

**BOARD OF SUPERVISORS
FINANCE/GOVERNMENT OPERATIONS AND
ECONOMIC DEVELOPMENT COMMITTEE
INFORMATION ITEM**

SUBJECT: Internal Audit/Affordable Dwelling Units and Housing Choice Vouchers Programs

ELECTION DISTRICT: Countywide

STAFF CONTACTS: John Sandy, Assistant County Administrator
Janet Romanchyk, Finance and Procurement
Penny Newquist, Finance and Procurement

PURPOSE: To present the results of CliftonLarsonAllen LLP's review of the County's Affordable Dwelling Units (ADU) and Housing Choice Vouchers (HCV) programs.

BACKGROUND: Loudoun County conducts miscellaneous internal audits of the County's internal controls and processes through CliftonLarsonAllen LLP (CLA), contract vendor, as directed by the Board of Supervisors' Finance/Government Operations and Economic Development Committee (FGOEDC). These are in addition to the County's annual financial audit and the audits conducted by the cash auditor position within the Treasurer's Office.

At the May 13, 2014 meeting, the former Finance/Government Services and Operations Committee (FGSOC) (as of January 1, 2016 reconstituted as the FSOEDC) approved the Audit Plan of internal audit projects for CLA. This information item presents the internal audit report for the Affordable Dwelling Unit (ADU) program and the Housing Choice Voucher (HCV) program.

The ADU program was established by County Ordinance in 1993 with the purpose of providing affordable housing in new residential development to persons of moderate income by promoting the development of a full range of housing choices and prices in new construction; and the continued existence of dwelling units through a covenant. ADU's are sold to qualified applicants with incomes between 30% and 70% of the Area Median Income. This program also facilitates the rental of units to qualified renters. An eleven member Affordable Dwelling Unit Advisory Board (ADUAB) is appointed by the Board of Supervisors as directed by Chapter 1450 of the County Code and provides leadership to this program. The ADUAB is tasked with setting below market prices for purchase and rental ADUs, working with the residential building industry to address unique pricing issues, and making modification recommendations to the Board.

The HCV program provides rental assistance to low-income families, including the elderly, and persons with disabilities to afford decent, safe, and sanitary housing in the private market through the use of Federal funds from the U.S. Department of Housing and Urban Development (HUD). The HCV program is administered locally by Public Housing Agencies. The Department of Family Services reviews documentation to determine eligibility, issues vouchers, and ensures compliance with local and federal regulations. To qualify for the HCV program the household income must not exceed 50 percent of the area median income. The average HCV household usually pays 30 to 40 percent of their monthly adjusted income for housing with the balance paid from the HCV program.

ISSUES: This item presents the auditor’s report, which includes the findings, their recommendations, and a management response from the County. The following table provides a summary of the report’s findings, recommendations, and County responses.

CLA Finding/Recommendation	Affordable Dwelling Units
1. Denial Letters – Purchases and Rentals	
<p>AUDIT FINDING:</p> <p>Out of 20 denied applications reviewed, six denial letters were not available and two denial letters were dated four months after the application date.</p> <p>In addition, the file copy denial letters were not signed by the ADU Housing Specialist.</p> <p>RECOMMENDATION:</p> <p>CLA recommends the County review and update the process for preparing denial letters.</p>	<p>COUNTY RESPONSE:</p> <p>The delayed denial letters for two clients were due to staff waiting on information from clients to complete the application for staff review.</p> <p>Files currently remain in a pending, or incomplete status indefinitely allowing the applicant ample time to complete the application.</p> <p>The ADU program will now adopt a 15 business day limit on submission of outstanding documentation.</p> <p>Clients will be advised that the application will be denied after 15 business days and the application will need to be resubmitted.</p> <p>Four clients requested “username” resets and were not actual loan applications.</p> <p>Two clients’ on-line application were never “certified” by the applicant, so staff never received an application to deny.</p> <p>To strengthen and clarify the procedures in these cases, the Department of Information Technology has updated the online application system to allow staff to “withdraw” an application instead of “deny” an application for username resets and applications not certified by the applicant.</p> <p>In addition, staff will now require a written request from all applicants requesting that their application be withdrawn.</p> <p>All files will also include a signed copy of the denial letter.</p>

