants. Applicants should be required to complete the checklists and include with their submission, enabling the Department to verify quickly if all required documentation has been submitted and received with the application.
 - Such checklists should be fully inclusive of all possible requirements and contain a "not applicable" check option. Where particularly lengthy or complex requirements must be

Section 4: Program and Project Management

met, especially ones only applicable to specific types of programs or applications, these should have their own (secondary) checklist and be incorporated by reference i.e. the primary or master checklist should include a related check off step which indicates whether or not the related checklist and associated documentation has been completed and attached.

- Establish a Project Evaluation Team with qualified representation from each requisite group to review and prioritize all potential project applications immediately upon receipt. All communications requesting Department assistance should be routed through the Project Evaluation Team, and (time) logged upon receipt.
 - The Project Evaluation Team should process all requests in accordance with a prescribed workflow and will document all actions and decisions taken in a single dedicated Application / Project Evaluation File that remains with Project until conclusion (i.e. rejection, or upon termination of any period of affordability or other limitation).
 - A team member will be assigned as the Application / Project Coordinator on each application. (Assignment based on specific relevant skill set or, for cross training and skills development, on a rotational basis). This individual will be responsible for the overall coordination of the application, and subsequently as a project if approved, until its final conclusion.
 - The Application / Project Coordinator will act as the primary interface on the application between the Project Evaluation Team and the Project Review Committee upon its submission for approval or rejection. See the *Departmental Culture and Tone at the Top* section of this report for additional details of the Project Review Committee recommendation.
- Ideally, Applications should be captured electronically in a database, allowing compilation and report generation of:
 - A Status Log (status of any new, existing, or concluded project in the Department and sortable by category / program / fund etc.);
 - A dedicated Application File (upon approval, the Project File) accessible by log-in ID and password by any Team member / authorized employee;
 - Existence and location of key legal documents, internal checklists (i.e. originals in legal or central files or appropriate sections, scanned electronic copies in database).
- Establish and publish general roles and responsibilities for each section (possibly electronically on a secure central site).
- Hold periodic “lunch and learn” sessions where representatives of sections can speak to their individual/section tasks and their critical intra-Departmental interactions / dependencies

Section 4: Program and Project Management

(inputs, deliverables). This forum can also be used to share “best practices” and recent learning from processing applications or executing related projects and programs.

- Where feasible combine similar functionality / tasks into a common group e.g. inspections. This will allow more efficient delivery of similar activities either concurrently or at specific phases during project’s lifecycle. It will also facilitate development of an in-house pool of (cross-trained and back up support) expertise.
- Management should designate primary and secondary contact Subject Matter Experts for each major Program. These personnel should also be responsible for ensuring the education, coordination, and collaboration of all Sections / Functions that support that Program.
- Management should designate primary and secondary contact Subject Matter Experts for managing each major source of Funding. These personnel should also be responsible for ensuring the contemporaneous intra-Departmental communication of each Source’s most current regulations and requirements, especially as they (do / do not) apply to each individual Program. (Ideal delivery mechanism is via medium of in-house website).
- Management should introduce a single Project Evaluation and Tracking Form which comprises a checklist sub-divided by activities and requirements common to all projects / Funding sources and additional sections for each Funding source with its specific requirements.
- Establish a set of criteria and related metrics, which can be applied consistently for the evaluation of all applications, projects.
- Management should consider use of an annual closed RFP process for some projects in order to limit the potential impact of unexpected fluctuations in timing and magnitude of applications. This will also facilitate better longer term planning for use of fund with regulated commitment and spending time limits and the earlier identification of specific funding driven project needs.
- Representatives from each respective section or area in the Department that is affected by a given application should meet with that applicant in a formalized pre-construction / commencement meeting to explain clearly all the commitments which the applicant must fulfill, including any reporting requirements, associated with the funding requested / offered. The Department should ensure that all recipients of funding confirm their agreement with all funding related conditions and that conditions include immediate access by Department personnel or assigned representatives to all properties for any and all inspection or compliance review purposes.

Management and Oversight of Outsourced Activities

Section 4: Program and Project Management

The Department appears, by policy, to have depended on outside organizations (non profit agencies and third parties, such as lenders) to perform critical project management and oversight functions. On some programs this encompassed everything end to end:

- Marketing (to appropriate demographics);
- Application review, including qualification and approval (of both applicants and properties);
- Contractor selection (including compilation of list used of approved, eligible contractors);
- Review of quality and completeness of contractors' work, and related approval and payment;
- Related regulatory compliance.

When critical functions were performed in-house they appear to have comprised "desk reviews" of an agency's files more often than on site visits to properties or to interview tenants or Homeowners. In other instances, monitoring appears to have encompassed solely the performance of an activity and not the quality of work performed.

On both single family and multi-family programs, we encountered numerous instances where there appears to have been limited or no timely follow through on the remediation (by owners, agencies, contractors) of identified issues or violations. We also learned of instances where the responsible personnel within a section had apparently rejected items on agencies' reimbursement requests and identified further actions, which the respective agency should complete prior to payment, but their respective Program Management overrode this internal control and approved the processing of the underlying requests and reimbursement payments.

Critical functions were also increasingly handled by a declining number of qualified individuals and during periods when the magnitude of activities – tied to specific publicized Departmental goals for the amount of low to moderate income affordable housing and assistance provided – increased.

There appears to be a universal blurring of responsibilities and accountability between:

- The individual Department sections responsible for managing the ongoing execution (both in-house and through outsourcing) of programs, which includes ensuring compliance (by recipients and delegated agents) with all related Department and regulatory requirements; and
- The Monitoring & Evaluation section, whose activities appear to focus primarily on compliance by recipients (agencies and owners/developers) with Section VI of Agreements;
- With little or no evident cross-communication and coordination of their respective compliance reviews or results, even when findings or violations are identified. We also noticed inconsistencies between the results of individual Program personnel's activities (e.g. oversight of agency and third party activities) – which indicate a potentially significant degree of non-compliance – and the clean opinion expressed on such activities within contemporary reports by Monitoring & Evaluation section.

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There is no single management report, which identifies:

- All the key compliance activities to be performed and which specific section or individuals are responsible for performing them and if/when they do so. To assist with our diagnostic assessment review, we compiled some high level matrices for certain selected programs, which we validated during interviews with the respective sections and personnel, and as attached per Appendices B, C and D.
- The year-to-year trends of oversight coverage achieved (reviews, site visits, inspections, reports received and analyzed, etc. and their respective outcomes). To assist with our diagnostic assessment review, we compiled such a year over year view of the Monitoring & Evaluation section's coverage by reviewed entity and reports generated for Fiscal years 1999-2005.
- Magnitude and timing of oversight activities planned / scheduled each year and the subsequent results.

Recommendations

- Management should compile a “real time” list of all active projects subject to periodic compliance reviews and prepare a rolling 15 months (past quarter, future year) schedule. On at least a quarterly basis management should ensure that all requisite reviews and visits for the current calendar / fiscal year have been performed or are scheduled with the necessary (internal or independent external) resources assigned.
- The Department should identify all key control and oversight activities, including those required by Federal, i.e. HUD, and other regulatory bodies and determine and assign responsibility and accountability to specific Department sections / personnel. Management may wish to use a more detailed version of the matrices, which we used and as attached per Appendices B, C and D as examples.
- The respective section responsible for oversight activities should coordinate their activities and communicate the results, especially of any adverse “findings” or “concerns”. Whenever the latter are identified, management should ensure that a follow up review / visit is performed within ideally 3 months. The disposition of all “findings” or “concerns” should be addressed in the next successive review and report.
- An aged report of all (multi-family, single-family, economic development, etc.) loans should be generated on at least a quarterly if not (ideally) a monthly basis. Management should institute formal policies and procedures to pursue collection of aged and non-performing loans, including work-outs and foreclosure as appropriate.

Individual Program and Section Related

Home Repair Program - Background

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The home repair program appears to have survived a succession of iterations over the last decade in which the general packaging may have changed but the key elements and Department constituents remained fairly constant. During that time the funding sources ranged from initial CDBG to HOME, some bond, and finally TIRZ.

In the mid 1990's the then general home repair / rehabilitation program was closed by the Mayor's office. Its objectives were then rolled into the smaller contemporary emergency home repair program and day-to-day program execution was outsourced to four agencies.

We spoke with several people familiar with the program but received somewhat contradictory accounts of activities performed by the Department and why the remaining documentation was so sparse (including non retention of documents, some allegedly destroyed at management's instructions). Although some pro-active inspections may have been performed earlier in the program, in later years inspections appear to have primarily been reactive to complaints. We learned that from the late 1990's to approximately 2001-2002 the program's sole inspector would visit and inspect a sample of repaired homes selected from agency reimbursement requests and lists of agencies' scheduled construction. Allegedly the work inspected was often poorly performed, incomplete, and overpriced. In many cases the inspector returned with a punch list, which was provided to the agency for the contractor to complete, but the Department did not necessarily follow up to ensure execution or to re-inspect. A number of Homeowners also complained to the Department, their council representatives and HUD and the Directors passed these on to the Section for resolution. At some point in the early 2000's the Department appears to have stopped inspecting properties based on reimbursement requests but continued to visit sites based on (rising) complaints, until these visit were also stopped by management around 2002-2003.

One apparent anomaly is that during a period of allegedly increasing customer complaints, (almost all of which the Department's inspector upheld), and of poor or incomplete workmanship, possible overcharges or duplicated charges (especially by one agency), the Department appears to have actually reduced rather than increased the magnitude of its related monitoring. In addition, around 2003 the single related inspector moved almost exclusively to assisting in the multi-family and capital areas; around this same time the single multi-family inspector was supposedly asked by the then Director to oversee some single family activity even though only a fraction of the (required annual) multi-family inspections were performed in the early 2000's.

In 2003 HUD shut down the repair program(s). In 2004 the Department resurrected the programs; the emergency repair program following more HUD compliant determination criteria. Instead of Federal funds, the programs were now funded with City Tax Incremental Reinvestment Zone (TIRZ) funds.

Home Repair Program - Inspections

The Department's Single Family Home Rehabilitation and Emergency Home Repair program was outsourced from approximately 1996 to four separate agencies (Sheltering Arms, NAMC,

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Urban League and PSI). Inspections were only performed in reaction to complaints from Homeowners. Management's response to HUD's 2003 findings identified some 1,000 repairs performed by Sheltering Arms, Urban League or NAMC from 2000-2003 and a further 1,200 by PSI. Anecdotal information, which we received, suggests that volumes may have been even higher in 1996-2000 periods.

We attempted to review supporting documentation from the period, but such limited documentation as was available was widely dispersed. . We located three binders for 2000-2002, of individual on-site inspections performed by the sole in-house inspector and which seemed to be primarily customer complaints driven.. We reviewed the 2002 file, which contained only 65 documented, on-site property inspections for the year (some repeat visits). The 2000 and 2001 activity levels appeared similar. We subsequently identified additional inspection reports in individual file folders retained by the inspector and covering 1999 to 2002 and 2004. We understand that some inspection reports and files of customer complaints may have been lost rather archived; some when part of the section's personnel physically relocated within the building and others when their storage boxes were apparently deemed by a past Director to constitute a fire hazard.

An anomaly is that all complaints investigated pertained to only the three Agencies to which the Department directly assigned work; no inspections appear to have been performed on work done by PSI (which worked on repairs it received directly from the owners). Similarly, PSI files were not addressed by management when responding to HUD's 2003 Findings related to the Program. PSI was apparently engaged directly by Houston Home Financing Corporation (HHFC).

The limited degree of oversight of these agencies, including on-site inspections of work performed by individual contractors and recharged to Department by the agencies, is especially surprising since:

- Some several hundred repairs were performed each year;
- The in-house inspector consistently upheld virtually all of (the small number of documented) Homeowners' complaints investigated;
- Inspections early in this period allegedly discovered instances of incomplete or substandard workmanship or overcharges; however we were not provided any documented evidence of such reviews and discoveries.

We noted that, where agency documentation was also included in the Field Report file reviewed, the agency's inspector had signed off as approval on all work which the Department's in-house inspector subsequently found to be deficient or overcharged.

The initial results of re-inspections conducted in 2004-2005 by outside inspectors of these repairs (as performed and charged by the three agencies) appear to indicate a potentially significant degree of poor quality, incomplete or overcharged work.

Home Buyer (Down Payment) Assistance

We obtained reports from the database of homebuyer provided assistance and identified some potential discrepancies which may warrant further analysis by HCDD for potential recoveries, including:

- The same named homebuyer(s) obtained assistance on two homes within the same zip code;
- In one instance the records detail 2002 New Home / Subdivision Assistance totaling \$477,000 for six homes, two with same named homebuyers (and a third for buyers with same family name) and implying Homeowners received approximately \$80k each in funding;
- There are duplicated entries to the same person(s) on different dates, which may represent data errors or duplicated requests, which the Department may have paid twice.

Home Repairs and Purchase Assistance – Detection and Avoidance of Duplicated Benefits

There was no central comparative analysis by Department personnel of the Homeowners / locations and assistance provided by the several outside agencies providing home repairs, and specifically for potential duplicated or over limit services.

There does not appear to be any process for identifying (and preventing) Homeowners from:

- Obtaining down payment assistance on a “primary residence” but then leasing it out, especially if the owner returns the annual verification requests sent to them by certified mail;
- Obtaining emergency or especially rehabilitation repairs to one house, then (selling or renting out that house and) obtaining repairs to additional house(s) held out as being their primary home.

We requested some summary reports to be run on data captured in the Department’s related Home Repair Database. We identified several instances, which may warrant further analysis by the Department for potential recoveries; these include

- Homeowners who obtained multiple assistance - usually from different agencies - within same five year period;
- Some individuals who appear to have received assistance on more than one home (based on identical names) – supported by anecdotal information of at least one owner who tried to obtain assistance on multiple homes;
- Individuals who received duplicate payments on same property from same agency – without researching actual files it is not clear if these are data capture / entry errors or duplicated

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payments, and if duplicated payments or reimbursement requests, if the Department paid the agency twice for same work.

Home Purchase and Improvement Loans

Several years ago the Department provided loans to Homeowners in specific neighborhoods to enable them to rehabilitate their owner occupied single-family housing up to a standard compliant with (the City) code.

There is no indication that any (certainly regular periodic) site visits have been conducted to verify continuing ownership and occupancy by the borrower or that the funds loaned had in fact been spent to improve the subject property to the prescribed standards.

We understand that although the original loan program conditions stipulated owner occupancy, at least one "Homeowner" obtained loans on three separate houses which have apparently been used for rental purposes and on which no payments have been made. Another Homeowner received two separate loans on the same property on the same date. Although the Department supposedly has (usually first) liens on all properties, we understand that some properties may have been titled in other than the owner's name (i.e. a business) or that title was possibly transferred immediately after closing and prior to the lien being filed.

There is no single report, which shows the total quantity and value of outstanding Single Family Loans, including owners, locations, and remaining principal and accumulated unpaid interest balances. No action appears to have been taken to determine the current status of these loans, many of which may have matured in the late 1990's, and to collect or foreclose on those in default - until a contract employee (administration assistant) was assigned related responsibilities approximately two years ago. See the *Loan Servicing* segment later in this report for related collection activities.

There is currently no formal process to ensure that any related past or current annual regulatory filings have been performed and by due dates; as of February 16, 2005, the 2004 Form 1098's for recipients of these single family loans had not been typed and mailed out.

Recommendations

- Annual reviews should verify continuous owner occupancy of all single family housing benefiting from any Department funding and ensure that such funding is spent in accordance with the related loan / funding terms and conditions.
- The Department, and any agencies to which it out-sources the approval of such services, should each check all applicants against shared database(s) of individuals and addresses receiving assistance before approving the provision of any repair.

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- Any identified or repeat offenders should be recorded in a separate list disseminated to all potential approvers for possible exclusion from any further or future funding or use by the Department.
- Management should review all duplicated records of assistance provided for potential overpayments and their related recovery from appropriate party/parties.
- All loans to single-family homeowners should be secured by promptly executed liens.

HOPWA

Until recently, reimbursement requests submitted by Agencies were historically reviewed at the higher category level, not the more detailed individual line item level, allowing potential line item overruns to be overlooked, approved and paid. We understand that when category budgets were reached, Section management would also approve reallocation of budgeted funds from other categories to cover overspends. Such practices may not identify true causes of overspends by agencies nor prevent such overspends in future. We did note that personnel responsible for reviewing reimbursement requests would reject disallowable items and Financial Services also performs a secondary review. However we also identified instances where Section Management overrode these internal controls and instructed that they be paid.

