

## INTERNAL AUDIT DEPARTMENT

## INTEROFFICE MEMORANDUM

Date: September 21, 2010

To: Honorable Mayor Ronald Jones

Members of the City Council
Members of the Audit Committee

cc: Philip Burke, GHFC President

John Jacobs, Executive Director

From: Craig Hametner, City Auditor

Subject: Garland Housing Finance Corporation Audit – Follow-up

This is a follow-up of the report "Garland Housing Finance Corporation Audit" issued on March 24, 2009. The original audit was an evaluation of internal controls, compliance with State and Federal laws, local directives and grant regulations. The follow-up audit was not intended to be a detailed study of every relevant system, procedure, and transaction. We were to review GHFC's previous audit findings and make sure recommendations were implemented.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
1	Financial Accountability	to be provided to the Finance Department so accurate and reliable financial statements can be prepared. It is GHFC's responsibility to produce accurate and reliable reconciliations, general ledgers and bank statements.	receive training to learn formal accounting procedures as related to small office operations ensuring that necessary documents are given to the finance department to assure accurate checks and balances. If there is a need for finance reporting GHFC	The GHFC Executive Director provides necessary documents to the City Finance department on a monthly basis (through Quickbook uploads). The Finance department then performs a monthly reconciliation between the general ledger, balance sheets, profit & loss statements and bank statements. Our review of December 2009 and April 2010 documents verified that the Finance department conducted monthly reconciliations. No significant findings were revealed during this review.	Fully Implemented

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2	IRS Rules and Regulations	with the IRS rules and regulations regarding payroll tax deposits and filing procedures. Verify all deposits are current,		<ol> <li>Our verification with GHFC and review of 2009 IRS forms filed revealed the following:</li> <li>Form 941 (Employer's Quarterly Federal Tax Return) related to the former office manager was filed on April 19, 2010. GHFC is currently awaiting a response from the IRS regarding the amount due.</li> <li>GHFC provided us with all three 2010 W-9's (Request for Taxpayer identification Number and Certification). No 2009 W-9's were provided.</li> <li>Form 1099         <ul> <li>(Miscellaneous Income) related to the current Executive Director was filed. However, Form 1099 was not filed for applicable nonemployee contractors.</li> </ul> </li> </ol>	Partially Implemented

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	accounts over FDIC	the FDIC insurance limit and moves funds		According to the GHFC Board meeting minutes, the Directors review account balances as part of the Financial Report that is approved during each meeting. If GHFC is presented with a check that is large enough to put them over the FDIC insured limits the Treasurer will be notified and appropriate action will be taken to insure that GHFC stays within the FDIC limits. GHFC doesn't expect to receive a lump sum payment from the COG/HUD in an amount that would put them over the current insured limit. GHFC will keep up with current FDIC insured limits in case legislation makes changes to the insured amounts.  We reviewed bank statements for the operating and savings account from April 2009 thru March 2010 and verified balances did not exceed the \$250,000 FDIC insurance limit.	Fully Implemented

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	Record Maintenance	to Garland Housing Finance Corporation are kept in the corporate office. GHFC should provide training for the Office Manager to ensure efficient and accurate business records and bookkeeping are maintained. Copies should be made if professionals, consultants, or other City Departments need information. Payments should only be made from original invoices to prevent duplicate or fraudulent payments.	payment to McKinney Lumber has been addressed. GHFC believes that all checks have been properly dispersed, but will insure in the future that original invoices are available along with Board approval and contracts. While original documentation could not be furnished, additional	GHFC provided us copies of all 55 checks written between September 2009 through March 2010 and we randomly selected 20 of them. We were to verify if GHFC had supporting documentation for each check. Out of 20 there was one check that did not have supporting documentation. The check was written for \$800 for a neighborhood award. We contacted the Neighborhood Association to verify they received the check and it was confirmed through their treasurer the check was deposited by them. As for the remaining 19 checks, GHFC provided us with the appropriate documentation.	Fully Implemented

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5	Expense Policy	provide more disclosed expense procedures and to prevent duplicate reimbursements.	expense policy to show stronger controls in approval of travel and the inclusion of travel expense forms. These new rules will be in effect by June 1, 2009.	According to GHFC's Executive Director, the GHFC expense policy has not been revised since our March 2009 audit. They are making sure expense reports are thoroughly reviewed and approved by the president or treasurer. We obtained GHFC's expense reports from October 2009 thru June 2010. Our review reveals there were only 10 expense reports during this time period and only 1 was specifically for travel. According to our recommendation, GHFC was in compliance because they provided detailed receipts with their travel expense report. However, the other nine expense reports were for reimbursement of lunch meetings. Out of the nine receipts, four were itemized and the other five had a receipt but were not itemized. Since our review, GHFC has added a section to their expense policy which states, "A detailed original receipt for all purchased meals must be obtained and attached to the GHFC Expense Report."	Fully Implemented