	CLA Finding/Recommendation	Affordable Dwelling Units
2. Resale Files		
	<p>AUDIT FINDING: The supporting documentation CLA requested was provided; however the time and effort required to locate the documents was significant as they were obtained from multiple locations.</p> <p>Organized and centralized files could benefit the County by increasing efficiencies in determining the completeness of the file and during file review.</p> <p>RECOMMENDATION: We recommend the Department of Family Services review and update the procedures for filing ADU documents.</p>	<p>COUNTY RESPONSE: The files reviewed were resales which require the original purchase file to be pulled for verification.</p> <p>These files are stored in the County’s off-site archives filing location which date back to the first sales in 1995.</p> <p>When the Laserfiche process is complete, it will be easier and more efficient to access information electronically.</p> <p>To improve efficiency, staff has created a checklist order and process for entering the resale files into the Laserfiche system when a request to sell an ADU is initiated by and ADU owner.</p>

Housing Choice Voucher Program:

The Housing Choice Voucher program, funded through federal grants, has been included in the County’s Single Audit for FY 2013 and FY 2015, and a Financial Management Review conducted by HUD to verify that the HCV program funds have been expended in accordance with grant specifications. The HUD Financial Management Review Audit, dated March 16, 2015, included one finding and three concerns with a corrective action plan. The report did not identify any material exceptions.

CliftonLarsonAllen LLP verified that that all corrective actions identified within the HUD Financial Management Review report have been successfully completed. Based on the review of the HCV policies and procedures, a detailed walk-through of the HCV files, and review of previous audit reports, CLA has concluded that the internal control and compliance of the HCV program appear to be strong and operating effectively.

Both representatives from CLA and Department staff will be present to discuss their report and to answer questions.

ATTACHMENT:

1. CliftonLarsonAllen LLP Internal Audit Report
2. Internal Audit Plan 2017

**LOUDOUN COUNTY, VIRGINIA
Leesburg, VA**

**INTERNAL AUDIT REPORT
Affordable Dwelling Units and Housing Choice Vouchers**

April 27, 2016

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CliftonLarsonAllen LLP
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Loudoun County Board of Supervisors
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Leesburg, VA 20175

We have concluded our engagement to perform the procedures described in the attached document. These procedures, which were agreed to by Loudoun County, Virginia (the County), were applied solely to assist you in evaluating the internal controls of the Affordable Dwelling Unit (ADU) and Housing Choice Voucher (HCV) operations of the County. The management of the County is responsible for the operations and internal controls of the County. We performed this engagement in accordance with Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the management of the County. Consequently, we make no representations regarding the sufficiency of the procedures described in the attached document either for the purpose for which this report has been requested or for any other purpose.

We have included comments and suggestions resulting from the consulting engagement for the consideration of the County. For the ADU program, our procedures covered the processes for ADU purchase program, ADU rental program, the collection and disbursement of ADU funds, and communication/reporting of ADUs. Our testing was based on the County's listing of ADU applications, ADU served, trust fund disbursements, and county purchases with activity from July 1, 2015 through October 31, 2015, as well as a listing of the trust fund notes and loans receivable and ADU served as of October 31, 2015. For the HCV program our procedures included a detailed walkthrough of all processes as of March 2016 and a review of the corrective action plan resulting from a HUD audit in spring of 2015.

Our engagement to perform these procedures was conducted as an internal audit consulting services engagement. We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the operations or internal controls of the County. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Board of Supervisors and Management of the County and should not be used by others.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
April 27, 2016

**AFFORDABLE DWELLING UNIT PROGRAM
EXECUTIVE SUMMARY**

CliftonLarsonAllen LLP (CLA) completed an internal audit of the Loudoun County Affordable Dwelling Unit (ADU) Program and related processes at Loudoun County, Virginia (the County).

The purpose of this report is to provide findings and recommendations regarding this work. Our procedures covered the processes for the ADU purchase program, the ADU rental program, the collection and disbursement of ADU funds, and communication/reporting of the results of the ADU program to the advisory board. Our testing was based on the County's ADU applications, ADUs purchased, ADUs sold, and trust receipts and disbursements activity from July 1, 2015 through October 31, 2015, as well as the trust notes and loans receivable as of October 31, 2015.

This work was completed at the direction of the Loudoun County Board of Supervisors between November 2015 and March 2016.

The Affordable Dwelling Unit (ADU) Program was established by Ordinance in 1993 under the authority provided by Commonwealth enabling legislation with the purpose of providing affordable housing in new residential development to persons of moderate income by promoting the development of a full range of housing choices and prices in new construction and the continued existence of dwelling units through a covenant. "Affordable Dwelling Unit" is defined as a housing unit for rent or purchase that is affordable to a household earning 30% to 70% of the Washington Metropolitan Area Median Income (AMI) and whose sale price is regulated, all pursuant to the provisions contained in Article VII of the Loudoun County Zoning Ordinance as adopted by the Loudoun County Board of Supervisors. The Board of Supervisors is responsible for regulating the ADU program and appoints an eleven member Affordable Dwelling Unit Advisory Board (ADUAB) to set ADU rental and sale prices and provide recommendations to the Board of Supervisors on the modifications identified in Article VII of the Zoning Ordinance and Chapter 1450 of the County Code. The County maintains the ADU program within the guidelines of the ordinances and follows standard operating procedures.

