



Development Services Agency Ohio Housing Trust Fund

Audit Period: July 2012 through March 2013

Results Summary:

Objective	Conclusion
Evaluate the design and effectiveness of controls over the awarding process	Well-Controlled with Improvement Needed
Evaluate the design and effectiveness of controls over the fund administration	Well-Controlled with Improvement Needed
Evaluate the design and effectiveness of controls over the monitoring process	Improvements Needed
Evaluate the design and effectiveness of controls over the annual reporting process	Well-Controlled

Report number: 2013-DSA-03

Issuance date: June 20, 2013



Executive Summary

Background

The Office of Community Development (Office) within the Ohio Development Services Agency (DSA) oversees the administration and allocation of the Ohio Housing Trust Fund (OHTF). The OHTF provides funding to nonprofit organizations, public housing authorities, private developers and lenders, local governments, and eligible applicants that are interested in increasing affordable housing opportunities, expanding housing services, and improving housing conditions for Ohio's low and moderate income residents. OHTF funds are allocated based on statute, as well as on recommendations made by 14 Governor-appointed representatives (Trust Fund Advisory Board). Revenue to the OHTF is primarily derived from county recorder fees, but may also include grants, contributions, and transfers from other sources. A portion of this fund is allocated in each fiscal year to the Ohio Housing Finance Agency (OHFA) for the Housing Development Assistance Program and associated administrative costs. The annual appropriation to the OHTF each year is \$53 million; the OHTF received approximately \$44 million in county recorder fees in state fiscal year 2012.

During the engagement, OIA identified opportunities for DSA to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DSA staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform assurance work related to the Ohio Housing Trust Fund. This work was completed between February and June 2013. The scope of this review included the awarding, administration, monitoring (including status and closeout reports as well as onsite reviews), and annual reporting processes for grants and loans to local entities during the period July 2012 through March 2013. OIA did not review the grants issued to the OHFA. The objectives of the review included the following:

- Evaluate the design and effectiveness of controls over the awarding process.
- Evaluate the design and effectiveness of controls over the fund administration.
- Evaluate the design and effectiveness of controls over the monitoring process.
- Evaluate the design and effectiveness of controls over the annual reporting process.



Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



Observation 1 – Untimely Closeouts

Grant monitoring is essential in determining whether grantees have implemented the program, achieved the objectives, and properly expended funds. An important aspect of grant monitoring and administration is timely and proper grant closeout because it is the final point of accountability for the grantee.

The following weaknesses were identified with the Office's OHTF status report and final performance report (FPR) grant monitoring tools during the period July 2012 through March 2013:

- The Office does not process FPRs timely which results in a significant delay in closeouts of OHTF grants. Based on the 94 FPRs the Office received from grantees during the period, it took an average of 323 (between 13 and 1,368) days to send the grantee a final grant closeout letter after receiving the FPR. The longest delays occurred during the program review phase of the Office's review of FPRs.
- It is the Office's policy to send notification letters to grantees that do not submit status reports and FPRs within 30 days from the time reports are printed. From a sample of ten FPRs tested, the Office did not receive three FPRs within 50 days after the reports were printed. The Office sent letters to three grantees; however, two of the three letters were sent two months after the FPRs were due. Additionally, the Office could not locate two of 13 status reports to determine if the Office received them timely or took appropriate action.
- Program managers do not document their review and approval of grantees' semi-annual status reports nor is there a mechanism in place to track the completion of status report reviews. The Office received over 200 status reports during the period.

Failure to closeout grants timely increases the risk the Office fails to timely detect grantees whom have not fully expended all grant funds or complied with all grant requirements, or ultimately, the possibility that non-complying grantees are awarded additional grants prior to closeout of past grants. Failure to timely send grantees notification of past due reports may contribute to closeout delays. Without documenting reviews and approvals of status reports, there is no evidence to demonstrate reviews are taking place, and the risk increases that reports are missed for review, which may increase the likelihood grantees do not expend grant funds or meet projected outcomes without timely detection.

Recommendation

The Office is currently in the process of developing and implementing a web-based system to receive status reports and FPRs from grantees. Continue development of this web-based system and consider designing and implementing a function to allow for automated reviews and



approvals of the reports, as well as a comments field to evidence when follow-up action is taken. Also, consider designing and implementing a function to automatically generate electronic late notices to grantees when the status reports or FPRs are not submitted within the designated timeframes.

The Office is also in the process of developing a risk-based assessment so that onsite monitoring may be limited to higher risk grantees and a simplified monitoring process may be utilized for lower risk grantees in order to aide in a timelier closeout process. Continue to develop and implement this risk-based grantee monitoring assessment.

In the short term, develop and implement a policy over the status report review process. The policy should include, but not be limited to, provisions for documenting review and acceptance of the reports. Instances when grantees are contacted to provide explanations or to submit corrected status reports should also be documented. Section supervisors should perform a periodic review of status reports to verify the reports are being reviewed timely and follow-up with grantees is conducted, as necessary, and to ensure there is consistency in the review process.

Management Response

The upcoming move to an online grants management system will facilitate a smoother closeout workflow, minimize redundant data entry, and enable improved management tracking of process statuses and issues. In the short-term, management will take the following steps to remediate the identified concerns:

- In order to improve tracking of the disposition of FPRs that have been distributed to Program Representatives for review, a new report has been created for use by management. This report will display the FPRs that have been received from the grantee, processed by fiscal, and distributed to the Program Representative for review. The report will be reviewed at weekly management meetings to highlight ongoing issues. It will be the responsibility of the individual Section Supervisors to address the delays with the Program Representative.
- The Program Representative will review the status report and address any issues or concerns with the grantee or management. In order to more thoroughly document this review and subsequent actions, the Program Representative will now be responsible for initialing and dating the Status Report signifying that they have reviewed the report. The initialed report will be filed in the associated grant's monitoring folder along with any associated documentation of the remediation of issues raised by the contents of the report. The contents of the monitoring folder are reviewed by the Section Supervisor when a Monitoring Report is issued to the grantee. At this time, the Section Supervisor will be responsible for checking a sample of the status reports to ensure the appropriate review is occurring by the Program Representative.



Risk*	Remediation Owner	Estimated Completion Date
Moderate	Deputy Chief of Office of Community Development	July 2013

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observation and recommendations suggested above. However, this observation reflects our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee