

**Internal Audit Report 16-06**  
**Affordable Housing Internal Controls**  
**November 2016**



City of Sioux Falls  
Internal Audit Department  
Carnegie Town Hall  
235 W. 10<sup>th</sup> Street  
Sioux Falls, SD 57117-7402  
[www.siouxfalls.org/council/internal-audit](http://www.siouxfalls.org/council/internal-audit)

## **AFFORDABLE HOUSING INTERNAL CONTROLS INTERNAL AUDIT REPORT 16-06**

### **INTRODUCTION**

Community Development's Affordable Housing Division provides funding to various programs and projects including Single-Family Housing Rehabilitation, Furnace Replacement, Rental Rehabilitation Loans, Emergency Mobile Home Repair, Homebuyers Assistance, and Neighborhood Revitalization. Funding for these activities is provided by the federal Community Development Block Grant (CBDG) program, the federal Home Investment Partnerships (HOME) program, City of Sioux Falls General Funds, community partners, and department resources.

### **BACKGROUND**

The Single-Family Housing Rehabilitation program provides financial assistance to low- and moderate-income homeowners to maintain their properties in a decent, safe, and sanitary condition.

Furnace Replacement provides financial assistance to low- and moderate-income homeowners for replacement of older inefficient heating systems

Rental Rehabilitation Loan Program provides loans to owners of rental property in select core neighborhoods. Funds are used to improve exterior appearance to help revitalize and improve these eligible neighborhoods.

Emergency Mobile Home Repair provides financial assistance to low- and moderate-income owners to maintain their mobile homes in a decent, safe, and sanitary condition.

Homebuyers Assistance Program provides low- and moderate-income households assistance with the down payment and closing costs associated with the purchase of a property located within the designated program area.

Neighborhood Revitalization (Affordable Housing Solutions) acquires properties contributing to neighborhood deterioration. After acquisition, the existing structures are either demolished with new housing constructed on the site or rehabilitated consistent with applicable codes. Each completed housing unit is then sold or leased to a household who meets certain income guidelines.

### 2015 Program Results

	<b>Projects Underway in 2015</b>	<b>Projects Completed in 2015</b>	<b>Projects that will continue into 2016</b>	<b>Dollars Expended</b>
Single-Family Housing Rehabilitation	70	50	20	\$501,107
Furnace Replacement	39	35	4	93,734
Rental Rehabilitation Loan Program	17	16	1	69,404
Emergency Mobile Home Repair	12	12	0	28,733
Homebuyers Assistance Program	9	9	0	38,403

	<b>Properties in the program</b>	<b>Properties Completed in 2015</b>	<b>Properties Acquired in 2015</b>	<b>Dollars Expended</b>
Neighborhood Revitalization	25	8	4	\$599,030

Financial assistance and deferred loans for the various programs are facilitated by the City of Sioux Falls Community Development Department. Loan disbursement requests and checks are prepared by Affordable Housing staff. Single Family Rehabilitation loans that are on a monthly repayment and are serviced directly by Wells Fargo bank. Payments are made directly to the bank and deposited into the Rehab Loan Escrow account. Loans are tracked in Cursor Control, a software specialized for Community Development Management, and journal entries are prepared and posted to Munis, the City's financial accounting software.

Federal funding is drawn down and reported through a nationwide database and information system, Integrated Disbursement and Information System (IDIS), via the Department of Housing and Urban Development (HUD) website.

## **OBJECTIVES**

The objectives of this audit were to:

1. Evaluate internal controls over the accounts payable process:
  - a. Verify that payments were made correctly, accurately accounted for, and properly supported,
  - b. Verify proper segregation of duties,
  - c. Verify accountability and proper authorization and approval of payments,
  - d. Evaluate compliance with policy, procedures, laws and regulations,
  - e. Assess the adequacy of the existing policies and procedures compared to leading practices.
2. Evaluate internal controls over the accounts receivable process:
  - a. Verify that receipts were correctly applied to customer accounts, accurately accounted for, and properly supported,
  - b. Verify proper segregation of duties,
  - c. Verify the accuracy and proper tracking of aged receivables and amounts due from grants as well as the reasonableness of the allowance for doubtful accounts,
  - d. Evaluate compliance with policy, procedures, laws and regulations,
  - e. Assess the adequacy of the existing policies and procedures compared to leading practices.
3. Evaluate internal controls over the drawdowns from IDIS:
  - a. Verify appropriate assignment of responsibility for approval of cash drawdowns,
  - b. Evaluate compliance with policy, procedures, laws, and regulations,
  - c. Review periodic independent evaluation of Federal draw down activities,
  - d. Assess the adequacy of the existing policies and procedures compared to OMB Uniform Guidance.