Overall, the procedures and controls are effective to manage and control the ADU program. However, we identified certain areas where processes and controls can be improved. Our recommendations for improving the processes and controls over the ADU program are summarized below. The details of the work performed and the findings and recommendations are provided in this report. We recommend the County review and update the process and procedures for the following:

- Clarifying withdrawn applicants from denials
- Filing ADU resale documents

A summary of findings by area are as follows:

#	Area	Finding
1	Denial Letters- Purchases and Rentals	Eight denial letters were not available, timely dated, or the file copy was not signed by the ADU Housing Specialist for selected purchase and rental applications
2	Resale Files	Organization of the resale files made locating specific documents difficult.

SCOPE OF SERVICES

Our procedures were designed to determine that the County was following established policies and procedures. The work included an evaluation of the processes and procedures in place, review of the financial accounting and reporting for the ADU program and testing of selected transactions to determine that the County procedures were followed and controls were effective.

The procedures were as follows:

- Interviewed selected employees involved in the ADU program;
- Reviewed existing policies, procedures and internal controls;
- Tested selected processes and controls;
- Analyzed the results and findings, and developed recommendations to improve the County's processes and controls.

Primary County Staff Involved:

Department of Family Services: Housing Development Program Manager, Finance Manager and Staff

Department of Management and Financial Services: Controller

ADU PROGRAM REVIEW

Staff Interviews

Staff Interviews were designed to obtain an understanding of the ADU program, including defined lines of authority and responsibility, and segregation of duties in the overall control environment. As a part of the process, we also obtained information on the following:

- Reporting relationships, authorization hierarchies and business practices; and
- Coordination between and within departments.

ADU Purchases--Process Walkthrough

An overview of the affordable dwelling unit purchase process is as follows:

- The Affordable Dwelling Unit Advisory Board (ADUAB) is comprised of citizens who represent prescribed industries (such as a non-profit housing developer and multi-family housing developer) and a Board of Supervisor's liaison member).
- The ADU purchase program provides affordable homes for households whose income is between thirty percent and seventy percent of the Area Median Income (AMI) for the Washington Primary Metropolitan Statistical Area (PMSA).
- Potential Applicants must apply on-line and provide information indicating that their household income meets the minimum program guidelines, including income, credit, and acceptable legal presence, and loan pre-approval.
- Persons interested in purchasing a home through the ADU Program must attend an intake session.
- Applicants are directed to complete and sign the "Purchasers Certification Form" and receipt for copy of program Covenants.
- Once all required documentation has been provided by the Applicant(s) the Housing Specialist reviews the file and determines if the application was approved, pending, or denied.
- Once eligibility is determined, the approved applicant is provided with a "Letter of Eligibility" and the Applicants' names will be placed on the appropriate priority waitlist based on date and time of approval.
- The Board of Supervisors approved the waitlist priorities as follows: (1) lives and works in County (2) only works in County (3) only lives in County (4) neither lives nor works in County.
- The builder provides the notice of availability and marketing materials to ADU staff. Marketing materials are made available to applicants.
- The builder sales representative sells the ADU to an ADU eligible applicant to purchase the property.
- If the unit is not under contract to an ADU applicant after 90 days then the unit will go on the open real estate market at the non-discounted price.
- Once the unit is purchased, it is considered an ADU for 50 years and an Annual Affidavit must be completed by the owner occupant of the property between May 1st and June 1st annually.
- The ADU has a controlled price for 15 years. If the owner wants to sell the unit, they must contact the housing specialist and follow the ADU resale process.

- If the ADU owner wants to sell the ADU, the price is adjusted by CPI and approved renovations. If the unit is sold after reaching expiration of the 15 year covenant, the county receives fifty percent of the difference between the sales price and the ADU price.
- Profits from ADU resale are pooled into a trust, which is designated to support beneficiaries of the Affordable Dwelling Unit program.
- The Housing Specialist contacts ADU property owners annually.
- County staff prepares monthly statistical and financial reports which are shared at the monthly ADUAB meetings and reconcile activity to the County's General Ledger.