Recommendation

- All overrides by Management should be clearly and separately documented, including reasons for override. In any situation where the respective manager may be perceived, even indirectly, to have a personal or conflicting interest in the matter's outcome, a secondary level of written approval should be obtained from his / her immediate supervisor. (Such documentation should be readily available on demand for any periodic review by Monitoring & Compliance, Management and appropriate third parties).

Multi-Family Construction / Rehabilitation

Several different functional sections are involved on Multi-Family projects. There is no one single "Project Manager" assigned to oversee each Multi-Family project related to ensure that all requisite activities are coordinated and performed.

Inspections

In reviewing in-house report of the annual HQS visits, we noted only one in-house inspector. During 2004, he inspected 30 of 59 properties that receive HOME, CDBG or HOPWA funds; 9 of the 59 were last inspected in 2003 and a further 11 are not shown as inspected since 2002 or earlier. 18 or 60% of the 2004 inspections are recorded as performed in a concentrated period from August 4-16, 2004 (which coincidentally overlaps with HUD's visit).

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The annual review does not include any verification of which units are specifically designated as low or moderate income. Since only a sample of units are inspected - and most properties' affordable units "float" - the risk exists that few or no affordable units may be included in the sample inspected.

Although the inspector notifies the property management of his visit, he often has to return multiple times or to limit his sample size owing to difficulties in obtaining tenants' permission to enter their units. However such access permission is supposed to be a condition of the lease agreements such (affordable unit) tenants sign with the property owner/manager. We have not reviewed any leases to verify existence of such clauses.

Contractor Qualification

There is limited developer or general contractor qualification by the Department. There is no evidence of sub-contractor qualification, which is generally left to either the general contractor or administrating agency. As a result, the Department may not identify on a timely basis any sub-contractors who are on debarred listings, consistently perform unsatisfactory work, or generate high incidence of Homeowner complaints.

Contractor compliance is only performed in-house on specific properties - Multi-Family projects funded by HOME or CDBG funds and subject to Davis-Bacon - and this primarily extends to just checking if Contractors are on HUD's list of disbarred ones. This and other regulatory compliance (e.g. MWDBE) is not performed on projects below the (12 or 8 units, respectively) thresholds or on single-family repairs / construction.

Although owners' (including board of Directors of non profit agencies) backgrounds are checked for non payment of city taxes, their status and history on prior and existing loans with the Department are not checked when they submit additional projects for consideration. We learned of one owner who made current the overdue / delinquent balances on several existing loans immediately before the city processed application for a new project (allegedly using an advance from owners of the developer fees which he was to receive from it).

There is no indication that the Department performs any post-mortem comparison of project's actual costs and cash flows compared to the original (application) budget and on which funding may have been based, not even for repeat recipients of funding.

There is no monitoring of whether or not the property is in a flood zone and therefore needs flood insurance, nor any group identified as updating any existing insurance certificates upon or prior to expiration.

Loan Servicing

There was infrequent follow-up of aging loan balances or missing financial documentation which Multi-Family Housing developers were contractually obliged to submit. Attempts by Loan Servicing personnel to send out appropriate request letters were sometimes denied by management. Although not documented anywhere, the Deputy Director mistakenly believed that

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Department “policy” was to forgive delinquent payments, especially when supported by negative cash flow statements – until shown the standard contract terms to exact contrary.

Cash flow statements were taken at face value and the Department did not perform audits, even of one project whose contract specifically allowed such unpaid monthly payments to be deemed paid and which consistently had unusually large negative cash flows.

Loan Servicing has not issued any default letters nor pursued a judgment against any borrowers.

Although they are required to do so by loan agreement, some owners do not send net cash flow reports to Loan Servicing, even though claiming negative cash flow as grounds for not paying. Therefore, Loan Servicing has no way to know if the owner could have made payments.

The statements of negative cash flow, which the Department does receive, vary in quality and are not generally signed by the organization’s officers nor independently audited. Several indicate such large magnitude of continuously negative cash flow (some apparently for several years) that they call into question the entity’s financial and commercial viability. Loan Servicing is not authorized to audit net cash flow reports to ensure validity.

Although owners are required to submit annual projected operating budgets in November for each loan agreement, Loan Servicing has difficulty in (enforcing) receipt of these from owners. The City is not monitoring replacement reserves on a project, including ensuring that the owner is not using this as a way to delay payments to lien holder.

A reconciliation is not performed between various sub-ledgers and related City general ledger accounts.

The City’s general ledger account for Home Buyer Down Payment Assistance has not been reduced on a regular basis for the (generally 20%) annual amortization (forgiveness) of those loans, but new loans’ initial principal value is posted to that account.

There is no single report, which shows the total magnitude and value of (Single-Family) Home Purchase and Improvement Loans, or details the initial and current principal and accumulated unpaid interest balances. Although many such loans matured several years ago, no payments have been received. A recently hired contractor in Loan Servicing sent out default and request letters to an initial group of such borrowers, threatening to foreclose, which prompted many to start paying.

As of February 16, 2005, Loan Servicing Management had not followed up with assigned personnel to ensure that the 2004 Form 1098’s for recipients of these single-family loans had been typed and mailed out. The IRS will penalize the City for each day that this is delayed (late after January 31st

Although the Department is supposed to participate in construction savings on certain projects, no one appears to be assigned responsibility for monitoring and collecting such data. We learned

Section 4: Program and Project Management

that some developers may have drawn down full loan amounts even though they did not incur the full related construction costs budgeted.

Relocation

The relocation section is responsible for advising individuals – from tenants to small business owners – of their rights under the Uniform Relocation Act (URA) when temporarily or permanently dislocated by development activities. Such activities can range from construction or rehabilitation activities at multi-family housing complexes to the City of Houston’s exercise of eminent domain for public projects. No single consolidated report exists of all properties or individuals visited during a given period.

Although the staff usually held meetings with impacted tenants and received their signed acknowledgement directly, they would sometimes rely upon the apartment’s management to distribute the mandatory information to any tenants they missed and to obtain their signatures i.e. when they paid rent. Such practices present a potential conflict of interest for apartment owners and there is no independent verification by the Department whether all tenants who signed did in fact receive the requisite notification.

The relocation team did not always receive timely notice of funding applications by multi-family project owners in order to contact their tenants, and subsequent calls by relocation personnel to owners often went unreturned. This increases the risk that the Department does not catch instances – of which we heard rumors – when multi-family housing owners allegedly pressurized tenants of low to moderate rent units, supposedly including illegal immigrants in particular, into leaving voluntarily, either immediately before the owner applied for funding (when relocation assistance might not apply) or after applying for or receiving funding (when it would).

By 2003, if not earlier, it allegedly became the Director’s stated policy that the Department would not perform any URA compliance activities for multi-family projects; rather the owners were required to perform this activity themselves. It is not clear whether owners received additional compensation as part of the funding received from the Department for the costs of performing such services. The Department’s relocation personnel do not directly monitor or maintain any documentation to verify whether the owners are performing such activity. Although HUD performed a review of the Department’s activities during this period, including noting the Department’s use of a checklist based on HUD’s 1378 Handbook, we understand that the primary reason HUD may not have identified any findings, including the Department’s apparently increasing abdication of its URA compliance activities, is because the HUD inspectors allowed the Department to select the (subsequently cherry picked) files which they received to review.

The Department – and owners – may be liable for related moving costs and up to 42 months of rent and utility differentials for tenants displaced contrary to the Uniform Relocation Act.

As the sections related workload declined during the early 2000’s, several personnel elected to leave and staffing dropped from five people, including its experienced manager, to a single counselor by mid-2004.

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Recommendations

- The Loan Origination Department should obtain original certificates as outlined in the Loan Agreement;
- The Inter-creditor Agreement should provide the City of Houston the right to check the first lien note balance as well as for continuing proof of insurance and taxes. Management should review the Agreement on at least an annual basis;
- The Department's sub-ledgers should be reconciled to the City of Houston's general ledger and a quarterly, if not (ideally) monthly reconciliation should be performed going forward;
- The Department should contractually require all applicable borrowers to provide audited financial statements and should ensure that these are received. The Department should also reserve and exercise the right to perform its own audits, either directly or via third parties of its choosing;
- The Department should contractually require and verify all borrowers', agencies', contractors' and sub-contractors' – both the entity's and its individual named principals' – eligibility, including compliance with all related regulatory (Federal, State, City, HUD) conditions. The Department should require all “approved” agencies or contractors to confirm their eligibility on an annual basis.
- On at least an annual basis, management should ensure that reviews of project costs and cash flows are performed and formally documented and compared to both the original, approved application and the annual budgets, and that the results of such reviews are taken into consideration when evaluating future or additional request for funding from the same or related parties;
- Management should compile a “real time” list of all active projects subject to periodic compliance reviews and, on at least a quarterly basis ensure that all requisite reviews and visits required in the current calendar / fiscal year have been performed or are scheduled with the necessary resources assigned. The Project Evaluation Team should be assigned responsibility for maintaining this list in conjunction with the assigned Application / Project Coordinator and the respective Program and Section Management. Where multiple reviews are performed by different functional groups, these groups' activities should be coordinated to improve efficiency and avoid duplication of effort or omission;
- An aged report of all (multi-family, single-family, etc.) loans should be generated on at least a quarterly if not (ideally) a monthly basis. Management should institute formal policies and procedures to pursue collection of aged and non-performing loans, including work-outs;
- The Department should explore options to increase its leverage to enforce participants' compliance with respective Program terms, especially post funding and during extended affordability periods;

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- The Department should consider performing a review of all multi-family reconstruction projects which it funded under the previous Director's jurisdiction to identify any displaced tenants which it may have overlooked and to whom the Department (and owner) may owe relocation related compensation, including moving expenses and up to 42 months of rent differentials;
- The Department should also review its pipeline of related projects to ascertain the need to increase its available relocation resources. At a minimum, management should train a backup for its sole current relocation personnel.
- The Department should review all relevant project files for any potential non-compliance with Uniform Relocation Act and exposure to related fiscal penalties. Department should staff up a trained relocation section or identify external resources as appropriate to cover current and future needs and as back up to sole current in-house relocation specialist.

Monitoring & Evaluation

We compiled a matrix by recipient type entity (agency, project, etc.) and visits / reports by the section for the last several Fiscal years, as attached as Appendix E. The matrix revealed that most entities' activities are monitored on an irregular and infrequent basis, and not annually, even though some are supposed to be subject to annual reviews by the Department or for regulatory purposes. Management's annual lists provided both the date of the visit and of the subsequent report; we noted that there was often a considerable time gap between the two dates – frequently of several months and even up to a year or more, reducing the timeliness and value of the report for control purposes, especially where it is the first report on a multi-family project, which by practice was not even conducted until it had been operational a year.

We also selected a sample of approximately ten entities for which we requested copies of reports – issued and draft – of any reviews conducted by the section in Fiscal years 1999 – 2005.

We noted several potential anomalies:

- There is often a lack of consistency between successive reports on the same entity, which suggests that earlier data and findings may not be taken into consideration:
 - A number of entities' reports included findings and concerns. However the next visit and report – which frequently was not until two or more years later – had no such findings, but did not address the disposition of the earlier report's issues.
 - There were several inconsistencies within and between successive reports
 - The background data on the underlying contracts and amendments varied both as to dates and even magnitude of work (numbers of personnel assisted) performed by the agency

Section 4: Program and Project Management

- The financial data, provided as the last page in reports, often do not correspond to the period being reviewed or to values shown earlier in document.
 - Reports on different agencies' performance are not consistent in their treatment of the agency's non-attainment of minimal assistance levels stated in contract. They are also silent in instances where such agencies have still spent a considerable percentage of the total administrative budget without delivering proportionate program results. Conversely, nor do they address how some agencies managed and funded twice their goals.
 - No comment or analysis is performed on the varying percentages of the total budget which different agencies are allocated for their administrative and operating costs.
-
- The two reports on HHFC/PSI relating to its Emergency Home Repair contract, dated 3/22/2001 and 3/26/02003, indicate that PSI completed approximately 1,232 homes and 4,608 homes, respectively. This would suggest that some 3,300 homes were repaired in 2001 and 2002; these numbers are significantly higher than the approximately 1,200 PSI home repairs which management has indicated were performed for the period Jan 1, 2001 to present and whose files have not yet been provided to HUD for re-inspection purposes.
 - Although the Section performed "on-site visits", "on-site inspections of rehabilitation projects", and "examination of contractor records" of the four agencies conducting Emergency Home Repairs, they identify no findings related to sub-standard, incomplete, overcharged or non-emergency work of which we noted numerous instances in our review of in-house inspector's field reports.

Section 5: Documentation

Our review of various documentation identified significant deficiencies in the following areas compared to best-in-class practices:

- Existence
- Accuracy
- Completeness
- Access/Security

Existence

- Owing to workflow being widely dispersed throughout the Department, documentation for a specific project is created and maintained by diverse groups and captured in their respective files.
- Information, which examiners may expect to find in a master file (and therefore possibly did not locate on recent visits), may in fact be maintained in files retained within individual sections, i.e. the Contractor Clearance Form, maintained by Contract Compliance for HOME and CDBG funded projects subject to Davis-Bacon;
 - Conversely, such documentation may not exist in Department files or may not be generated for all projects, i.e. on projects below the David-Bacon threshold – of 8 units for CDBG, 12 units for HOME – or for various projects handled by outside agencies.
- Historically, localized file retention appears to be driven by a combination of:
 - The magnitude of data which that section accumulates (and may need to refer to on a regular basis during project execution);
 - Concerns that file data might be lost;
 - The perceived value of (undistributed) information; and
 - Potentially the desire to suppress or contain knowledge of any potential issues or conflicts.
- On several occasions, personnel were unable to locate documentation to substantiate the supposed magnitude of activity, which was performed or occurred. On others, personnel required several days to provide copies of requested documentation. Some documentation was allegedly not retained during the respective section's and personnel's physical moves but no clear explanation was provided why it was not archived. We understand that one report summarizing section activity over last several years had only recently been generated and did not exist previously.

Section 5: Documentation

- Although Monitoring & Evaluation section management provided us with summaries of visits and reports performed in specific years, there is no report, which provides year-to-year trend activity.

Accuracy

- Initial interviews and assessments, including related Multi-Family Loan File review, are indicative that not all documentation in a file is complete or accurate, even legal documents:
 - Several executed legal documents reviewed (primarily Loan Agreements and Notes) contained internal inconsistencies and inaccuracies, which could potentially result in some clauses - or even agreements – being potentially unenforceable:
 - One Agreement has the initial payment occurring during the moratorium period (i.e. a stipulated period when no principal or interest payments are required);
 - All executed copies of another Agreement, including the copy in the City of Houston’s Legal Department’s files, are missing a key section - Section 24;
 - Several others Agreements include self-contradictory numbers of units or other numeric data;
 - On some projects, the related Loan Agreement and Note do not agree with each other.
- The Department utilizes several different Financial Accounting and Information Systems. The Department has four people reconciling its financial data to HUD’s. Differences are attributable to different accounting methodologies used by HCDD and HUD (modified accrual versus cash) compounded by incorrect legacy opening balance entries and when past projects were closed. Although the two were reconciled in June 2001, no confirmation was received from HUD, and no permanent entries were made to true up respective records.
- The Department’s Project Management Reporting System (PMRS) is DOS based and can only be run on one old server.
- The Department does not have loan processing software, its historic Loan Administrator system contained legacy errors and the current primary System of Record for Multi-Family Loans is Excel spreadsheets, which several people can potentially access and change.
- In one instance the owner did not fully draw all funds until after amortization calculation had been performed (using balance drawn to date). In order to rectify an incorrect amortization schedule, a former deputy Director arbitrarily changed the interest rate to a blended rate without either modifying the loan agreement or obtaining city council approval.
- We identified internal inconsistencies between successive Monitoring & Evaluation section reports, including with respect to: contract start and finish dates, magnitude of work performed by agencies, supporting schedules of related financial data.