## **SCOPE AND METHODOLOGY**

The scope of this audit included a review of and internal controls as they are currently in place and functioning. We reviewed a sample of transactions between January 1, 2016 and June 30, 2016 to verify that transactions correctly flow through the internal control system.

## **RESULTS**

### **Internal Controls – Accounts Payable**

We tested a sample of expenditures representative of the population of individual checks written during the audit period. Each check was properly supported, contained proper signatures, and was made payable to both the client and the contractor or title company. We noted proper segregation of duties and management approval in line with current leading practices. Current procedures required dual signatures on all checks. However, there were multiple signors on the account that were unfamiliar with the nature of the expenditures. See Audit Recommendation 2 to update procedures and signatories.

### **Internal Controls – Accounts Receivable**

We reviewed program income received directly by Affordable Housing staff. Segregation of duties is in place and functioning as designed. Management approval is consistent with current leading practices and bank reconciliations are being prepared by the Finance department. We noted that the transactions entered into Cursor Control matched what was recorded in Munis and subsequently drawn down through IDIS.

Loans on monthly repayment are serviced directly by Wells Fargo and therefore cash is not handled by the Affordable Housing staff. The bank statements contain detailed payment information separating each client's payment. We reviewed two months of transactions noting that the payments shown on the bank statement matched what was entered into Munis, Cursor Control, and IDIS.

### **Internal Controls – Drawdowns**

We reviewed two months of draw down requests from IDIS noting that proper segregation was present between the request and approval of drawdowns. Drawdown requests were properly supported. Federal funding received for the Community Development programs is subject to periodic auditing by the Department of Housing and Urban Development and the annual Single Audit performed by the City's external auditors. We reviewed these audits and did not note any findings specific to the internal controls over Affordable Housing procedures.

## **RECOMMENDATIONS**

We made the following recommendation(s) that address the above referenced result(s).

- 1) In February 2016 Management documented their current procedures and internal controls. This formalized procedures as they were in place for the Accounts Payable, Accounts Receivable, and Drawdowns processes. Internal Audit would suggest modifying these written procedures to remove all employee names and replace those names with job titles. We would also suggest that the procedures be updated to include the following:
  - A written prohibition against writing checks to cash.
  - A written prohibition against writing checks in advance.
  - A requirement to periodically update signature authorizations.

***Management's Response:***

*We agree with modifying these written procedures to remove all employee names and replace those names with job titles. We would also suggest that the procedures be updated to include the suggestions from the audit.*

***Management Representative Responding:***

*Les Kinstad, Community Development Manager*

***Date of expected implementation:***

*January 31, 2017*

- 2) We recommended that Management update the current signature authorizations on the checking account. We suggested that the second signature for manual checks be updated to the Director of Community Development and that the City Clerks be removed as signatures on the account.

***Management's Response:***

*After consideration of all the factors bearing on proper internal controls for the signing of manual checks, management agreed on the following policy until electronic check signing is implemented. The Community Development Manager will sign all manual checks written by the Affordable Housing department with the Director of Community Development providing the second signature. The Public Parking Facilities Manager will act as a backup signor in their absence.*

***Management Representative Responding:***

*Les Kinstad, Community Development Manager*

***Date of expected implementation:***

*Implemented as of September 22, 2016*

## **CONCLUSION**

Internal controls are appropriate and functioning properly. The implementation of the above recommendations will strengthen controls further. We would like to thank management and staff for their cooperation and assistance during the audit.

## **AUTHORIZATION**

The Sioux Falls City Council approved this audit by resolution in January 2016 as part of the 2016 Annual Audit Program. The Internal Audit Division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

## **AUDIT STANDARDS**

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

## **STATEMENT OF INDEPENDENCE**

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

## **DISTRIBUTION OF REPORT**

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

## **PERFORMED BY**

Kimberly Schroeder, CIA  
Internal Auditor