ADU Purchases--Process and Control Testing

To assess the operating effectiveness of the ADU Purchases control structure, we performed walkthroughs of the systems and processes, and completed testing of selected ADU activity. The objectives of this work were to determine that established procedures were followed, identify potential weaknesses in controls and processes and identify potential improvements.

We obtained the following reports for our testing:

- Listing of ADU purchase application activity for the period July 1, 2015 and October 31, 2015, identifying 588 people within purchase application households.
- Listing of purchases served (completed purchase by eligible ADU individual) for the period July 1, 2015 through October 31, 2015, identifying 55 purchases served
- Listing of all active ADU purchases served (purchased ADUs monitored by the County) as of October 31, 2015, identifying 2,008 active ADUs monitored.

We developed control tests for key areas and selected the following samples:

ADU Purchase Applications - Sample of 25 applications received from 7/1/15 – 10/31/15 including status of 10 denials, 10 accepted, and 5 not reviewed. We reviewed supporting documentation of the application status to determine that the application status is properly recorded.

ADU Purchases Served - Sample of 25 purchases served from 7/1/15 – 10/31/15. We compared supporting documentation for the purchase of the ADU, priority status of the applicant on the waitlist, and recordation of ADU covenants on the deed to determine that the ADU purchase is granted to an eligible individual and is recorded as an ADU property.

ADU Purchase Monitoring - Sample of 25 active ADU purchases as of 10/31/15. We verified that supporting documentation of the annual review of the case file included signed affidavit to determine that the property remains eligible under the ADU program.

ADU Rentals--Process Walkthrough

An overview of the affordable dwelling unit rental process is as follows:

- The Affordable Dwelling Unit Advisory Board (ADUAB) is comprised of citizens who represent prescribed industries (such as a non-profit housing developer and multi-family housing developer) and a Board of Supervisor's liaison member.
- The ADU rental program provides homes that are affordable for households whose income is between thirty percent and fifty percent of the Area Median Income (AMI) for the Washington Primary Metropolitan Statistical Area (PMSA).
- Applicants must fill out an online application and provide supporting documentation, including income and credit history before scheduling an intake appointment.
- Households interested in renting an apartment through the ADU Rental Program must attend an intake session. The ADU Program Screener will inform the prospective households of the intake appointment date.
- The Rental Specialist reviews the file and determines if the application is to be approved, pending, or denied.
- Approved applicants receive a Certificate of Qualification and applicant(s) name(s) are placed on the ADU waiting list.
- The Notice of Availability is completed once the builder has met the requirements to release the ADU units for rent to qualified renters.
- Landlords of ADU units must report vacancies on a monthly basis.
- ADU Rental Complexes are listed on the website and updated as units become available.
- The ADU renters must report any changes in their income status while occupying an ADU to the housing specialist at the time of annual recertification. All household size changes must be reported as they occur to ensure eligibility.
- County staff prepares monthly statistical and financial reports for the ADUAB.

ADU Rentals--Process and Control Testing

To assess the operating effectiveness of the ADU Rentals control structure, we performed walkthroughs of the systems and processes, and completed testing of selected ADU Rental processes. The objectives of this work were to determine that established procedures were followed, identify potential weaknesses in controls and processes and identify potential improvements.

We obtained the following reports for our testing:

- Listing of ADU rental application activity for the period July 1, 2015 and October 31, 2015, identifying 549 people within rental application households.
- Listing of rentals served (completed rental by eligible ADU individual) for the period July 1, 2015 through October 31, 2015, identifying 32 renter households served
- Listing of all active ADU rentals served (rental ADUs monitored by the County) as of October 31, 2015, identifying 291 active ADUs monitored.

We developed control tests for key areas and selected the following samples:

ADU Rental Applications - Sample of 25 applications received from 7/1/15 – 10/31/15 including status of 10 denials, 10 accepted, and 5 not reviewed. We reviewed supporting documentation of the application status to determine that the application status is properly recorded.

ADU Rental Served- Sample of 25 rentals served from 7/1/15 – 10/31/15. We compared supporting documentation for the rental of the ADU, priority status of the application on the waitlist, and executed rental agreement to determine that the ADU rental is granted to an eligible individual and is recorded as an ADU rental.

ADU Rental Monitoring- Sample of 25 active ADU rentals as of 10/31/15. We verified that supporting documentation of the annual review of the case files to determine that the property remains eligible under the ADU program.