Completeness

Section 5: Documentation

- We understand that when HUD performed its August 2004 review, not all files and related data were provided; several employees with knowledge of critical information were not included by their immediate management or only learned late in HUD's visit that HUD was missing requested information. During our meeting with HUD enforcement personnel during their January 2005 visit, they were still receiving (further) project specific files from a Department manager – whom, the officials commented, had earlier claimed to have provided them with all relevant “project files”.
- The Department's inspectors performed some Home Repair inspections in response to complaints by Homeowners. Documentary evidence of such inspections was fragmented and dispersed:
 - In one area we located three binders for 2000-2002, which contained documentation of individual on-site inspections performed by the sole in-house inspector. The 2002 file contained only 65 documented on-site property inspections for the year; the recorded 2000 and 2001 activity levels appeared similar;
 - We subsequently identified some additional inspection reports in individual file folders retained by the inspector and covering 1999 to 2002 and 2004.

Access / Security

- Historically, there has been no formal sign-out procedure or requirement when personnel borrow files or records from other areas (other than Central Files). Authorized as well as unauthorized personnel may access or remove documentation without being detected.
- There is no security over general access to work areas in which potentially sensitive (including confidential applicant / Homeowner personal data) records are maintained. On several occasions team members were able to move unchallenged between floors and within sections, with open access to temporarily vacated offices and common work areas.
- We noted that several employees had provided their personal log on ID and password to other personnel – generally their immediate manager – who then used their computer, both in their presence and absence, to access and update records.
- We also noted that several people often had access to the same file(s) and that no version control (or electronic edit capture) practices were in place to detect or control changes. A risk exists that accidental, as well as unauthorized changes, may be made to electronic files that may not be readily detected:
 - During our review of Multi-Family Loan files we noted that some values in a Loan Servicing spreadsheet had inexplicably changed. This was traced by the primary compiler / owner of the spreadsheet to the formula in a specific cell (that calculated the principal / interest split for a payment back in 1999 and not recently touched). One of four correlated references in the formula had been changed, although the same reference was correct in

Section 5: Documentation

the (same) formulae in the immediately preceding and succeeding lines. Such an error is unlikely to have arisen by accident i.e. by copying formulae, but would require some manual entry or editing directly within that cell. We understand this is not the first time that this type of error has occurred.

Recommendations

- Management should consider implementing an electronic card (e.g. smart ID badge) operated secured access system for all non-public areas.
- Section Management should determine need and implement a sign out procedure for removing any critical documentation from that section or even from those individuals responsible for its safekeeping.
- Management should issue and require compliance with a Department Policy that log-in IDs and passwords are not shared between employees, including with their management.
- In addition, access to mission critical systems of record e.g. loan servicing spreadsheets should be restricted to a single responsible owner and designated back-up. Any changes, even manager initiated, should only be input into the master by that owner. All other personnel should work off a copy suitably identified as a copy, including read-only versions.
- Secure back-up copies should be maintained in a separate physical location of all critical spreadsheets.
- A checklist should be created and maintained in a Master File within Central Records for each individual project. This should include such details as status and location of all critical documentation required. Ideally this should be in an electronic format within a database file allowing all relevant parties throughout the Department to enter current status for their area (on some mandatory, regular basis e.g. monthly). In addition:
 - The file should contain a checklist of all documentation, which HUD and other regulatory bodies require to be maintained with a notation of the latest version and where it is physically filed. Wherever possible, a scanned copy of these documents should also be kept in the electronic file;
 - The dedicated Application / Project Coordinator for each project should be responsible for ensuring that the checklist is updated accurately and on a timely basis;
 - This file will allow management or regulatory inspectors to readily generate and review reports of documents on hand and their location for any given project and to quantify the existence of specific documentation across categories (Programs, Department, etc.);

Section 5: Documentation

- The physical Master File should contain a hard copy of such a checklist if an electronic version is unavailable.
- Management should consider limiting who may physically (sign for and) remove a Master File from Records.
- Section management should evaluate which working files may be centrally filed in between reviews for projects subject to such annual reviews.
- Maintain and archive all documentation of inspection and other test work performed.
- We recommend only two people from Loan Servicing be authorized and accountable to enter or edit spreadsheet data and that all others who have a need to know should have read only access.
- The Department should implement a version control policy for all legal and regulatory filing documentation generated, including a requirement that before they are executed or issued all final documents are signed off by the appropriate management, including the Legal Department where applicable, as having been reviewed against supporting data for accuracy and internal consistency.
- A regular systematic physical inspection schedule should be developed for all assets owned and funded by the Department, including those in recipients' location and control throughout any period of affordability or potential reversion of ownership.

Sections Interviewed

Our review included interviews with approximately 30 individuals who are current or previous employees of the Department, as well as others who play a role in the Department. These individuals were selected to include a representative cross section of all primary sections per the January 4, 2005 Organization Chart as follows:

- Administrative Services Section
- Fair Housing Section
- Finance & Administration
- Financial Services Section
- Grants Management Section
- HOPWA/Homeless Section
- Housing & Economic Development Section
- Loan Servicing Section
- Management & Information Services Section
- Monitoring & Evaluation Section
- Office of the City Controller
- Program Operations Division
- Program Operations Section
- Real Estate Division
- Single-Family Production
- Strategic Planning Section

APPENDIX E
HCDD - Monitoring & Evaluation Section
Monitoring Activities by Entity Reviewed

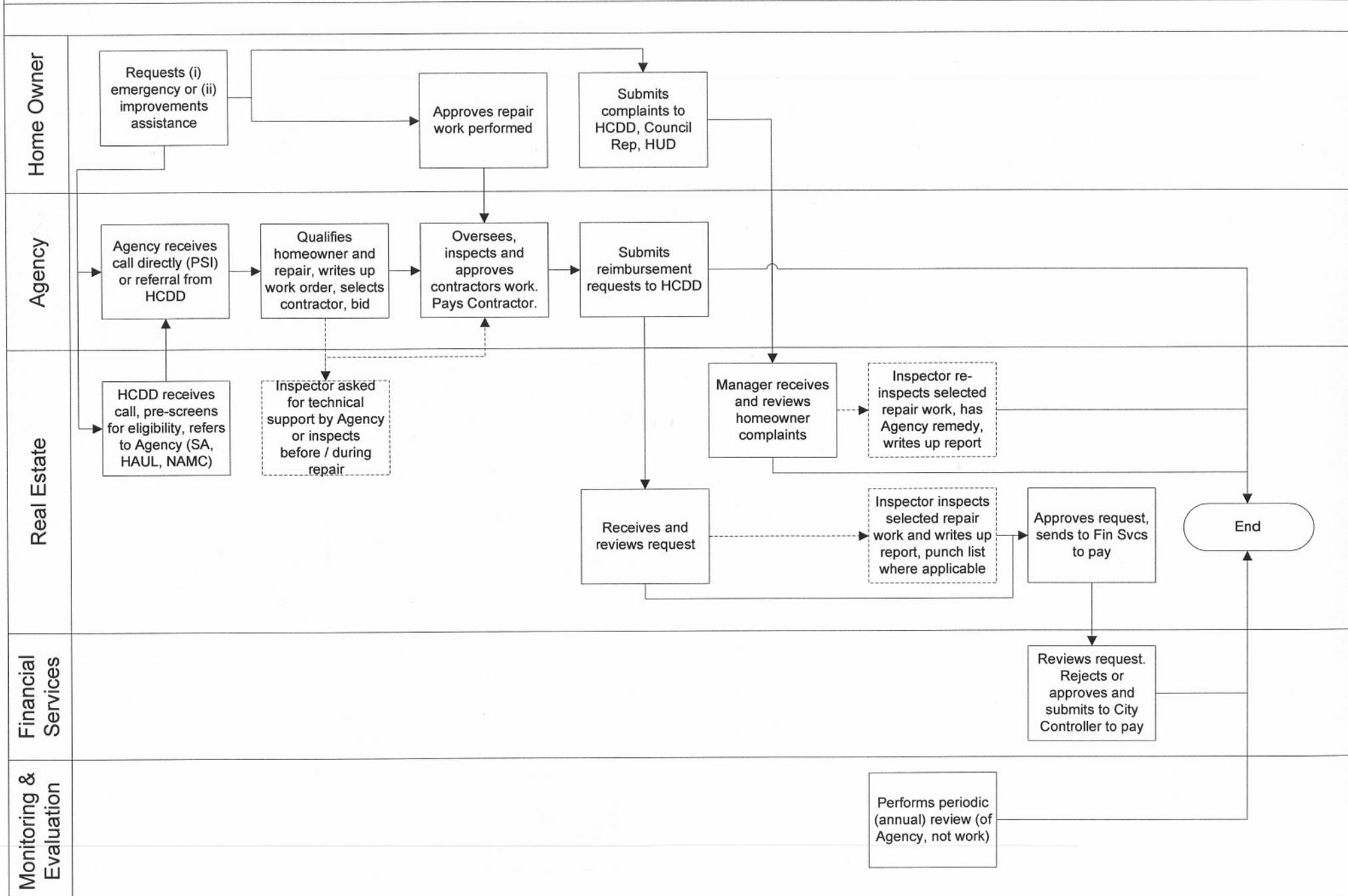
Entity	Program	Funding	Other Specifics	Fiscal 2000			Fiscal 2001			Fiscal 2002			Fiscal 2003			Fiscal 2004			Fiscal 2005		
				Visit Date	Report Date	Duration	Visit Date	Report Date	Duration	Visit Date	Report Date	Duration	Visit Date	Report Date	Duration	Visit Date	Report Date	Duration	Visit Date	Report Date	Duration
Analysts					6			7		5		5		5		4				4	
Total Visits					12			25		25		64		33		18				18	
Visit/Person					2.0			3.6		5.0		12.8		6.6		4.5				4.5	
(The) Arrow Project		HOPWA	FC50979				24-Oct-00	18-Jan-01	12	1-Mar-02	3-Jun-02	13		29-Jun-03	31-Jul-03	5					
A Caring Safe Place		HOPWA	FC50160	4-Feb-00	1-Mar-00	4				13-May-01	21-Oct-01	23	12-May-03	27-Jun-03	7						
Acres Home center for Business & Econ Dev		CDBG	FC50159				25-May-00	1-Aug-00	10												
AIDS Foundation of Houston		HOPWA	FC50817				7-Jun-00	14-Feb-01	36		1-Apr-02		1-Jun-03								
AIDS Foundation of Houston		HOPWA	FC53265							17-Jan-02	22-Apr-02	14	1-Apr-03	27-Jun-03	12						
Antioch Project Reach CDC		HOME	FC39412				26-Sep-00	25-Oct-00	4												
Bering Omega Community Services		HOPWA	FC37728	FC53453	27-Sep-99	22-Dec-99	12			29-May-01	7-Dec-01	27	10-Jan-03	28-Feb-03	7						
Bldg Lives, Offer Comm Know / The Block		HOPWA	FC50752					1-Oct-00													
Bread of Life		HOPWA	FC51281	FC53226						21-Mar-01	21-Jul-01	17	8-Jan-03	4-Mar-03	8						
Brentwood Economic CDC		HOPWA	FC39630				28-Aug-00	25-Oct-00	8												
Brentwood Economic CDC		HOPWA	FC34177										1-Dec-02								
Britton Place Apts	MF Housing	HOME	FC50914	Compliance										10-Jun-03	31-Jul-03	7					
Career and Recovery Inc		HOPWA	FC53995									8-Jan-03	1-May-03	16							
Catholic Charities		HOPWA	FC54898											6-Aug-03	14-Nov-03	14			11-May-04	27-Sep-04	20
Child Care Council		CDBG	FC33542	DC	27-Jan-99	26-Aug-99	30			22-Jun-01	12-Oct-01	16	7-Mar-03	18-Jun-03	15			11-May-04	27-Sep-04	20	
Child Care Council		CDBG	FC33543	ES	27-Jan-99	26-Aug-99	30			22-Jun-01	12-Oct-01	16	7-Mar-03	18-Jun-03	15			11-May-04	27-Sep-04	20	
Child Care Council		CDBG	FC33544	JD	27-Jan-99	26-Aug-99	30			22-Jun-01	12-Oct-01	16	7-Mar-03	18-Jun-03	15						
Coalition for the Homeless		CDBG	FC50503				17-May-00	4-Oct-00	20				25-Jul-02	10-Oct-02	11	29-Sep-03	22-Dec-03	12			
COH - Houston Small Business Dev Corp		CDBG	FC32690-A							19-Jun-01	28-Feb-02	36	6-Mar-03	9-Jun-03	14				17-Mar-04	18-Jan-05	44
COH - Small Business Dev Corp		SEC 108	FC38304	EDI / SEC 108						19-Jun-01	28-Feb-02	36	6-Mar-03	9-Jun-03	14				17-Mar-04	18-Jan-05	44
Commons or Edgebrook Apts	MF Housing	CDBG	FC34209	Compliance										2-Jul-03	31-Jul-03	4					
Community Endowment Foundation		HOPWA	FC34027	Compliance						26-Feb-03	14-May-03	11									
Congress SRO / 1414 Congress		HOME	FC33618	Compliance			10-Jul-00	12-Oct-00	13				30-Oct-02	27-Jan-03	13	22-Sep-03	22-Dec-03	13			
Crystal Clear, inc		HOPWA	FC50751				23-May-00	6-Sep-00	15												
Cullen Senior Citizens Apts	MF Housing	HOME	FC34208	Compliance											10-Sep-03	30-Apr-04	33				
Deerfield Apartments	MF Housing	HOME	FC38968				17-Jul-00	24-Oct-00	14				22-Oct-02	14-Mar-03	20						
Donald R watkins Memorial Foundation Inc		HOPWA	FC53238										27-Aug-02	17-Feb-03	25						
East End Apts / East End HHEC		HOME	FC37408	Compliance									19-Mar-03	25-Apr-03	5	23-Mar-04	10-May-04	7			
Excel-Eco inc d/b/a Dominion CDC		CDBG				1-Mar-00															
Fallbrook apartments	MF Housing	HOME	FC38025	Compliance			9-May-00	1-Sep-00	16				21-Mar-03	9-May-03	7						
GANO / Carecen		CDBG	FC33693										1-Apr-02	20-Apr-03	10	20-Apr-04	10-Jun-04	7			
Green Oak Village Apts	MF Housing	HOME	FC39169	Compliance									29-Oct-02	14-Jan-03	11	19-Apr-04	9-Jun-04	7			
Healthcare for the Homeless		CDBG	FC50509																		
Help USA / Loving Arms		HOME	FC51932							21-Aug-01	6-Feb-02	24									
Hidden Pines Apts / Richmore Mgmt		HOME	FC52584	Compliance															4-Sep-03	14-Jul-04	45
Holmes Community Development Corp		HOME	FC52203							18-Dec-01	22-Apr-02	18									
Housing Opportunities of Houston		HOME	FC37762 / FC53331				25-Oct-00	8-Dec-00	6				22-Mar-02	16-Sep-02	25	21-Aug-03	30-Apr-04	36			
Houston Area Community Services		HOPWA	FC51541							9-May-01	31-Jan-02	38									
Houston Area Urban League		CDBG	FC54919 / 37498	EHR			13-Sep-00	5-Feb-01	21				4-Apr-02	18-Sep-02	24	20-Aug-03	21-Oct-03	9			
Houston Area Urban League		CDBG	FC51320	HOYO									4-Apr-02	25-Sep-02	25						
Houston Area Urban League		CDBG	FC54460	HOYO												20-Aug-03	31-Oct-03	10			
Houston Area Urban League		CDBG		HER																	
Houston Community College System		CDBG		FC51932									17-Oct-02	9-Dec-02	8						
Houston HELP / Corder Place A Houston HELP	MF Housing	FC51932											18-Feb-03	3-Jun-03	15						
Houston HELP / Corder Place A Houston HELP	MF Housing	FC39529	HOPWA																		
Houston Housing Finance Corp		HOME	FC53336										20-Aug-02	11-Apr-03	33			FC55317	5-May-04	5-Aug-04	13
Houston Housing Finance Corp (HHFC)		HOME	FC38048		1-Sep-99		23-Jan-01	30-Mar-01	9					1-May-03						1-Aug-04	
Houston Housing Finance Corp / PSI		HOME	FC50416				9-Feb-01	22-Mar-01	6				17-Oct-02	26-Mar-03	23						
Inwood Properties Apts / Three IMF Housing		HOME	FC51387	Compliance									10-Jan-03	4-Mar-03	8				22-Sep-04	22-Oct-04	4
Jensen Plaza Apts	MF Housing	CDBG	FC33627	Compliance									7-Jan-02	2-Oct-02	38						
La Casita Apts	MF Housing	HOME	FC39105	Compliance									3-Oct-02	31-Jan-03	17	13-Oct-03	29-Mar-04	24			
LA Fiesta Apts / W 1 Miller & / MF Housing		HOME	FC52452	Compliance															28-Apr-04	14-Jul-04	11
Local Initiatives Support Corp / N.F.F.N.		CDBG	FC52573							31-Jul-01	24-Oct-01	12	13-Dec-02	17-Feb-03	9	10-Feb-03	31-Mar-04	59			
Local Initiatives Support Corp / N.F.F.N.		HOME	FC52574							27-Aug-01	24-Oct-01	8	13-Dec-02	17-Feb-03	9	10-Feb-03	31-Mar-04	59			
Los Parados Apts	MF Housing	HOME	FC38076	Compliance Lane/Charter									31-Oct-02	2-Jan-03	9						
Magnificat House, Inc		HOME	FC33838 / FC33967	Compliance									25-Oct-02	5-Feb-03	15						
Magnolia Apartments	MF Housing	HOME	FC34154	Compliance			19-Jul-00	1-Sep-00	6				5-Nov-02	13-Dec-02	5						
Magnolia Cove I Apts	MF Housing	HOME	FC38076	Compliance Lane/Charter									29-Oct-02	2-Jan-03	9						
Magnolia Cove II Apts	MF Housing	HOME	FC38076	Compliance Lane/Charter									29-Oct-02	2-Jan-03	9						
Magnolia Residential Housing		HOME		Compliance										1-Dec-02							
Maxey Village Ltd		CDBG	FC39809	Compliance						28-Jan-02	13-May-02	15	7-May-03	11-Jun-03	5						
Milam House		HOPWA	FC34131	Compliance									3-Jul-02	3-Sep-02	9				2-Aug-04	16-Dec-04	19
Milam House		HOPWA	FC34131	Compliance									16-Apr-03	9-May-03	3						
Miracle of Hope		TIRZ	FC51844	TIRZ Funds						24-Apr-01	17-Jul-01	12									

APPENDIX E
HCDD - Monitoring & Evaluation Section
Monitoring Activities by Entity Reviewed

Entity	Program	Funding	Other Specifics	Fiscal 2000			Fiscal 2001			Fiscal 2002			Fiscal 2003			Fiscal 2004			Fiscal 2005		
				Visit Date	Report Date	Duration															
National Association of Minority Contractors		CDBG	FC37502				6-Mar-01	9-Apr-01	5				4-Nov-02	17-Feb-03	15						
New Foundations for Neighborhoods		CDBG	FC39133	4-Jun-99	1-Feb-00	35															
New Hope Counseling Center		HOPWA	FC50284	12-Apr-00	1-Jun-00	7							15-Mar-02	13-Nov-02	35						
New Hope Housing / Hamilton Street		BOND	C36365										26-Nov-02	21-Feb-03	12	22-Sep-03	22-Dec-03	13	3-Nov-04	14-Jan-05	10
MHMRA of Harris County		HOME	FC33346										29-Jan-03	4-Mar-03	5						
Northline Inn SRO / SHED		HOME	FC38889																		
Northline SRO / SHED		HOME	FC38889				15-Sep-00	1-Oct-00	4				20-Sep-02	10-Oct-02	3	16-Sep-03	21-Jan-04	18			
One Brompton Square		CDBG	FC34287																		
One Brompton Square Apts	MF Housing	CDBG	FC34228				18-Sep-00	13-Oct-00	4					1-Jun-03							
One Brompton Square Apts	MF Housing	CDBG	FC34288										25-Mar-03	2-Jun-03	10						
Park at Bellaire Apts	MF Housing	CDBG	FC39136													17-Oct-03	19-Apr-04	26			
Pines of Westbury		HOME	FC33413										23-Oct-02	22-Nov-02	4	7-Oct-03	19-Apr-04	28			
PH Crescent Park Apts / Pleasan	MF Housing	HOME	FC52741																		
Pleasant Hill CDC Sr Apts	MF Housing	CDBG	FC34296										25-Oct-02	14-Feb-03	16				21-Jul-04	24-Sep-04	9
Recovery Campus of Houston		HOPWA	FC34253	1-Dec-99	1-May-00	22															
Recovery Campus of Houston		HOPWA	FC50413										23-Oct-02	12-Nov-02	3						
Recovery Campus of Houston		HOPWA	FC54628 / FC50413													21-Oct-03	5-Mar-04	19			
Recovery Campus of Houston		CDBG	FC34184													21-Oct-03	5-Mar-04	19			
Regency Crossing Apts	MF Housing	HOME	FC38076										1-Nov-02	2-Jan-03	9						
River Oaks Health Association		HOPWA	FC51454 / FC39632							3-Oct-01	1-Apr-02	26				30-Jul-03	12-Dec-03	19			
Riverside General Hospital		HOPWA	FC53064										6-Jul-03	31-Mar-04	38						
Safe Havens / MHMRA		BOND	FC36383													20-Aug-03	11-May-04	38			
San Jacinto Apts / Houston SRO	MF Housing	HOPWA	FC39722							1-Nov-01	25-Feb-02	17									
San Jacinto Apts / Houston SRO	MF Housing	HOPWA	FC39722										4-Mar-03	7-Apr-03	5	29-Apr-04	13-May-04	2			
SEARCH Center Inc		HOPWA	FC50489							21-Mar-01	6-Aug-01	20									
SEARCH Inc		BOND	C34424										27-May-03	27-Jun-03	4				18-Jun-04	30-Jul-04	6
SEARCH Inc		HOPWA	FC34289	20-May-99	3-Dec-99	28															
SEARCH Inc (Mobile Outreach Program)		GF-CDBG	FC54380													4-Jun-03	24-Oct-03	20			
SEARCH (HOPWA)		HOPWA	FC53016													4-Jun-03	14-Jan-04	32			
Sheltering Arms		CDBG	FC37501	1-Jul-99	1-Sep-99	9															
Sheltering Arms Senior Services, Inc		HOME	FC37501				3-Oct-00	14-Feb-01	19												
Simmons Garden Senior Housing	MF Housing	HOME	FC37405										25-Sep-02	22-Nov-02	8	18-Sep-03	14-Nov-03	8			
Star of Hope Mission / Mens Shelter		BOND	C36680													18-Aug-03	3-Oct-03	7	4-Nov-04	28-Dec-04	
Star of Hope Mission / Trans Living		BOND	C34541													18-Aug-03	3-Oct-03	7	4-Nov-04	28-Dec-04	
Steven's House		HOPWA	FC39838				30-Sep-99	25-Sep-00	52				30-Jan-03	7-Apr-03	10						
Summercrest Apts	MF Housing	CDBG	FC52777													15-Aug-03	2-Apr-04	33			
Sunnyside Up Casa Real Apts	MF Housing	HOME	FC37754										23-Sep-02	31-Jan-03	19	10-Mar-04	4-Jun-04	12			
Trinity Gardens		HOPWA	FC55381																25-Mar-04	27-Jul-04	18
TSU/Third Ward CDC - 12 Canfield		HOME	FC38801										6-Jan-03	14-Mar-03	10						
Uplift Fourth Ward CDC		HOME	FC50212				10-May-00	26-Sep-00	20												
Uplift Fourth Ward, INC.		HOME	FC50923										22-Jan-03	7-Apr-03	11						
Volunteers of America	FC52431	HOPWA	FC39223							2-Nov-01	28-Feb-02	17								1-Sep-04	
WAM Foundation	FC39692 /	HOPWA	FC52480																		
Woods on Beechnut Apts	MF Housing	HOME	FC38076										24-Feb-03	10-Apr-03	6						
YMCA of the Greater Houston Area		BOND	FC39112										30-Oct-02	2-Jan-03	9						
2100 Memorial Drive Apts	MF Housing	TIRZ	FC52121										18-Mar-03	13-May-03	8						
																1-Apr-04					

APPENDIX F - HCDD - Performance Assessment

Sample Flow Chart of High Level Process Flow - Home Repair Program (Circa 1996-2003)



	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
1	Cultural Climate / Tone at the Top			
	<p>Information was concentrated in a few selected hands at top level, sometimes exclusively by each of the two preceding directors, and not disseminated down nor shared across the organization. Such information ranged from organization charts to past HUD findings (which employees had to hear of through press “leaks”).</p> <p>Information became the currency of power and secrecy was equated with job security. Many people whom we interviewed were unable to identify a single internal contact for certain programs and projects or were unaware of the roles and responsibilities of other people, sometimes even within their own sections.</p> <p>Director Bingham was allegedly autocratic and we were informed that personnel, including management, learned not to bring any problems to her lest they incur her wrath.</p>	Improve Organizational communication	High	Ensure both appearance and reality of open communications, promote: weekly management meeting, regular all staff meetings / communications, open door policy, cross-sectional collaboration.
	<p>We learned that during HUD’s August 2004 visit, management supposedly provided the inspectors with less detailed or complete sets of files than in the past.</p> <p>Several employees, who possessed knowledge of critical information, were not included by their immediate management, or only learned late in HUD’s visit, that HUD was missing requested information.</p> <p>During our meeting with HUD</p>	Improve Organizational communication	High	<p>Management should have a standing regulatory review coordination team comprised of employees generally familiar with all types of projects and programs operated by the Department, and with related key contacts and information keepers.</p> <p>As noted under Documentation, Department Management should also establish written policy and guidelines on project record keeping, including the types</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>enforcement personnel during their January 2005 visit, they were still receiving (further) project specific files from a Department manager – whom, the officials commented, had earlier claimed to have provided them with all relevant “project files”.</p>			<p>of data and files to be maintained, where and by whom, how they are separately identifiable (e.g. consistent color coding) and ensure that appropriate centralized records are maintained of key documents and their location.</p>
	<p>Although projects were submitted via RCA to City Council for approval, we learned that a prior director allegedly ensured that the District benefiting from a project was clearly identified on the RCA and that she would not select projects in districts whose representatives opposed her.</p>	<p>Project Review Team</p>	<p>Low</p>	<p>Establish</p> <ul style="list-style-type: none"> (i) Project Evaluation Team, and (ii) Project Review Committee, with external representation
	<p>We understand that past “issues” which HUD raised were often ignored or, if answered, were addressed by senior personnel not necessarily involved in the daily details.</p> <p>Several of HUD’s August 2004 Findings reference earlier occasions when HUD had raised similar/same points but which appear to have been ignored by Department management and allowed to fester.</p> <p>We did not interview either of past two Directors and so cannot say whether they somehow believed that if ignored these Findings would disappear, or if this was more a conscious plan. However, our discussions with other personnel indicated that past Directors were allegedly keen to avoid any external knowledge of any internal management irregularities. In addition management’s attitude towards HUD was consistently positioned as more arrogant and antagonistic than conciliatory and co-operative.</p>	<p>Improve Organizational communication</p>	<p>High</p>	<p>In addition to current remediation and response activities, management should consider working closely with HUD to identify related organizations and practices, which HUD believes represent “best in class” ones and which the Department can leverage.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>Management allegedly rebuffed HUD's technical assistance turning a co-operative visit into a monitoring and subsequently an audit one that generated the 2004 Findings.</p> <p>Management's attitude and lack of timely responses appears to have resulted in sub optimal, even adverse personal, relations with HUD. This not only precluded potential resolution of issues before they escalated into a Finding, but reduced the likelihood that HUD would afford the Department the benefit of any doubts, so that subsequent Findings were more likely to be inclusive of any infraction, however potentially minor.</p>			
<p>The past two Directors and other key lieutenants appear to have consciously attempted to suppress widespread communication of any unfavorable reports on Departmental activities, both by HUD and by internal observers.</p> <p>In addition to suppression of internal and external communication of HUD findings, we also learned from several sources of reports being held up or potentially altered by Management where they expressed adverse opinion on certain Agencies and even internal Departmental sections.</p> <p>On several occasions we also learned of alleged threats of (and actual instances of) recrimination taken by respective management both within the organization and within some sub-recipient agencies against personnel who questioned the propriety of specific agency or department activities, including ones, which</p>	<p>Improve Organizational communication</p>	<p>High</p>	<p>Management should work to ensure both the appearance and reality of open communications through weekly management meetings, periodic staff meetings / communications, an open door policy, and cross-sectional collaboration.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	they were personally asked to perform.			
2	Internal Organizational Structure			
	We heard from several sources of an apparently privileged inner circle fostered and perpetuated by the past two directors.	Implement merit based hiring / promotion policy	High	<p>Management should work to ensure both the appearance and reality of open communications through weekly management meetings, periodic staff meetings / communications, an open door policy, and cross-sectional collaboration.</p> <p>Personnel should be hired, assigned, recognized and rewarded solely on the basis of personal (and team) merit and such practices should be transparent</p>
	Although a number of long time employees retired in 2004, we noted that the loss of personnel was not a sudden phenomenon; many vacancies in key functional areas have existed for several years. As of the January 5, 2005 draft organization chart, some 36 or a quarter of the Department's positions are vacant.	Implement merit based hiring / promotion policy	High	<p>Management should perform a needs assessment for each program including all critical functions, and minimum and ideal technical skills, formal qualifications and experience required to perform each function.</p> <p>Perform a risk assessment of each program to ascertain which required functions are most critical and to determine which functions to perform in-house, which to outsource, and which to manage with a hybrid model.</p> <p>Determine Department's current and planned core competencies.</p> <p>Perform a documented skills assessment of all current employees to facilitate optimal (re)assignment and training needs.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
				Ensure all required internal functions are staffed with appropriately qualified personnel - through hiring and continuous training.
	<p>Alleged favoritism by past Directors and senior management in personnel hiring, deployment and advancement practices and a perception of Department as political “dumping ground” created internal morale issues.</p> <p>This alleged cronyism also resulted in some personnel being placed in positions, even including management roles, which may not have been the best use of their individual talents or where they may be sub-optimal.</p>	Improve Organizational communication	High	<p>Personnel should be hired, assigned, recognized and rewarded solely on the basis of personal (and team) merit and such practices should be transparent.</p> <p>Subsequent advancement should be based on merit.</p>
	<p>Following the departure or reallocation of several management personnel, the Department’s Project Review Committee was essentially dissolved in approximately 2000, when projects were increasingly approved, if not even selected, by only the Director and Assistant Director, and when the latter subsequently became Director, then solely at her discretion – allegedly contrary on occasions to their respective staff’s recommendations.</p> <p>We also learned of one project where a key player’s name was removed from a submission and an intermediary entity’s name substituted, allegedly to make the request more acceptable when it was presented to Council.</p>	Project Review Committee	High	<p>Re-establish a Project Review Committee to review and approve any projects and the subsequent RCA of those selected.</p> <p>Establish and publish formal and consistent criteria for the selection and approval of a project, including funding guidelines. Ensure that the reasons for selection or rejection of each proposed project, including level of funding, are clearly documented in formal minutes of regular Project Review Committee meetings.</p> <p>Consider including independent external members on the Committee, comprising representation from e.g. Mayor’s office, local industry experts (avoiding any conflict of interest), regulatory agencies.</p>
	Reduction in staffing levels over last several years, especially in	Organizational Restructuring	High	Perform a needs assessment for each program including all