County ADU Purchases/Resales, ADU Resales, and Open Market ADU Sales--Process and Control Testing

To assess the operating effectiveness of the County ADU purchases/resales, ADU resales, and open market ADU sales control structure, we performed walkthroughs of the systems and processes, and completed testing of selected activity. The objectives of this work were to determine that established procedures were followed, identify potential weaknesses in controls and processes and identify potential improvements.

We obtained the following reports for our testing:

- Listing of County ADU purchases/resales for the period of July 1, 2015 through October 31, 2015, identifying 29 purchases/resales.
- Listing of resales of ADUs within the ADU program for the period July 1, 2015 through October 31, 2015, identifying 10 resales within the program.
- Listing of resales of ADUs on the open market for the period July 1, 2015 through October 31, 2015, identifying 8 covenant expired resales (after 15 year mark) on the open market.

We developed control tests for key areas and selected the following samples:

County ADU Purchase/Resale- Sample of 10 purchases/resales haphazardly selected from 7/1/15 – 10/31/15. We reviewed supporting documentation for the execution of the purchase, covenants for being ADU, public hearings for resale, and resale price to determine that the property is properly reflected as an ADU purchase by the County and that it appropriately remains an ADU eligible property sold to eligible ADU individuals.

Resale of ADUs within ADU Program- Sample of 7 resales selected from 7/1/15 – 10/31/15. We reviewed supporting documentation for the executed sale, ADU covenants on the deed, and resale price to determine that the ADU resale follows County policy and is properly reflected as an ADU.

Resale of ADUs in Open Market after the 15-year Control Period Expiration- Sample of 6 resales selected from 7/1/15 – 10/31/15. We reviewed supporting documentation for the executed sale, release of ADU covenants, resale price, and recording of proceeds by the County to determine that the ADU resales after the 15 year Control Period expiration follows County policy, proceeds are accurately calculated, and the property is removed as an ADU.

Housing Trust Activity and Loans/Receivables

In addition to the ADU program, the Department oversees the Housing Trust which was established to receive money generated from the ADU program (such as cash buy-outs or the proceeds from the market sale of ADUs upon covenant expiration) to in turn be used to provide housing to households with incomes between 30-70% of area median income, the same income range that the ADU program serves. The use of the trust is related to the ADU program however are available to all county citizens that meet the prescribed income range. Types of programs which have been approved and funded by the Board of Supervisors, as Trustees, include homeownership loans such as Down Payment and Closing Cost assistance and Public Employee Homeownership Grant program, and the purchase of foreclosed and resale ADU properties to resell to ADU certificate-holders.

To assess the operating effectiveness of the Housing Trust activity and loans/receivables control structure, we performed walkthroughs of the systems and processes, and completed testing of selected activity. The objectives of this work were to determine that established procedures were followed, identify potential weaknesses in controls and processes and identify potential improvements.

We obtained the following reports for our testing:

- Listing of trust activity (receipts/disbursements) for the period July 1, 2015 through October 31, 2015, identifying 75 transactions for the period.
- Listing of all active trust notes and loans receivable as of October 31, 2015, identifying 153 trust notes and loans receivable outstanding.

We developed control tests for key areas and selected the following samples:

Housing Trust Activity- Sample of 25 receipts/disbursements randomly selected from 7/1/15 – 10/31/15. We reviewed supporting documentation to determine that the receipt or disbursement is properly approved and reflects appropriate housing trust activity.

Trust Fund Loans/Receivables- Sample of 25 notes and loans receivable with an outstanding balance randomly selected as of 10/31/15. We reviewed supporting documentation for the execution of the note/loan agreement to determine that the outstanding balance is properly stated.

ADU Reporting and Reconciliations

The Department of Family Services prepares reports for the ADUAB. We obtained and reviewed the September 2015 ADUAB report and traced the information to supporting documentation.

ADU File Storage

In FY15 the Department of Family Services implemented the use of a Laser fiche system for electronic ADU file storage. The Department is currently in the process of scanning archived documents and is storing current client files within the system. Although it will take time to complete the implementation of the electronic file storage system it will improve the organization and structure of the files.

Currently all trust note/loan receivable, County ADU purchase files, and resales are manual files.

FINDINGS AND RECOMMENDATIONS

We identified two areas where procedures and controls can be improved. These items are discussed below and include our findings and recommendations, together with the County responses to our findings. We believe these recommendations will strengthen the control structure, flow of information and overall efficiency and effectiveness of operations within the ADU process.