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>middle management, has resulted in:</p> <p>Doubled even tripled individual work loads in many critical functions, e.g.</p> <ul style="list-style-type: none"> ➤ Sections cut from: 14 to 3 (program operations), from 5 to 2 (underwriting), from 8 to 1 (in-house inspectors - single-family), from 5 to 1 (relocation). ➤ Individual technical specialists each became responsible for from 20-25 projects, to – in one case – as many as 53 discrete projects worth \$28 million. ➤ The number of inspectors dropped from eight to essentially one for Single Family (Emergency Home Repair / Rehabilitation) and one for Multi-Family (Affordable Housing Apartment) projects ➤ The section responsible for releasing liens on homes purchased with down payment assistance (after 5th anniversary of continuous occupancy) are currently 3 years in arrears (i.e. completed for those purchased in 1994-96; prioritizing 2000; 1997-99 still outstanding) ➤ The relocation group dropped, primarily through 2003, from a manager and four staff to a single counselor by 2004. <p>Reduced supervision and management of both internal personnel and external service providers and fund recipients.</p> <p>Increased risk of reductions in morale, production and work quality.</p>			<p>critical functions, and minimum / ideal technical skills, formal qualifications and experience required to perform each function.</p> <p>Determine department’s current and planned core competencies and which functions to staff internally, which to outsource, and which to manage with a hybrid model.</p> <p>Perform a documented skills assessment of all current employees to facilitate optimal (re)assignments.</p> <p>Ensure all required internal functions are staffed with appropriately qualified personnel - through hiring and continuous training.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>Loss of institutionalized knowledge and even of specific functions.</p>			
	<p>Over the last several years, the Department has increasingly relied upon second party agencies / sub-recipients and even third parties (first lenders) to perform (sometimes <i>all</i>) critical program administration, execution and control functions.</p> <p>This appears to have been a conscious modus operandi rather than the consequence of reduced staffing levels.</p> <p>In some circumstances, e.g. when the Mayor's office closed down the Department's internally run (home repairs) program in the mid 1990's, management continued the program by outsourcing much of the program's day to day operations to four agencies.</p>	<p>Program Management, Program Monitoring</p>	<p>High</p>	<p>Management should perform a risk assessment of each program to ascertain what functions are required, which are most critical, what specific skills and qualifications are needed to perform each function, and determine which functions to perform in-house and which to outsource.</p> <p>As a generalization, management should ensure that it has the requisite minimum degree of technical talent on board to perform a sufficient level of control and oversight. This is also particularly important in initial project evaluation and later monitoring functions to ensure consistency in application of related Departmental policies and procedures.</p> <p>Where specific technical skills that are required are in short supply in the market place or more unique to the Department's operations (e.g. HUD regulations) management should consider bringing them in-house to ensure availability.</p> <p>Where the specific skills sets required for a function are widely available such that the Department will not need to pay a premium or may even be able to leverage other organizations' economies of scale and specialization – especially if the functions are only required periodically –</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
				<p>management should consider an outsourced model.</p> <p>If the Department's need may fluctuate (e.g. owing to circumstances beyond its immediate control such as timing and volume of emergency repair applications), management should consider a hybrid model: a base level of in-house personnel supplemented by a pool of pre-qualified external specialists leveraged on an as needed basis.</p> <p>Management should establish specific documented criteria for the selection of external service providers for each outsourced function, including key deliverables and performance metrics and ensure that they are applied consistently. Their eligibility should be re-verified regularly, ideally annually, including through communication with other City or neighboring County departments.</p> <p>For those functions to be performed in-house, management should evaluate existing resources and (re)train and assign existing personnel and hire new personnel as appropriate based on the specific skills identified. Subsequent advancement should be based on merit.</p>
	<p>Lack of technical training. No formal training plan was identified. Although some selected employees received substantial</p>	<p>Training</p>	<p>Moderate</p>	<p>Implement a formal annual training plan at department and individual employee levels. Invite HUD and other City</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>training annually – most of those interviewed had not received any in last 5 to 10 years.</p> <p>The last HUD specific training – to 57 of possibly 100+ employees – was in 2000. Attendance at many classes or conferences perceived by non-attendees as unearned “perk”.</p> <p>Some employees commented that they did not receive training in their area of responsibility, but other personnel (at best only indirectly involved in that area) were sent to related classes.</p>			<p>Departments (identified by HUD or others as having best in class practices) to provide related classes and seminars. Have the designated in-house federal fund subject matter experts publish periodic (monthly) highlights to in-house file or web site of any regulatory changes including impacts on specific current programs, compliance activities, data capture for related reporting, etc.</p>
<p>No cross training, including of a back ups for critical functions, or of a successor – allegedly such lack is perceived as job security by incumbents. E.g. at least one retiree did not train her successor while still with Department and had to be brought back as a paid consultant to do so. Other retirees are also working as consultants in their old areas.</p>	Training	Moderate	<p>Cross train personnel. Implement formal program to train a back up for each position. Implement successor planning.</p>
<p>The organizational and reporting structure of the Department did not create an adequate segregation of duties or avoidance of potential conflicts of interest.</p> <p>The same AD managed both the Section responsible for running a specific Program, including performing oversight of sub-recipient agencies and approval of their funding, and the Section responsible for independently monitoring such Agencies’ compliance. This situation was further acerbated by two additional factors:</p> <ul style="list-style-type: none"> - the AD was also allegedly instrumental in the hiring of that Section’s Manager (and so any possible mismanagement would also reflect badly on her) 	Organizational Restructuring	High	<p>The Department should implement a formal Code of Conduct / Conflict of Interest policy which every employee is required to sign and reaffirm regularly.</p> <p>Program Managers should not be appointed to Programs where they have any close personal relationship with key management of Agencies that Program oversees – or be precluded from sole oversight of those specific Agencies.</p> <p>Program Managers should be rotated on a periodic basis not only to provide cross training and for possible advancement purposes, but also to avoid any appearance of potential personal conflicts of interest.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>- the Section Manager is allegedly a close personal friend of the President of a primary Agency which the Department funded to provide its services. This agency appears to have functioned more as an intermediary between Department and the actual services provider than as the provider itself.</p> <p>However the Department was also funding the end service provider directly.</p>			<p>The Monitoring Section should be separate from all other Operating sections. Its head should report directly to the Director – and if the Department has external members on the Project Review Committee, then on a dotted line basis to those members or to that Committee’s Chair, if an external member.</p>
	<p>Many times the applicant does not fully understand the full extent of his/her commitments to the City and what is required in return for the funding provided.</p>	<p>Program Management</p>	<p>Low</p>	<p>Each area within Housing should meet with the applicant to clearly explain what commitment is required from the applicant, including related periodic record keeping and reporting. A checklist should be given to the applicant to make it easy to follow.</p>
	<p>Morale in the Department is generally low and a number of employees have retired or left the Department recently. Almost universally, Department employees whom we interviewed commented on the past Director’s failure to pay bonuses promised by the Mayor’s office in 2004 – even though employees on the Department’s payroll but located at City Hall received theirs. Many employees commented that although the past Director signed off on their related Employee Performance Evaluations, she subsequently claimed that there were too many high evaluations and refused to pay the bonuses. We noted that several employees have filed grievances over their evaluations.</p>	<p>Organizational Restructuring</p>	<p>Moderate</p>	<p>Management should prioritize the determination of employees’ individual 2004 bonus amounts and requirements to release their payment.</p> <p>Management should institute an exit interview practice, possibly conducted by an independent third party.</p> <p>Management should consider conducting a confidential employee survey.</p> <p>Management should introduce a confidential complaints “hotline”.</p>
<p>3</p>	<p>Policies & Procedures</p>			

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p><i>Lack of Documented Policies and Procedures</i></p>			
<p>We observed that many sections and functions appear to lack specific policies, procedures and guidelines for the performance of their activities, including specific sections’ roles and responsibilities. Although some policies and procedures may exist for some of these areas, they have not been widely disseminated to the functional performers or to a wider audience of personnel in general. Many respondents observed that they received little or no management direction or were left to work out process for themselves.</p> <p>Our findings include the following; however, owing to the high level and scope of our review, this is not intended to be an exhaustive list of all possible policies and procedures that may be required for those areas we reviewed.</p>	<p>Policies & Procedures, Training</p>	<p>Moderate</p>	<p>Establish written policies and procedures for all compliance and oversight activities and ensure that the functional groups responsible for each are clearly identified and held accountable. Ensure that this information is maintained in a format and location accessible to all employees.</p> <p>Provide all employees with initial and periodic refresher training on the Department’s Policies & Procedures.</p> <p>See below and under <i>Program and Project Management</i> section of this report for additional performance recommendations, which will need incorporation into formal oversight Policies and Procedures.</p>
<p>There is no single set of consolidated policies and procedures, including any clear definitions and assignments of roles and responsibilities by Section.</p> <p>We observed that several similar functions are performed during a project’s lifecycle by different sections throughout the Department. Many employees have limited or no knowledge of what work other sections do; we often heard assumptions that specific (especially oversight) tasks are performed by other sections, especially by Underwriting and by Monitoring & Evaluation, but which is not the case (or their stated responsibility)</p>	<p>Policies & Procedures</p>	<p>High</p>	<p>Establish written policies and procedures for all compliance and oversight activities and ensure that the functional groups responsible for each are clearly identified and held accountable. Ensure that this information is maintained in a format and location where all employees can readily access it.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	in practice.			
	<p>There are no formalized procedures for the end to end processing and management of a given application for assistance.</p> <p>Some, usually larger scale, projects (e.g. multi-family housing, both rehabilitation and construction) pass through several in-house sections, which each may generate their own related work product, without any single person assigned overall responsibility.</p> <p>More individual centric projects (e.g. home repairs, home buyer assistance, HOPWA) are often outsourced to second parties (agencies) with no formalized policy for their management from receipt to resolution.</p>	Policies & Procedures, Program Management	High	<p>Establish Project Evaluation Team.</p> <p>Establish written related policies and procedures for processing applications, including the use of requisite checklists and turnaround within a stated time of receipt.</p> <p>Establish and publish general roles and responsibilities for each section (possibly electronically on a secure central site).</p>
	<i>Project Selection</i>			
	<p>No formal policies and procedures appear to exist or to have been followed with respect to the prioritization of projects or applicants for the receipt of funding.</p> <p>For most Programs the Department published open RFPs; funding would primarily be allocated on a first come – first served basis to those meeting the qualification criteria.</p> <p>Although subsidiary layering reviews were included in the Department’s underwriting guidelines and the Department at one point issued a bulletin containing a guideline of amount of per unit subsidies, there is no indication that any formal policy was followed to compare returns from different / alternative projects or to ensure that the Department maximized the overall number of affordable units per</p>	Policies & Procedures, Program Management, Project Review Committee	High	<p>Establish Project Evaluation Team.</p> <p>Establish written related policies and procedures for processing applications, including funding determination criteria.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>dollar of total (federal or other) funding.</p> <p>From discussions with personnel, there do not appear to have been any guidelines or policies determining how agencies would be selected for specific program or, subsequently, the level of funding they would receive and even the affordability period they would be required to follow. Such decisions appears to have generally been arbitrary and primarily at Senior Management’s or Director’s discretion.</p>			
<i>Funding Allocations</i>			
<p>No formal policies and procedures appear to exist or to have been followed which detail how Funding should be allocated – including between Programs, projects, and individual agencies and applicants, including prioritization. The lack of such guidelines appears to have been universal across the Single- and Multi-Family Programs.</p> <p>Examples which our reviews and discussions with personnel identified include:</p> <ul style="list-style-type: none"> ➤ We noted that one developer received a disproportionately significant percentage of the Department’s funding spread over several separate projects and totaling an estimated \$27 million. Such significant concentration of funding (e.g. by recipient) increases the Department’s exposure to risk of non-payment – as occurred when this developer defaulted on loans. ➤ No documented procedure exists or was followed on how funding was to be apportioned 	<p>Policies & Procedures, Program Management, Project Review Committee</p>	<p>High</p>	<p>Management should designate primary and secondary contact Subject Matter Experts for managing each major source of Funding. These personnel should also be responsible for ensuring the contemporaneous intra-Departmental communication of each Source’s most current regulations and requirements, especially as they (do / do not) apply to each individual Program.</p> <p>See also recommendations to establish Project Evaluation Team and written related policies and procedures for processing applications, including funding determination criteria.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>between several Agencies each engaged, but funded at different levels, to provide ostensibly the same services for the homeless;</p> <ul style="list-style-type: none"> ➤ We also understand that past Directors increased some agencies' funding levels arbitrarily; ➤ One of four agencies retained to administer Home Rehabilitation and Emergency Repairs – ostensibly the best managed, based on reviews by Monitoring & Evaluation Section and during recent re-inspections – was capped at \$7,500 while others were empowered to authorize repairs costing twice as much, despite numerous homeowner complaints ➤ An informational booklet (reputedly later withdrawn from public distribution) indicates a guideline Departmental investment of \$5,000 per affordable low - income rental unit. However we noted investments in such multi-family units – including ones receiving funding from multiple Federal or City of Houston sources - where the Department's funding alone ranged from \$10,000 to over \$50,000 per unit. ➤ In addition, the methodology used by the Department and Underwriting to calculate per unit investment uses the <i>total</i> number of units as the denominator instead of the number of those actually <i>designated as affordable</i> units. This has the effect of significantly understating the Department's effective investment per affordable housing unit (as presented to 			

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>both Management and City Council for project approval purposes) – usually by probably at least 100% (where the Department customarily looks for 50% of total units to be designated as low to moderate income affordable)</p> <ul style="list-style-type: none"> ➤ We noted instances where the Funding amounts increased substantially over the initial application amount, often at the alleged sole discretion of the past Directors. ➤ There are no policies covering precluding investment in projects shown as unable to service debt; we noted at least one development whose plan forecast an inability to cover debt ➤ There are no guidelines over repeat investments with same owners, even when late or recently delinquent on other loans, including avoidance of over concentration of funding in any given district or to any one contractor or developer. (We noted that some groups’ activities appeared to receive perennial favor despite performance issues; one developer received an over-concentration of Departmental funding (acerbated by subsequent loan defaults) ➤ The choice of Funding source e.g. CDBG or HOME for individual projects appears to be determined more by personal experience of specific Grants Management personnel or Director’s discretion than by formal policy. ➤ There does not appear to have been any formal policy and procedure for determining the amount of down payment 			

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>assistance afforded to qualifying (low income) homebuyers. Although we understand that the normal policy was to provide \$9,500 for new housing, we learned that the Department provided purchasers in select new Fourth Ward developments \$19,500 of down payment assistance in addition to a further land subsidy funded by the Department via another agency.</p>			
	<i>Oversight practices</i>			
	<p>There are no policies in force to ensure the timely receipt of reports which the recipients of Department financing (including from Federal funds) are required to provide to the Department in accordance with their financing related contract / agreement and / or federal (i.e. HUD) regulations. There are no policies in force, which address actions to be taken by the Department to enforce compliance with these reporting requirements.</p>	Policies & Procedures	Moderate	<p>Management should implement policies and procedures covering timely submission by funding recipients of all reports required and enforcement of such requirements.</p>
	<p>The Department's Single Family Home Rehabilitation and Emergency Home Repair program was outsourced to four separate agencies from approximately 1996 until 2003 (when HUD pulled funding).</p> <p>There is no formalized systematic policy, process or schedule for inspecting home repairs administered by three of these agencies; we understand management specifically instructed its inspectors not to inspect property repairs handled through the fourth agency.</p> <p>On-site inspections were primarily</p>	Program Management	High	<p>All entities subject to any periodic e.g. annual compliance verification should be clearly identified and included in a documented annual compliance plan and schedule.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>performed in reaction to complaints from Homeowners not as part of any pro-active oversight policy.</p> <p>In addition, after the two programs were essentially merged in the mid 90s, the Department’s definitions of what constituted emergency home repair and home rehabilitation appear to have blurred. The Department classified and recorded repairs as either minor or major based on a dollar cut off. We understand from management that the Department did not adopt HUD’s definition of emergency repairs even though successive forms of Federal (HUD) funds were used to finance the program(s).</p>			
<p>Several Program activities include some form of continuing or continuous monitoring. As a generalization, we did not identify any formal policy and procedure in place to ensure that all projects or activities, which required such regular (e.g. annual) compliance activities, including site visits, did in fact receive one.</p> <p>Our reviews of various annual monitoring activities also indicate that they were frequently performed on an irregular and not annual basis.</p> <p>As a standard practice, reviews by the Monitoring & Evaluation Section are specifically not conducted until a project has been operational for at least a year; based on our evaluation of the section’s reviews for the last several years, such reviews may not occur in practice until several months later. Since none existed, we compiled a matrix of visits conducted over the last several</p>	<p>Program Management, Program Monitoring</p>	<p>High</p>	<p>All entities subject to any periodic e.g. annual compliance verification should be clearly identified and included in a documented annual compliance plan and schedule.</p> <p>Departmental policy should require the timely re-inspection (ideally within three months) of any organization or project determined as being non-compliant with Department, City of Houston, or Federal regulations.</p> <p>Continuing compliance confirmations, which form an integral element of a program (e.g. 5 years occupancy under Homebuyer Assistance Program, HQS of designated Multi-Family Rental Housing units during affordability period, etc.), should be scheduled and performed as part of that program’s regular</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>Fiscal years; this analysis showed a significant number of entities with multi-year gaps between visits as confirmed by lack of any reports for a 10 entities sample for which we requested all reports for Fiscal years 1999 to 2005. (HCDD personnel located only 22 reports out of a potential total of at least twice to three times that number).</p> <p>We identified multi-year gaps between HQS visits to many locations; of 69 properties listed as subject to compliance reviews, only 43% were inspected by the (sole) inspector during 2004, 23% in 2003; 17% had not been inspected since 2002 or earlier and 16% were tagged N/A or TBD.</p> <p>In our review, we noted that non-compliant entities are not subject to timely re-inspections – either to ensure prompt implementation of agreed remediation actions or to avoid further deterioration.</p> <ul style="list-style-type: none"> ➤ Several properties visited for HQS compliance purposes had “violations cited” during mid 2004 which are still shown as open; ➤ The Monitoring & Evaluation section documented eight (8) findings in its March 2003 review of one apartment complex (.APTDF / Deerfield Apartments, contract # FC38968), but we have received no evidence of any follow up or subsequent review and report by the section since then. 			<p>operations.</p> <p>Such activities should be clearly differentiated from monitoring reviews designed to ensure that the internal sections and any external Agencies responsible for operating the program are actually performing such activities (the monitoring function should not be responsible for performing those control functions for the responsible group assigned such responsibility day to day).</p>
<p>There is no consistent methodology for determining interest or penalties on unpaid monthly loan payments. The methodology contained in some</p>	<p>Policies & Procedures</p>	<p>High</p>	

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>Loan Agreements for computing penalties appears usurious; agreements state that a missed payment will be added in its entirety (i.e. principal and interest) to the outstanding principal balance. There are about 4 or 5 net cash flow loans with such terms. (e.g. ADH0022, ADH0026). Conversely, other loans have unpaid monthly payments forgiven (principal and interest) if the owner lacks the cash flow to service them.</p> <p>We also learned of some projects' loans, which were converted after the fact by a previous director from a repayable loan to a non repayable grant. (Note these changes required and apparently received city council approval).</p>			
<p>Our reviews identified several loans where draws occurred before the note was executed or where a title company did not disburse funds promptly. In such situations the department may not be in compliance with Federal and HUD regulations which require Federal funds to be deposited in interest bearing accounts.</p>	Policies & Procedures	High	Establish related policies and procedures.
<p>The responsibility for filing Land Use Restrictive Agreements (LURA) does not appear to be articulated and disseminated. Our reviews did not find any evidence in some files whether related LURA had been filed.</p>	Policies & Procedures	Moderate	Establish related policies and procedures.
<p>Loan RRL0057 (WTM Investments) states "Payments on the Subordinate Note, as modified hereby, which are or have been deferred due to insufficient Additional Net Cash Flow or insufficient Surplus Cash, as defined in the paragraph below, shall be <i>deemed paid</i>, provided that such inability to make payments is substantiated in accordance with the terms of the</p>	Policies & Procedures	High	The Department should require monthly net cash flow reports to be supported with annual audited financials and nothing should be "deemed paid" until that determination is made.

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	Subordinated Note.” However there is clear indication of the even minimum documentation needed / required to make that determination. The owners therefore provide the City of Houston unaudited financials as “proof” of insufficient net cash flow.			
	Developer’s Fee – there is no policy addressing disbursement of developer’s fees	Policies & Procedures	Moderate	The Department should institute a policy, which addresses the disbursement of developer’s fees.
	Final budget should come in before funding. The draws should agree to the budget. There is no evidence if anyone is currently responsible for ensuring this.	Policies & Procedures	High	The Department should institute a policy, which addresses these issues.
	Loan Servicing should establish procedures for reconciling payments (deposits) to the <i>on-line</i> bank statement.	Policies & Procedures	Moderate	The Department should institute a policy, which addresses the reconciliation of payments (deposits) to the <i>on-line</i> bank statement.
	All appropriate personnel in Legal and Housing do not appear to have a full set of the most current HUD requirements and be familiar with them. For example, the specific units that are to be classified as affordable are not so identified in Loan Agreements (including those financed with HOME funds).	Policies & Procedures	High	The Department should ensure that owners clearly identify the specific physical units to be classified as affordable and that they are so designated in appropriate legal documentation, including the Loan Agreement.
	Need an appraisal policy – for example the appraiser needs to be told that this is a low-income property so that it will not be priced at market. Some agreements have this clause but many do not. An income approach appraisal addresses revenue and expenses.	Policies & Procedures	Moderate	Department should implement an appraisal policy – including for example requirements that the appraiser be told that it is a low-income property.
	There is no current policy for loan servicing, and specifically on pursuing collection on aging loans and those in-default. We found no indication that any aged or defaulted loans were ever formally pursued for collection during the preceding two	Policies & Procedures	High	Create a formal policy for loan servicing including aging loan / receivables management reports and analyses and procedures for pursuing collection and work out of defaulted loans. This policy should encompass all

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>Directors' tenure and consistently heard from employees that no such practices existed or were permitted when proposed.</p> <p>We only identified one instance of pro-active loan collection – that of several matured and in default single-family improvement loans which were formally threatened with recovery, including foreclosure – where a clerk successfully virtually halved the outstanding balance due the Department.</p>			<p>such loan receivables regardless of underlying program or project i.e. including those provided by the Department for affordable single and multi-family housing, community facilities, hotels, and economic development projects, and regardless of funding source.</p>
	<p>There should be guidelines for the loan originators to follow when analyzing financial statements. For fairness to each potential owner, financial statements should be reviewed in as an objective way as possible for consistency. Audited financial statements from Owners should be submitted annually and City should enforce it. This should be responsibility of Loan Servicing/Loan Originators. Eligibility requirements should be standardized.</p>	Policies & Procedures	High	Establish related policies and procedures.
4	Program and Project Management			
	General Program Management			
	<p>There is no focal point for co-ordination of all Application and subsequent Project related processing: from receipt / inception through to rejection / completion and subsequent conclusion.</p> <p>Several groups within the Department may receive and act upon funding and specific program related requests. There is no process for coordinating and prioritizing such requests or for</p>	Project Evaluation Team, Program Management	High	<p>Establish written policies and procedures for processing applications, including all requisite checklists and a stated turnaround time.</p> <p>Establish a Project Evaluation Team with qualified representation from each requisite group to review and prioritize all potential project applications immediately upon receipt. All communications requesting</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>ensuring timely action. There is thus no centralized perspective on total pipeline activity or ability to coordinate, rank and prioritize related work (and related resource needs).</p> <p>Subsequent project workflow critical functions are also spread across several discrete Sections with often limited or no intra-departmental communication or co-ordination, increasing the risk of potential duplication or omission of key tasks.</p> <p>This is especially applicable to various compliance and oversight activities and during any post completion “affordability” period.</p> <p>Several interviewees observed too that although their groups performed significant functions, they were sometimes not consulted or included early enough in a project.</p>			<p>Department assistance should be routed through the Project Evaluation Team, and (time) logged upon receipt.</p> <p>The Team will processes all requests in accordance with prescribed workflow and will document all actions and decisions taken in a single dedicated Application / Project Evaluation File that remains with Project until conclusion (rejection, or upon termination of any period of affordability or other limitation).</p> <p>Team member will be assigned as the Lead / Project Coordinator on each application. (Assigned based on specific relevant skill set or, for cross training and skills development, on a rotational basis).</p> <p>Ideally, Applications should be captured electronically in a database, allowing report generation of:</p> <ul style="list-style-type: none"> ➤ a Status Log (status of any new, existing, or concluded project in department and sortable by category / program / fund etc.) ➤ the dedicated Application (upon approval, the Project) File accessible by log-in ID and password by any Team member / authorized employee.
	<p>Multiple reviews are sometimes conducted by different Department sections on the same project but there is no apparent coordination to conduct them simultaneously to improve efficiency.</p>	<p>Program Management</p>	<p>High</p>	<p>See Project Evaluation Team recommendation including related process flows. Management should ensure that respective sections communicate and coordinate visits especially when one</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>We heard of instances where personnel in one section were even instructed not to address issues they had noted (related to another section’s responsibilities) but to leave them for that section to address several months later (when it was scheduled to visit). We also noted observations in a report by Monitoring & Evaluation, which referred to an earlier HQS review by the HQS section but did not comment on current generally visible conditions. Similarly another M&E section report, which contains multiple findings makes no HQS observations other than noting that at the time of review an annual HQS inspection was being scheduled (which was actually performed immediately prior to the M&E report date and contained major violations cited). However we located no evidence that these respective findings were followed up on by the Department in a timely manner; there is no further M&E report and the HQS section recent showed its next visit scheduled for January 2005 (almost 2 years later).</p>			<p>identifies any findings or violations.</p> <p>See Policies & Procedures for recommendation that re-inspections be performed on a timely basis by Department to ensure remediation actions are implemented and that situations do not deteriorate further.</p>
<p>Many people interviewed expressed beliefs that other groups - usually Under-writing or Monitoring & Evaluation - are performing greater compliance or oversight activities than is the reality, potentially creating false levels of confidence and omission of critical tasks.</p> <p>There is often limited differentiation between execution activities (e.g. inspections) and separate monitoring functions.</p>	<p>Policies & Procedures, Improve Organizational Communication</p>	<p>High</p>	<p>Establish and publish general roles and responsibilities for each section (possibly electronically on a secure central site).</p> <p>Differentiate between functions responsible for executing programs / projects which include responsibility for performing some periodic oversight activities and the Monitoring section whose function is to verify if such oversight activities occurred as required.</p> <p>Hold periodic “lunch and learn” sessions where</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
				representatives of sections can speak to their individual/section tasks and their critical intra-departmental interactions / dependencies (inputs, deliverables).
	Related project management and oversight functions are performed during a project by different Sections of the Department.	Policies & Procedures, Improve Organizational Communication , Program Management	Moderate	Where feasible combine similar functionality / tasks into a common group e.g. inspections. This will allow more efficient delivery of similar activities either concurrently or at specific phases during project's lifecycle.
	There does not appear to have been a systematic plan and time schedule for performing some annual reviews and visits, even for 2005. We noted a considerable time gap between monitoring visits of many properties subject to annual reviews, including the subsequent follow up on ones with identified violations.	Program Management, Program Monitoring, Policies & Procedures	High	Management should implement an annual plan and schedule which specifically identifies: all organizations and physical locations subject to any regular or continuous review, the purposes and requirements of each review, and when each will be reviewed and by which Department section. This should be maintained on at least a quarterly basis detailing historic planned and executed for the year to date and with a rolling (at least) 12 months plan going forward. Ideally this should be captured electronically and updated by management of the responsible sections and the assigned Application / Project Coordinators.
	Only one Program – HOPWA – appears to have had a formal Program Manager.	Program Management	Moderate	Management should designate primary and secondary contact Subject Matter Experts for each major Program. These personnel should also be responsible for ensuring the education, coordination, and collaboration of all Sections / Functions that supporting that Program.

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>The Department operates several Programs, but receives Funding from several sources, Federal and City of Houston. Potential confusion may arise because the Program to Funding relationship may be one to one or one to many. There is no formal process to ensure intra-departmental communication of funding specific requirements.</p>	<p>Improve Organizational Communication</p>	<p>Moderate</p>	<p>Management should designate primary and secondary contact Subject Matter Experts for managing each major source of Funding. These personnel should also be responsible for ensuring the contemporaneous intra-departmental communication of each Source’s most current regulations and requirements, especially as they (do / do not) apply to each individual Program.</p>
	<p>Although data generally exist on activities within each Program, such data are dispersed throughout the organization or captured at the individual activity or sub-category level.</p>	<p>Project Documentation</p>	<p>Moderate</p>	<p>Management should introduce a single Project Evaluation and Tracking Form which comprises a checklist subdivided by activities and requirements common to all projects / Funding sources and additional sections for each Funding source with its specific requirements.</p>
	<p>Although data generally exist on activities within each Program, such data are dispersed throughout the organization or captured at the individual activity or sub-category level.</p> <p>Owing to the loss / lack, until recently, of many middle management personnel and the past directors’ frequent practice of having multiple personnel reporting directly to them, some management reports were only generated infrequently or no longer forwarded up the chain of command.</p> <p>On several occasions we were unable to readily locate or obtain any regular, standing</p>	<p>Documentation</p>	<p>Moderate</p>	<p>Management should develop a series of regular monthly and quarterly reports which summarizes status of all projects and programs and related key Department activities and their outcomes, including oversight and monitoring.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>“Management Reports” which we requested in order to perform top level reviews or comparisons and which constituted a single summary of key project or program data i.e. for:</p> <ul style="list-style-type: none"> ➤ Multi-family projects comprising names, locations, key constituents, loan values and aging, funding sources and composition, number of total and designated units, cost / investment per unit, status of several (annual) compliance requirements; ➤ Single family improvement loans; ➤ Single family down payment assistance; ➤ Single family repairs including summary detail by agency or contractor / service provider; ➤ All HQS reviews performed in a given year. (We understand that a report provided to us during our visit was only recently compiled; data were missing on several inspections) ➤ A matrix indicating entities requiring specific reviews, the nature of review required, and dates when these were performed for a given multi-year period. <p>There is no formal schedule / timetable of all organizations / locations in a given population to be visited or required to supply (what?) data to Department including status of last visits or submissions, any findings and status of action plan to remediate, and those not visited</p>			
<p>The Department has historically used open RFPs for projects, which can result in unscheduled fluctuations and peaks in project</p>	<p>Policies & Procedures, Program Management</p>	<p>Low</p>	<p>Management should consider use of an annual closed RFP process for some projects (as we understand Harris County</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	activity, resulting in bottlenecks, delays or potentially suboptimal evaluations			may do?)
	<i>Management and Oversight of Outsourced Activities</i>			
	The Department appears, by policy, to have depended on outside organizations (non profit agencies and third parties, such as lenders) to perform critical project management and oversight functions. On some programs this encompassed everything end to end: from initiation (even marketing) with qualification and approval (of both applicants and properties); to contractor selection, quality review, approval and payment; to related regulatory compliance. Where critical functions were performed in-house they appear to have comprised “desk reviews” of Agency files versus on site visits to properties or to interview tenants or homeowners. In other instances, monitoring appears to have encompassed solely the performance of an activity and not quality of work performed. Critical functions were also increasingly handled by a declining number of qualified individuals	Program Management, Program Monitoring	High	Wherever Management elects to outsource any activities, the related tasks and responsibilities should be: <ul style="list-style-type: none"> • clearly defined, • provided to and acknowledged by the respective recipient, in writing, • documented by that party in regular periodic reports to the Department, • tested by Department as part of a formal annual plan.
	We learned of instances where the responsible personnel within a section had apparently rejected items on agencies’ reimbursement requests and identified further actions, which agency must complete prior to approval for payment, but whose respective Section Management overrode this internal control and approved payment of items.	Policies & Procedures, Program Management, Program Monitoring	High	All overrides by Management should be clearly and separately documented, including reasons for override. In any situation where the respective manager may be perceived, even indirectly, to have a personal or conflicting interest in the matter’s outcome, a secondary level of written approval should be obtained from his / her immediate supervisor.