1. Denial Letter- Purchase and Rentals

Finding:

All applications for the ADU program are reviewed by the County and those applicants determined not-eligible are denied acceptance to the program. We reviewed twenty denied applications and found that six denial letters were not available and two denial letters were dated 4 months after the application date. In addition, the file copy denial letters were not signed by the ADU Housing Specialist. File copies of complete and timely denial letters are critical to documenting that a case is properly closed out.

Recommendation:

We recommend the County review and update the process for preparing denial letters.

County Response:

The delayed denial letters for two (2) clients were due to staff waiting on information from clients (pending files) to complete the application so that staff could then review the application for eligibility. The Program currently allows a file to remain in a pending or incomplete status indefinitely allowing the applicant ample time to complete the application. The ADU program will now adopt a 15 business day limit on submission of outstanding documentation. The program will advise applicants that they must submit the needed documentation in the 15 business day timeframe or the application will be denied and they must start the process over.

The four (4) clients denied without denial letters sent to the applicant were administrative "Username" resets on the On-Line application system and were not actual loan applications submitted to be reviewed. The four applicants started on-line applications, did not finish the application in one sitting, and then were unable to re-access their password protected on-line application due to forgetting their password. The applicants requested program staff to reset their username so that they could start a new application prompting the staff to "deny" the original application. Two (2) clients' On-line applications were never "Certified" by the applicant, so staff never received an application to then deny. In order to strengthen and clarify the procedure in these cases, the Department of Information Technology (DIT) has updated the On-line application system to allow staff to "withdraw" an application instead of "deny" an application for On-line application username resets and for applications not certified by the applicant. In addition, staff will now require a written request from all applicants requesting that their application be withdrawn. All files will also include a signed copy of the denial letter.

2. Resale Files

Finding:

The supporting documentation we requested was provided to us; however the time and effort required to locate the documents was significant as they were obtained from multiple locations. Organized and centralized files could benefit the County by increase efficiencies in determining the completeness of the file and during file reviews.

Recommendation:

We recommend the Department of Family Services review and update the procedures for filing ADU documents.

County Response:

The files reviewed were the resales which require the original purchase file to be pulled for verification. The original purchase files are stored in the County's off-site archives filing location which date back to the first sales in the program in 1995. Since it is not known when an ADU owner may elect to sell their property during the fifty year covenant term, it takes time to pull the files from the archives to provide information to the resale file for that property. When the laserfishing process is complete, it will be easier and more efficient to access information electronically. To improve efficiency, Staff has now created a checklist order and process for entering the resale files into the laser fiche system when a request for to sell an ADU is initiated by an ADU owner.

HOUSING CHOICE VOUCHER PROGRAM EXECUTIVE SUMMARY

CliftonLarsonAllen LLP (CLA) completed an internal audit of the Loudoun County Housing Choice Voucher (HCV) Program and related processes at Loudoun County, Virginia (the County).

The Loudoun County Department of Family Services (DFS) Housing Choice Voucher Program (HCV) provides rental assistance to low-income families, including the elderly, and persons with disabilities to afford decent, safe, and sanitary housing in the private market through the use of Federal funds from the U.S. Department of Housing and Urban Development (HUD).

The HCV program (formerly known as Section 8) is administered locally by Public Housing Agencies (PHAs).

Since housing assistance is provided directly to the landlord on behalf of the household, participants are able to find their own housing, including single-family homes, townhouses and apartments which must meet Housing Quality Standards for affordability and safety. Once a family and a landlord sign a lease, the tenant family is responsible for a portion of the rent depending on their income, and the HCV program pays the remainder directly to the landlord.

To qualify for the HCV program the household income must not exceed 50 percent of the area median income. The average HCV household usually pays 30 to 40 percent of their monthly adjusted income for housing.

The HCV program has been audited three times from 2010 to 2015, including two single audits and an audit by the HUD Quality Assurance Division. The CLA approach for this internal audit was to follow up on the findings identified within the prior audit reports and assess the policies and procedures currently in place.

This work was completed at the direction of the Loudoun County Board of Supervisors between November 2015 and March 2016.

Overall, the procedures and controls appear to be effective to manage and control the HCV program. All corrective action plans included within previous audits have been completed by DFS.

SCOPE OF SERVICES

Our procedures were designed to determine that the County had established policies and procedures for the services provided. The work included an evaluation of the processes and procedures in place, and follow up on findings from previous audits.

The procedures were as follows:

- Interviewed selected employees involved in the HCV program;
- Reviewed existing policies, procedures and internal controls;
- Performed a detailed walkthrough of selected processes and controls;
- Obtained and reviewed documentation for the corrective action plan contained in the 2015 HUD audit.