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
				<p>Management should implement a formal Conflict of Interest policy and require annual signed agreement of compliance by all employees, including the full disclosure of any potential conflicts.</p>
	Individual Program Related			
	Single Family Home Buyer Down Payment Assistance			
	<p>We obtained reports from the database of Homebuyer provided assistance and identified some potential discrepancies which may warrant further analysis by HCDD for potential recoveries, including:</p> <ul style="list-style-type: none"> ➤ the same named homebuyer(s) obtained assistance on two homes within the same zip code; ➤ in one instance the records detail 2002 New Home / Subdivision Assistance totaling \$477k for six homes, two with same named homebuyers (and a third for buyers with same family name) and implying homeowners received approximately \$80k each in funding; ➤ duplicated entries to the same person(s) on different dates, which may represent data errors or duplicated requests which the Department may have paid twice. 	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department, and any agencies to which it out-sources the approval of such services, should each check all applicants against shared database(s) of individuals and addresses receiving assistance for eligibility and prior receipt before approving the provision of any assistance.</p> <p>Any identified or repeat offenders should be recorded in a separate list disseminated to all potential approvers for possible exclusion from any further or future funding or use by the Department.</p> <p>Management should review all duplicated records for potential overpayments and related recovery from appropriate party/parties.</p>
	Single Family Home Repairs			
	<p>There was no central comparative analysis by Department personnel of the homeowners / locations and assistance provided by the several outside agencies providing home repairs, and specifically for potential duplicated or over limit</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>Management should run regular, at least monthly, reports of any work or assistance performed on its behalf by outside parties, including sub-recipient type entities, and of related</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>services.</p> <p>We requested some summary reports to be run on data captured in the Department's related Home Repair Database. We identified several instances, which may warrant further analysis by the Department for potential recoveries; these include</p> <ul style="list-style-type: none"> ➤ Homeowners who obtained multiple assistance - usually from different agencies - within same five year period; ➤ Some individuals who appear to have received assistance on more than one home (based on identical names) – supported by anecdotal information of at least one owner who tried to obtain assistance on multiple homes; ➤ Individuals who received duplicate payments on same property from same agency – without researching actual files it is not clear if these are data capture / entry errors or duplicated payments, and if duplicated payments or reimbursement requests, if HCDD paid the agency twice for same work. 			<p>reimbursement claims. Management should review such reports for potential anomalies, including:</p> <ul style="list-style-type: none"> spending amounts – especially round figures equal or close to dollar caps, duplicated service provision or expense claims, multiple or duplicated entries for same owner or property, multiple claims within an allowable period, similar assistance to same parties from multiple sources.
<p>There does not appear to be any process for identifying (and preventing) homeowners from</p> <ul style="list-style-type: none"> ➤ Obtaining down payment assistance on a “primary residence” but then leasing it out, especially if the owner returns the annual verification requests sent by certified mail to that house ➤ Obtaining emergency or especially rehabilitation repairs to one house, then (selling or renting out that house and) obtaining repairs to additional house(s) held out as being their primary home 	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The department, and any agencies to which it out-sources the approval of such services, should each check all applicants against its database of individuals and addresses receiving assistance before approving the provision of any repair. Any identified or repeat offenders should be recorded in a separate list disseminated to all potential approvers.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p><u>Background:</u> The Department’s Home Rehabilitation and Repair Programs appear to have been closed twice in the last decade – by the City in 1996 and by HUD in 2003 for ostensibly the same primary reason – inadequate program management, control and oversight. However, Management continued to resurrect and run such programs, which were also funded by a changing succession of CDBG, Bond, HOME, and most recently TIRZ funds.</p> <p>The home repair program appears to have survived these shut-downs through a succession of iterations over the last decade in which the parties managing and providing the day-to-day program services and the categories of services identified for tracking purposes have changed, but the key department oversight activities and personnel remain fairly constant.</p> <p>We spoke with several people familiar with the program but received somewhat contradictory accounts of activities performed by the Department in the period 1996-2003 and which proved difficult to verify independently from such limited supporting documentation as is available (as documented in the following section of this table, below).</p> <p>In the mid 1990’s the then Mayor’s office closed the Department’s in-house Single Family Home Rehabilitation program. Its objectives were then rolled into the smaller contemporary Emergency Home Repair program and the execution of day-today operational responsibilities was outsourced</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>See recommendations immediately below.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>from approximately 1996 to four separate agencies. Until closed by HUD in 2003, the Department's wider ranging first-come first-served Rehabilitation Program was essentially operating under the guises of an Emergency Repair one, even though (HUD) funding sources used specified strict criteria for Emergency Repair.</p> <p>We learned that, from the late 1990's to approximately 2001-2002, the program's sole inspector would visit and inspect a sample of repaired homes selected from agency reimbursement requests. Allegedly the work reviewed was often poorly done, incomplete, even overpriced. In many cases the inspector returned with a punch list, which was provided to the agency for the contractor to complete, but the department did not necessarily re-inspect it prior to approval of agencies' related requests for reimbursement. The Department received - and passed to the section for resolution - an apparently increasing number of homeowners complaints both directly and via council members, congressional representatives and later via HUD.</p> <p>At some point in the early 2000's the department appears to have discontinued inspections of properties based on reimbursement requests, but continued to visit sites based on (rising) complaints, until these visits were also stopped around 2002-2003.</p> <p>During the period from mid-1990's to approximately Fiscal 2004, the section's goals - the number of people assisted and permissible per person expenses and total overall costs - expanded</p>			

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>considerably as part of publicized City of Houston goals for the Department as whole.</p> <p>However, there was no corresponding increase in section staffing or level of oversight and control performed by either section or department management and personnel either to accommodate the increased targets or in response to increasing indications of work that was sub-standard or not performed / overcharged by contractors and then re-billed by the sub-recipient agencies.</p> <p>These decisions to reduce rather than increase the magnitude of monitoring were consistently attributed to directives from section and/or department level management. These actions appear consistent with a generally pervasive attitude, which we noted, in the Department as a whole and amongst senior management in particular, to ignore or consciously suppress any news of poor performance that might reflect badly on related management or the Department.</p>			
<p><u>Review of Source Documentation:</u></p> <p>We attempted to review supporting documentation of repairs and of complaints from the period, but identified very limited documentation, which was also widely dispersed:</p> <p>Within the section we located inspection binders for only three years: 2000, 2001, 2002. The 2002 binder documented only 65 on-site inspection visits in the year performed by the sole in-house inspector</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department, and any agencies to which it out-sources the approval of such services, should each check all applicants against shared database(s) of individuals and addresses receiving assistance before approving the provision of any repair.</p> <p>Any identified or repeat offenders should be recorded in a separate list disseminated to all potential approvers for possible exclusion from any further or future funding or use by the Department.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>and which seemed to be primarily in response to customer complaints; the 2000 and 2001 activity levels are similar.</p> <p>We located approximately 260 further files in the inspector's own locked file cabinet which cover inspections from 1999-2004.</p> <p>These represent 10%-20% of total repairs performed by NAMC, HAUL and (through 2001, when its director allegedly withdrew from program owing to difficulty of working with HCDD program management) Sheltering Arms in the period which rose from a few hundred per year to several hundred (with target of 1,000).</p> <p>Combined, the two sets of inspection Field Reports, which we located, would indicate an average inspection rate of approximate only two properties per week during this several years period.</p> <p>According to the HCDD inspector, many repairs only necessitated visits of short duration. Many Field Reports contained only a short 1-5 lines handwritten summary. A dozen or so had notations that inspector could not obtain access or that contractor had not commenced work yet. There is no evidence in a file that a follow up visit is ever made.</p> <p>Some 20 of the second batch (of 260) files containing Filed Reports</p>			<p>Management should secure all loans to home owners or single family home repairs in excess of a de minimus threshold via promptly executed liens.</p> <p>An aged report of all (multi-family, single-family, economic development, etc.) loans should be generated on at least a quarterly if not (ideally) a monthly basis. Management should institute formal policies and procedures to pursue collection of aged and non-performing loans, including work-outs and foreclosure as appropriate.</p> <p>Management should compile a "real time" list of all active projects, agencies, properties etc. that are subject to periodic compliance reviews and, on at least a quarterly basis ensure that all requisite reviews and visits required in the current calendar / fiscal year have been performed or are scheduled with the necessary resources assigned. These reviews should verify continuous owner occupancy of all single family housing benefiting from any Department funding and ensure that such funding is spent in accordance with the loan and/or funding program terms.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>represent specific requests by the section manager, some to verify expense reimbursement requests; a few are requests for assistance by agency inspectors. The majority is in response to customer complaints -often dated several months after work was “completed”. At least half to three quarters of HCDD inspector’s Field Reports contain notation of “deficiencies” (and in work signed off on by the agency’s inspector) i.e. work not done, unacceptable workmanship, overcharges, sites not returned to original condition – even though many files contain copies of Certifications of Completion and Acceptance signed by the homeowner, contractor and especially agency’s own inspector that work was fully completed. (The value of the homeowner’s signature should probably be discounted as we understand that allegedly many may be less sophisticated consumers and were also pressured into signing, including by promises that contractors would return to fix outstanding items).</p> <p>The initial 100 or so re-inspections performed - by outside inspectors in 2004-2005 and at HUD’s direction - of repairs done and charged by the three agencies, support a scenario of poor quality, incomplete and overcharged work.</p> <p>We further understand that the manager of the Department’s Home Repair Program would rely on the above documentation, from and approved by agencies, as sufficient evidence of completion to approve their reimbursement payments (despite magnitude of findings of HCDD’s own</p>			

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>inspections to the contrary). We noted several files with deficiency lists that had a photocopy of later dated “Completion of Warranty Item and/or Punch List Items” sheet signed by contractor, homeowner and agency inspector; there is no evidence that HCDD re-inspected any of these properties.</p> <p>In reviewing 21 files documenting inspections of work done in 2002-2003 by HAUL, we noted a particularly unusual cost phenomenon: although the underlying individual repairs varied considerably in nature, over half were for exactly \$7,500 (the maximum permissible that HAUL could approve under minor repair program), two were for \$5,000 (which was the limit through 2001-2002) and four were for odd sums in \$7,200-\$7,400 range.</p> <p>We also noted that several files contained photocopies of contractor invoices and NAMC and HAUL checks that were issued promptly by them to contractors within only days of agency inspector’s acceptance. Combined with evidence noted on unfinished work, this would seem to indicate more focus by agencies and contractors on cash flow i.e. reimbursement, than on repairs themselves (Note: there is no evidence when these checks were actually mailed or cashed; we understand that the Department received complaints from some contractors that a specific agency did not pay them). One contractor even issued a regulatory completion certificate and invoiced HAUL in February, just prior to expiration of City of Houston permit, but some two</p>			

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>months prior to agency inspector's and homeowner's signed off Certificate of Completeness.</p> <p>We did notice that a number of files also contain copies of a short environmental check off list completed at time by the respective agency's personnel.</p> <p>We received conflicting and contradictory explanations why the available documentation is so sparse (including non retention of documents, some allegedly destroyed at management's instructions). We understand that some inspection reports and files of customer complaints may have been lost rather archived; some when part of the section's personnel physically relocated within the building and others when their storage boxes were apparently deemed by a past Director to constitute a fire hazard.</p> <p>A further anomaly is that all complaints investigated pertained to only the three Agencies to which HCDD directly assigned work; we found only four inspections of work done by PSI (which worked on repairs it received directly from the owners). We understand that management specifically instructed personnel not to inspect work done by PSI contractors. PSI was engaged by HCDD through HHFC. We also received no explanation why PSI's work and related files were overlooked by management when responding to HUD's 2003 Findings related to the Program and not provided to HUD inspector for purposes of re-inspection.</p>			
<p>Single Family Home Improvement / Rehabilitation</p>			

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
Loans			
<p>Several years ago the Department provided loans to Homeowners in specific neighborhoods to enable them to rehabilitate their owner occupied single-family housing up to a standard compliant with (the City) code.</p> <p>From at least 1998 through 2002, no action appears to have been taken to collect payments on loans totaling approximately \$890,000 dollars. Many matured during that period and were in default. The outstanding balance was virtually halved between 2003 and 2004 when a newly hired administration assistant in Loan Servicing proactively sent out default and request letters to an initial group of defaulting borrowers, threatening to foreclose. Over 30 loans totaling \$440,000 in principal and a further \$140,000 of accrued interest are still delinquent. (A further \$130,000 in loans was made in 2004-2005.)</p> <p>We understand that although the original loan program conditions stipulated owner occupancy, at least one "Homeowner" obtained loans on three separate houses which have apparently been used for rental purposes and on which no payments have been made. Another Homeowner received two separate loans on the same property on the same date. Although the Department supposedly has (usually first) liens on all properties, we understand that some properties may have been titled in other than the owner's name (i.e. a business) or that title was possibly transferred immediately after closing and prior to the lien being filed.</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department, and any agencies to which it out-sources the approval of such services, should each check all applicants against shared database(s) of individuals and addresses receiving assistance before approving the provision of any repair.</p> <p>Any identified or repeat offenders should be recorded in a separate list disseminated to all potential approvers for possible exclusion from any further or future funding or use by the Department.</p> <p>All loans to single family home owners should be secured by promptly executed liens.</p> <p>An aged report of all (multi-family, single-family, economic development, etc.) loans should be generated on at least a quarterly if not (ideally) a monthly basis. Management should institute formal policies and procedures to pursue collection of aged and non-performing loans, including work-outs and foreclosure as appropriate.</p> <p>Management should compile a "real time" list of all active projects subject to periodic compliance reviews and, on at least a quarterly basis ensure that all requisite reviews and visits required in the current calendar / fiscal year have been performed or are scheduled with the necessary resources assigned. These reviews should verify</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>There is also no indication that any (regular periodic) site visits have been conducted to verify either the borrower’s continuing ownership and occupancy, or that the funds loaned have in fact been spent as intended to improve the subject property to the prescribed standards.</p> <p>There is currently no formal process to ensure that any related past or current annual regulatory filings have been performed and by due dates; as of February 16, 2005, the 2004 Form 1098’s for recipients of these single family loans had not been typed and mailed out.</p>			<p>continuous owner occupancy of all single family housing benefiting from any Department funding and ensure that such funding is spent in accordance with the loan and funding terms.</p>
	<p>HOPWA</p>			
	<p>Until recently, reimbursement requests submitted by Agencies were historically reviewed at the higher category level, not the more detailed individual line item level, allowing potential line item overruns to be overlooked, approved and paid. We understand that when category budgets were reached, Section management would also approve reallocation of budgeted funds from other categories to cover overspends. Such practices may not identify true causes of overspends by agencies nor prevent such overspends in future.</p> <p>We noted that personnel responsible for reviewing reimbursement requests would reject disallowable items and that Financial Services also performs a secondary review. However, we also identified instances where the section management personally overrode such controls to obtain payment for unsubstantiated expenses claimed by a specific agency.</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>All overrides by Management should be clearly and separately documented, including reasons for override. In any situation where the respective manager may be perceived, even indirectly, to have a personal or conflicting interest in the matter’s outcome, a secondary level of written approval should be obtained from his / her immediate supervisor. (Such documentation should be readily available for any periodic review by Monitoring & Compliance, Management and appropriate third parties).</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
Multi-Family Construction / Rehabilitation			
Several different functional sections are involved on Multi-Family projects. There is no one single "Project Manager" assigned to oversee each Multi-Family project related to ensure that all requisite activities are coordinated and performed.	Policies & Procedures, Program Management, Program Monitoring	Moderate	See Project Evaluation Team recommendation.
<p>We reviewed (the sole and apparently only recently compiled) in-house report of annual HQS visits – as performed by the sole in-house inspector. During 2004, he inspected 30 of 59 properties that receive HOME, CDBG or HOPWA funds; 9 of the 59 were last inspected in 2003 and a further 11 are not shown as inspected since 2002 or earlier. 18 or 60% of the 2004 inspections are recorded as performed in a concentrated period from August 4-16, 2004 (which coincidentally overlaps with HUD's visit).</p> <p>A further 12 properties subject to HQS compliance reviews (2 have no data associated with them in the report) were funded with TIRZ and Bond funds; none were inspected in 2004, 7 in 2003.</p> <p>Approximately half of the properties shown as subject to annual HQS compliance reviews, have not been inspected in the last 14 months and have no inspection date scheduled in 2005.</p> <p>Many properties were notated as having "violations cited" but with no prompt follow up visit slated or performed. Although dates in early January 2005 were noted on the report (for planned re-inspections) of several such properties "cited" when last inspected in July - August 2004, we learned that</p>	Policies & Procedures, Program Management, Program Monitoring	High	<p>See recommendations for formal schedule and plan of all entities subject to regular or continuing periodic reviews.</p> <p>See recommendations for Project Evaluation Team, including requirement that all recipients of funding be apprised of and confirm agreement to all funding related conditions. Ensure that conditions include immediate access by Department personnel or assigned representatives to all properties for any and all inspection or compliance review purposes.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>these re-inspection visits did not occur.</p> <p>The annual review does not include any verification of which units are specifically designated as low or moderate income. Since only a sample of units are inspected - and most properties' affordable units "float" - the risk exists that few or even no affordable units may be included in the sample inspected.</p> <p>Although the inspector notifies the property management of his visit, he often has to return multiple times or to limit his sample size owing to difficulties in obtaining tenants' permission to enter their units. However such access permission is supposed to be a condition of the lease agreements such (affordable unit) tenants sign with the property owner/manager. (We have not reviewed any leases to verify existence or not of such clauses).</p>			
<p>There is very limited developer or general contractor qualification by the department. There is no evidence of sub-contractor qualification, which is generally left to either the general contractor or administrating agency.</p> <p>As a result the department may not identify on a timely basis any sub-contractors who are on debarred listings, consistently perform unsatisfactory work, or generate high homeowner complaints.</p> <p>Contractor compliance is only performed in-house on specific properties - Multi-Family projects funded by HOME or CDBG funds and subject to Davis-Bacon – and this primarily extends to just checking if Contractors are on</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department should establish related policies and procedures.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>HUD’s list of disbarred ones. This and other regulatory compliance (e.g. MWDBE, is not performed on projects below (12 or 8 units respectively) thresholds or single-family repairs / construction.</p> <p>Although owners’ (including board of directors of non profit agencies) backgrounds are checked for non payment of city taxes, their status and history on prior and existing loans with the Department are not checked when they submit additional projects for consideration. We learned of one owner who made current the overdue / delinquent balances on several existing loans immediately before the city processed application for a new project (allegedly using an advance from owners of developer fees which he was to receive from it).</p>			
<p>There is infrequent follow up of aging loan balances or missing financial documentation which Multi-Family Housing developers were contractually obliged to submit. Attempts by Loan Servicing personnel to send out appropriate request letters were sometimes denied by management. Although not documented anywhere, the deputy director mistakenly believed that Department “policy” was to forgive delinquent payments, especially when supported by negative cash flow statements – until shown standard contract terms to exact contrary. Cash flow statements were taken at face value; no audits were performed by the Department, even of one project whose contract specifically allowed such forgiveness and which consistently had unusually large negative cash flows.</p>	<p>Policies & Procedures, Program Management</p>	<p>High</p>	<p>The Department should establish related policies and procedures.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>The Department and its Loan Servicing has generally not actively pursued payment and collection of overdue loans, issued default letters, or sought judgment against the related borrowers, on an estimated \$100 million plus of affordable housing and economic development related financing provided by the Department using Federal and City of Houston funds.</p> <p>From 1998 until late 2001 / early 2002 when two Loan Servicing employees were hired no action was taken to either reconcile loan balances or pursue collection of overdue payments. The Loan Administration system balances they inherited are considered inaccurate and unreliable. These two individuals are still validating account balances in preparation for collection attempts. The primary system of record is Excel spreadsheets which they maintain.</p>	Policies & Procedures, Program Management, Program Monitoring	High	The Department should establish related policies and procedures.
	No reconciliation is performed between sub-ledger and General Ledger (City books).	Policies & Procedures	High	The Department should establish related policies and procedures.
	<p>Although they are required to do so by loan agreement, some owners do not send net cash flow reports to Loan Servicing, even though claiming negative cash flow as grounds for not paying. Therefore Loan Servicing has no way to know if the owner could have made payments.</p> <p>The statements of negative cash flow, which the department does receive, vary in quality and are not generally signed by the organization's officers nor independently audited. Several indicate such large magnitude of continuously negative cash flow (some apparently for several</p>	Policies & Procedures, Program Management, Program Monitoring	High	The Department should establish related policies and procedures.

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>years) that they call into question the entity's financial and commercial viability. Loan Servicing is not authorized to audit net cash flow reports to ensure validity.</p> <p>There is no indication that the department performs any post-mortem comparison of project's actual costs and cash flows compared to the original (application) budget and on which funding may have been based, not even for repeat recipients of funding.</p>			
	<p>There is no monitoring of whether or not the property is in a flood zone and therefore needs flood insurance, nor is any group identified as (responsible for) updating any existing insurance certificates upon, or prior to, their expiration.</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>Moderate</p>	<p>Loan origination should obtain the original certificate as outlined exactly in the Agreement. The Inter-creditor Agreement should provide the City the right to check the first lien note balance as well as proof of insurance and taxes.</p>
	<p>Although owners are required to submit annual projected operating budgets in November for each loan agreement, Loan Servicing has difficulty in (enforcing) receipt of these from owners.</p>	<p>Policies & Procedures, Program Management</p>	<p>Moderate</p>	<p>The Department should establish related policies and procedures.</p>
	<p>The City is not monitoring replacement reserves on a project, including to ensure that the owner is not using this as a way to delay payments to lien holder.</p>	<p>Policies & Procedures, Program Management</p>	<p>High</p>	<p>Management should consider reviewing it on at least an annual basis</p>
	<p>As of February 16, 2005, the 2004 Form 1098's for recipients of single family loans had not been typed and mailed out. The IRS will penalize the City for each day this is delayed (late) after January 31st.</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department should establish related policies and procedures to ensure timely compliance with regulatory filings.</p>
	<p>Although the department is supposed to participate in construction savings on certain projects, no one appears to be assigned responsibility for monitoring and collecting such data. We learned that some</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department should establish related policies and procedures.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>developers may have obtained (drawn down) full loan amounts even though they did not incur the full related construction costs budgeted.</p>			
	<p>Several executed legal documents reviewed (primarily loan agreements and notes) contained internal inconsistencies and inaccuracies, which could potentially result in their being unenforceable. These ambiguities also create servicing logistical issues. E.g. the number of units was incorrect (or missing); a key section – Section 24 – was missing from all executed copies of one agreement, including Legal’s copy; the first payment due date was placed within the moratorium period (during which period it is specifically stated that no interest or payments are due).</p>	<p>Policies & Procedures, Program Management</p>	<p>High</p>	<p>The Department should ensure that the final versions of all legal documents are reviewed and signed off by the City of Houston Legal Department and the Department’s in-house attorney prior to execution.</p>
	<p>In one instance the owner did not fully draw all funds until after amortization calculation had been performed (using balance drawn to date). In order to rectify an incorrect amortization schedule, a former deputy director arbitrarily changed the interest rate to a blended rate without either modifying the loan agreement or obtaining city council approval.</p>	<p>Policies & Procedures, Program Management, Program Monitoring</p>	<p>High</p>	<p>The Department should establish related policies and procedures.</p>
	<p>Monitoring & Evaluation</p>			
	<p>We compiled a matrix by recipient type entity (agency, project, etc.) and visits / reports by the section for the last several Fiscal years. The matrix revealed that most entities’ activities are monitored on an irregular and infrequent basis, and not annually, even though some are supposed to be subject to annual reviews by the Department or for regulatory purposes. Management’s annual lists provided both the date of the visit and of the subsequent report; we noted that there was often a</p>	<p>Program Management, Program Monitoring</p>	<p>High</p>	<p>A separate independent Monitoring & Compliance unit should be established.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>considerable time gap between the two dates of several months, reducing the timeliness and value of the report for control purposes.</p> <p>We also selected a sample of approximately ten entities for which we requested copies of any reports – issued and draft – of any reviews conducted by the section in Fiscal years 1999 – 2005. We noted several potential anomalies:</p> <p>There is often a lack of consistency between successive reports on the same entity, which suggests that earlier data and findings may not be taken into consideration:</p> <ul style="list-style-type: none"> ▪ A number of entities’ reports included findings and concerns. However the next visit and report – which frequently was not until two or more years later – had no such findings, but did not address the disposition of the earlier report’s issues. ▪ There were several inconsistencies within and between successive reports <ul style="list-style-type: none"> ○ The background data on the underlying contracts and amendments varied both as to dates and even magnitude of work (numbers of personnel assisted) performed by the agency ○ The financial data provided as last page in report often did not correspond to period being reviewed or values shown earlier in document <p>The two reports on HHFC/PSI relating to its Emergency Home Repair contract, dated 3/22/2001</p>			

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	<p>Historically, there has been no formal sign-out procedure or requirement when personnel borrow files or records from other areas (other than Central Files).</p> <p>On several occasions team members were able to move unchallenged between floors and within sections, with open access to temporarily vacated offices and common work. Areas.</p>		<p>High</p> <p>Moderate</p>	<p>that section or even from individual responsible for its safekeeping.</p>
	<p>We noted that several employees had provided their personal log on ID and password to other personnel – generally their immediate manager – who then used their computer, both in their presence and absence, to access and update records.</p> <p>We also noted that several people often had access to the same file(s) and that no version control (or electronic edit capture) practices were in place to detect or control changes.</p> <p>The risk exists that accidental as well as unauthorized changes may be made to electronic files that may not be readily detected.</p> <p>E.g. during our review of Multi-Family Loan files we noted that some values in a Loan Servicing spreadsheet had inexplicably changed. This was traced by the primary compiler / owner of spreadsheet to the formula in a specific cell e.g. for one a principal / interest split for a payment back in 1999 which was previously correct on a recently printed hardcopy. The nature of the formula and internal change thereto would indicate that the formula or change was entered manually and not by compiler’s usual “cut and paste” practice. We</p>	<p>Improve Documentation Controls</p>	<p>Moderate</p>	<p>Management should issue and require compliance with policy that log on IDs and passwords are not shared between employees including with their management.</p> <p>In addition, access to mission critical systems of record e.g. loan servicing spreadsheets should be restricted to a single responsible owner. Any changes, even manager initiated, should only be input into the master by that owner. All other personnel should work off a copy suitably identified as a copy.</p> <p>Secure back up copies should be maintained in a separate physical location of all critical spreadsheets.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>understand this is not first time these “changes” have occurred.</p>			
<p><i>Existence / Completeness / Accuracy</i></p>			
<p>Owing to workflow being widely dispersed throughout the Department, documentation for a specific project is created and maintained by diverse groups and captured in their respective files.</p> <p>Information, which HUD may expect to find in a master file (and therefore possibly did not locate on recent visits), may in fact be maintained in files retained within individual sections, e.g. the Contractor Clearance Form, maintained by Contract Compliance for HOME and CDBG funded projects subject to Davis-Bacon).</p> <p>Conversely, such documentation may not exist in Department files or may not even be generated for all projects, e.g. on projects below the David-Bacon threshold – 8 units for CDBG, 12 units for HOME – or various projects handled by outside agencies.</p> <p>Historically, localized file retention appears to be driven by combination of the magnitude of data which that section accumulates (and may need to refer to on a regular basis during project execution), concern that file data might be lost, the perceived internal “control” value of (undistributed) information, and potentially (anecdotally on numerous occasions) desire to suppress or contain knowledge of any potential issues or conflicts.</p>	<p>Improve Documentation Controls</p>	<p>High</p>	<p>A checklist should be created and maintained in a Master File for each individual Project within Central Records including such details as status and location of all critical documentation required.</p> <p>Ideally this should be in an electronic format within a database file allowing all relevant parties throughout the Department to enter current status for their area (on some mandatory, regular basis e.g. monthly). In addition the file should contain a checklist of all documentation which HUD and other regulatory bodies require to be maintained with notation of latest version and where physically filed. Wherever possible, a scanned copy of these documents should also be kept in the electronic file.</p> <p>The dedicated Project Manger or Application / Project Coordinator for each project should be responsible for ensuring that checklist is kept current and completed on a timely basis.</p> <p>This file will allow management or regulatory inspectors to readily generate and review reports of documents on hand and their location for any given project and quantify the existence of specific documentation across categories (programs,</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
				<p>department, etc.)</p> <p>The physical Master File should contain a hard copy of such a checklist if an electronic version is unavailable.</p> <p>Management should consider limiting who may physically (sign for and) remove a Master File from Records.</p> <p>Section management should evaluate which working files may be centrally filed in between reviews for projects subject to such annual reviews.</p>
	<p>The Loan Administrator (system of record) cannot be relied upon to be correct; the primary records are therefore spreadsheets generated by Loan Servicing. (Once these Loan Servicing payment spreadsheets have been independently verified, the information should be updated in the new Loan Based system. The department has had this system for several years but it is still not fully activated.)</p>	<p>Improve Documentation Controls</p>	<p>Moderate</p>	<p>The Department should establish a reliable standard system of record.</p>
	<p>The Department utilizes several different Financial Accounting and Information Systems. The Department has four people shown as reconciling its financial data to HUD's (they also have other daily duties). Differences are attributable to different accounting methodologies used by HCDD and HUD (modified accrual versus cash) compounded by incorrect legacy opening balance entries and when past projects were closed. Although the two were reconciled in June 2001 no confirmation was received from HUD and no permanent entries were made to true up respective records.</p>	<p>Improve Documentation Controls</p>	<p>Moderate</p>	<p>The Department should determine and establish the minimum standard systems of record necessary.</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>The Department's Project Management System is DOS based and can only be run on one old server.</p> <p>The Department does not have loan processing software, its historic Loan Administrator system contained legacy errors and the current primary System of Record for Multi-Family Loans is Excel spreadsheets, which several people could potentially access and change.</p>			
<p>Section 24 is referenced in the executed loan agreement for RRL0051 but those pages are missing. Legal has checked both its files and the Controller's files and has not been able to locate an executed contract, which contains the pages identified as missing in the department's copy of the contract (retained by Loan Servicing). Although Legal printed out copies of the missing pages from their latest version of the contract they cannot account for the discrepancy in format and pagination.</p>	<p>Improve Documentation Controls</p>	<p>High</p>	<p>The Department should ensure that the final versions of all legal documents are reviewed and signed off by the City of Houston Legal Department and the Department's in-house attorney prior to execution and that all executed copies are complete.</p>
<p>Most multi-family project loan files are incomplete and missing important documentation. Where such documentation is available, copies we reviewed often contain internal inconsistencies and inaccuracies, including in executed legal documents (despite preparation and/or review by the City of Houston's Legal Department and availability of a designated in-house attorney within Underwriting section). E.g. Loan agreements do not always agree with the Note.</p>	<p>Improve Documentation Controls</p>	<p>High</p>	<p>Management (including the assigned Application / Project Coordinator – see the <i>Project Evaluation Team recommendation</i>) should ensure that the final version of all legal documents is proofed and signed off on by the Department's in-house attorney and City of Houston's Legal Department prior to execution and recording.</p>
<p>Each loan's agreement appears to be unique, increasing risk of errors, if not inefficiencies, in loan administration and enforcement of terms.</p>	<p>Improve Documentation Controls</p>	<p>High</p>	<p>Management in conjunction with the City of Houston's Legal Department should review its loan agreement and other contractual documents to create a standardized</p>

Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
<p>The location of critical data within contracts needs to be more standardized, e.g. number of units. On one loan the number of units is in section 6.8 (as is usual), but there was an additional entry many pages later that altered the number. In a few agreements the number of units was not even mentioned. One agreement stated the number of units as 124 in the first paragraph but then changed it to 126 in the body of the agreement.</p> <p>The payment section of all contracts should be identify the type of repayment i.e. balloon payment, deferred loan payment, or forgivable. Although we understand that the designated affordable units in most, if not all, of the multifamily projects funded by the department are floating, neither this fact nor the numbers and locations of those specific units initially designated as affordable are usually reflected in the agreements.</p>			<p>version of each with consistent terms and conditions within and between these documents.</p> <p>Management (including the assigned Application / Project Coordinator – see the <i>Project Evaluation Team recommendation</i>) should ensure that the final version of all legal documents actually used on a specific project is proofed and signed off on by the Department’s in-house attorney and City of Houston’s Legal Department prior to execution and recording.</p>
<p>A risk exists that accidental, as well as unauthorized changes, may be made to electronic files that may not be readily detected. (i.e. during our review of Multi-Family Loan files we noted that some values in a Loan Servicing spreadsheet had inexplicably changed. This was traced by the primary compiler / owner of the spreadsheet to the formula in a specific cell (that calculated the principal / interest split for a payment back in 1999 and not recently touched). One of four correlated references in the formula had been changed, although the same reference was correct in the (same) formulae in immediately preceding and succeeding lines. We understand</p>	<p>Improve Documentation Controls</p>	<p>High</p>	<p>We recommend only two people from Loan Servicing being able to manipulate data and then being held accountable and others who have a need to know should have read only access.</p>

	Issues / Gaps Identified	Project	Magnitude	Remediation Suggestion
	this is not the first time this has occurred.)			
	<p>The Department’s inspectors performed some Home Repair inspections in response to complaints by Homeowners. Documentary evidence of such inspections was fragmented and dispersed.</p> <p>In one area we located three binders for 2000-2002, which contained documentation of individual on-site inspections performed by the sole in-house inspector. The 2002 file contained only 65 documented on-site property inspections for the year; the recorded 2000 and 2001 activity levels appeared similar. We subsequently identified additional inspection reports in individual file folders retained by the inspector and covering 1999 to 2002 and 2004.</p>	<p>Improve Documentation Controls</p>	<p>Moderate</p>	<p>Maintain and archive all documentation of inspection and other test work performed.</p>