Primary County Staff Involved:

Department of Family Services: HCV Program Manager, Finance Manager and Staff

Department of Management and Financial Services: Controller

HCV PROGRAM REVIEW

Staff Interviews

Staff Interviews were designed to obtain an understanding of the HCV program, including defined lines of authority and responsibility, and segregation of duties. As a part of the process, we also obtained information on the following:

- Reporting relationships, authorization hierarchies and business practices; and
- Coordination between and within departments.

HCV--Process Walkthrough

An overview of the affordable dwelling unit purchase process is as follows:

- Loudoun County has approximately 600 voucher households.
- The County Department is staffed with a manager, 6 counselors, and 1 inspector. The waitlist includes approximately 600 households and is no longer open (it has not been open for several years). The original time stamp of the waitlist application is the prioritization method.
- Prior to contacting individuals from the waitlist, the manager will submit the waitlist to an independent County agency; recently it has been emergency services, to audit.
- If the HCV Program manager expects to draw 20 households off the waitlist for the month, they will select the first 50 to undergo the audit process to verify the list is accurate.
- The manager is the only person in the County with limited edit rights to the waitlist, but is limited to changing demographic and income information. The manager is unable to change names or move someone within the list.
- Monthly meetings are held to determine the amount of funding available and how many vouchers can be accommodated.
- After the number of vouchers is determined, the households at the top of the waitlist are notified 30-45 days before the family briefing in order for the household to complete the checklist of information needed for the family briefing.
- There is an entrance meeting conducted and the counselor obtains the requested documents.
- Counselors make eligibility decisions within 7-15 days, depending upon how quickly information is provided to them.
- Once eligibility is determined and a voucher is awarded, a lease is generally signed between 30-90 days. HUD allows up to 120 days.
- The primary reasons for turnover of vouchers are death, termination due to not reporting of income or unauthorized person living in the home.
- The Department plans to reach out to 10-15 households on the waitlist every month with the anticipation of having 5-7 new households accepted (the manager said that most of the time there are people who do not respond or who do not qualify which is why they select more from the list than available vouchers; if everyone qualifies its first come first serve).
- The Department maintains paper files for each client that is well organized. The files contain 4 sections--waitlist, initial year-up, re-up year, and interim receipts. Each section has a cover sheet/checklist that identifies the order of the supporting documentation.
- The Department uses the Harmony system for payments and certain HCV population information.

- The Department enters the required information into the HUD'S PIH Information Center (PIC) system.
- The manager uses the HUD PIC report function on the first Friday of every month to review the status of information and to identify missing information.
- Currently the Department has 1 port-in (individual vouchers from another jurisdictions served by Loudoun County) and 12 port-out (individual Loudoun County vouchers served in another jurisdiction) recipients. For the port-in they maintain a running tally of the amount of funds they should be receiving versus what is actually received. For the port-out they have the HUD form and pay the amount to the respective jurisdictions. The manager indicated that the Department is open to absorption when available and has done so in the past.
- The Department complies with the financial reporting deadlines as prescribed by HUD. At the end of December and June the County trues up each month for the activity within the HUD system (this is a change from the HUD audit.)

HCV –Audit Review

As the HCV program is funded through federal grants, the program can be selected for a variety of audits. Since 2013 the County HCV program has been included within three different audits. We reviewed each audit report and evaluated the Department compliance with any corrective action plans identified within the reports.

FY13 and FY15 HCV Single Audits

Single audit procedures are required for federal grants, over a specific dollar amount, received by the County. The procedures conducted are found within the Office of Management and Budget's (OMB) annual Compliance Supplement (OMB A-133) and require performance of compliance and control tests for specific grant related areas.

Single audits were performed by an external audit firm for FY13 and FY15. The FY13 report did not contain any comments or recommendations for the HCV program. As of March 15, 2016 the FY15 single audit report has not yet been issued by the auditor, however, the County Controller indicated that there were no findings or recommendations for the HCV program.

HUD QAD Financial Management Review

The primary goal of the financial management review conducted by HUD was to verify that the HCV program funds have been expended in accordance with grant specifications.

Specifically the purpose was to:

- Determine the Unrestricted Net Positions (UNP) balances as of May 2014.
- Determine Restricted Net Position (RNP) as of December 2013 and May 2014.
- Validate and analyze administrative expenses for March 2013 through May 2014.
- Confirm the availability of cash and/or investments sufficient to support the calculated UNP and RNP balances.

The report, dated March 16, 2015 included one finding and three concerns identified as a corrective action plan. The report did not identify any material exceptions. The items within the corrective action plan are described below.

Finding 1- The Loudoun County Department of Family Services (LCDFS) does not maintain proper internal controls over HCV funds.

Corrective Action 1- The LCDFS must immediately move and maintain its Family Self Sufficiency (FSS) Escrow Funds in an interest bearing bank account covered by the ACC-mandated depository agreement.

CLA procedure- CLA obtained the January 2016 bank statements for the HUD program noting there are two accounts set up through the Treasurer's Office, a HUD account and a HUD FSS Escrow Account. The Escrow account is an interest bearing account and is covered by the ACC-mandated depository agreement. The corrective action has been taken by the County and the finding appears to be resolved.

Concern 1- The Restricted Net Position (RNP) and Unrestricted Net Position (UNP) balances were incorrectly calculated and incorrectly reported in Voucher Management System (VMS).

Corrective Action 1- The LCDFS should make the appropriate adjusting entries for their financial records to ensure accurate RNP and UNP balances are reflected.

Corrective Action 2- Corrections should be made to the VMS to ensure accurate RNP and UNP balances are reported. Corrections to the VMS submission should be made for the month of December 2013 and forward. Adjustments should be made where appropriate in the FDS submission(s) to the Financial Assessment Subsystem (FASS). Changes cannot be made to audited submission, but prior period adjustments may be made in the current year. The LCDFS should provide a date by which corrections shall be made.

CLA Procedure- CLA obtained the updated VMS calculation spreadsheet and noted that the formula for calculating the RNP and UNP balances reflects the formula described within the HUD documentation. In addition, CLA noted that the corrections to prior balances were made.

Concern 2- Housing Assistance Payments (HAP) Expense and Administrative Expenses were misreported in the VMS

Corrective Action 1- LCDFS staff should review the reporting requirements for administrative and HAP expenses in the VMS User's Manual and update their reporting practices accordingly. LCDFS should correct its admin and HAP expenses reporting in the VMS for the month of July through May 2014.

CLA Procedure- HUD's monthly reporting requires that the Department report to HUD on the 20th of each month. However, there are expenses associated with the program that may not come in until after the 20th. LCDFS has implemented a semi-annual reconciliation process, December (program year-end) and June (County year-end) to reconcile expenses for each month. CLA performed a detail walkthrough of the reconciliation process and noted adjusting entries were recorded.

Concern 3- LCDFS failed to properly report on the Financial Data Schedule (FDS) during the review period.

Corrective Action 1- LCDFS staff should review the FDS reporting requirements for portability-in activities and administrative expenses as it related to reporting under HCV related programs and update their reporting practices accordingly.

CLA Procedure- CLA obtained the FY15 Unaudited Real Estate Assessment Center (REAC) submitted on August 26, 2015 and noted that all programs were reported separately, in accordance with FDS reporting requirements.

The LCDFS has successfully completed all of the corrective actions noted within the HUD Financial Management Review report.

CONCLUSION

Based upon the review of the HCV policies and procedures, the detailed walkthrough of the HCV casefile, and review of previous audit reports the internal control and compliance of the HCV program appear to be strong and operating effectively.

INTERNAL AUDIT PLAN

2013 - 2017

On December 2, 2015, the Board of Supervisors Finance/Government Services and Operations Committee approved the following list of internal audits for the County's internal audit contract firm. This list includes all audits completed since the inception of the internal audit program and near term future internal audit projects. The projected schedule for these audits is subject to change, as the required time for conducting each audit will depend on the work schedule of the affected departments and the detailed audit scope, which will be developed as part of the planning process for each audit.

No.	Internal Audit Project	Status	Schedule
1	Performance Bonds Audit	Completed	2013
2	Municipal Bonds Audit	Completed	2014
3	Payment Card Industry Data Security Standard (PCI DSS) Compliance Audit	Completed	2014
4	Public Facilities Fund (Proffer Fund) Audit	Completed	2015
5	County Risk Assessment to Identify Future Internal Audits	Completed	October, 2015
6	Comprehensive Services Act for At-Risk Youth and Families Program Performance Audit	Completed	December, 2015
7	Housing Choice Voucher and Affordable Dwelling Unit Programs Audit	Completed	April, 2016
8	Post Enterprise Resource Planning (ERP) Implementation Audits	Not Yet Commenced	Not currently recommended
9	Audit of Countywide Policies and Procedures	Not Yet Commenced	July, 2016
10	Contract Management	Not Yet Commenced	November, 2017
11	Financial Reporting and Operations	Not Yet Commenced	March 2017
12	Grant Compliance	Not Yet Commenced	July 2017