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6	Improvement Loan Program	critical loan applicant information before	Loan Program at this time. If the program is continued GHFC will develop formal procedures and regulations for the program.	<ol> <li>According to the GHFC Executive Director, the Home Improvement Loan Program is no longer available.</li> <li>The Executive Director confirmed there are 3 remaining loan recipients. In February 2010 letters were sent out to loan recipients urging them to make payments as outlined in their Subordinate Deed of Trust signed on June 9, 2007. One of the accounts has automatic withdrawals from their bank account. GHFC no longer accepts cash payments only checks or money orders. GHFC began issuing payment receipts for June 2010 payments.</li> <li>Our review revealed that GHFC is depositing checks in a timely manner.</li> </ol>	Fully Implemented

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		written agreement	having a formal contract with the City if the Council and Staff feel it is in the best interest of the City.	An agreement was developed between GHFC and the City, however, the document was never signed by the City and it has expired.	Not Implemented

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8	Policies and Procedures	policy for conducting business with GHFC funds. A written policy should be developed detailing the procedures for loans issued, grant awards to neighborhoods and citizens and all other funds used to fulfill the affordable housing objectives of GHFC.	policy on Community Housing Awards. Other policies are covered by the By-Laws. Guidelines for multi-family housing financing have been in place for the last four years. The Board will write new rules and procedures for	According to the GHFC Executive Director, the "Annual Community Housing Award Program" is still being operated and policies/guidelines have been made available on GHFC's website. The policies/guidelines for the FY'10-'11 grant that GHFC wrote is available for review within the grant application. In regards to the Expense Policy, it has been updated and Board members are now required to submit a detailed receipt for all purchased meals. The written policy on issuing loans is not applicable because GHFC no longer offers the Home Improvement Loan Program.	

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9	of Duties in Regard to Check Signatures	transfers above \$10,000	were all approved by the entire Board and signatures are in compliance with the corporate by-laws. The Board is reviewing policy	The GHFC Board reviewed the signature requirements at their May 11, 2010 meeting. The May minutes were approved at the August 2010 Board Meeting and GHFC will begin requiring an approval of two signatures when issuing a check, withdrawal or transfer over \$10,000.	

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	Monthly Budget vs. Actual Reports	prepared along with the financial statements. The budget vs. actual reports should be used to determine how well the operations were anticipated compared to the actual operations during each month. This information can also be used for long term project planning.	instituted in conjunction with the 2004 Internal Audit. Even, at that, it is doubtful planning value since the size of projects dwarfs any operating budget. With an annual operating budget of approximately \$120,000; and with its projects as much as 100 times that amount, comparison on a monthly basis is difficult. Typical is a transfer of \$189,000 to GHFC in November that could not be	According to GHFC's Executive Director, from July 1, 2010 forward, GHFC will institute a new report format for the monthly Financial Report issued at each Board of Director's meeting. This change will produce an additional report that will address cumulative actual spending vs. annual budget. GHFC feels that providing this additional report they will be able to determine how well operations were anticipated compared to the actual operations during each month. This information will also be used for long term project planning. After their August 3, 2010 Board meeting, GHFC provided Internal Audit with a Budget vs. Actual report. They will begin reviewing this report at each Board meeting.	

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11	Increasing Garland Housing Finance Corporation Exposure	advertising through the use of the internet. GHFC needs a website to establish a known reputation within the City of Garland. Within the site should be contact information, location, purpose, and past accomplishments. GHFC should have a website link within the City's website to promote GHFC within the community.	website manager as a result of other housing finance corporations' experience. Agreement for GHFC to have a website link within the City of Garland's website is complete.  In addition to the website a comprehensive email list will be compiled to drive Garland citizens to the website. The list will include, but not limited to,	citizen can access the GHFC site by clicking the Service tab on the Garland Home Page. Once a person has accessed the GHFC site they can view contact information, location, all about GHFC, programs that are available and a FAQ's section. They have also included a Twitter link on the GHFC website. GHFC has set up a Facebook account that can be accessed by the public. According to the GHFC's Executive Director, they believe the link within the City's website will serve to increase their exposure and ultimately promote goodwill within the	Fully Implemented

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12	Director Meeting Minutes to be Signed by the President and the Secretary	meeting minutes are maintained. A copy of the minutes from the previous meeting with signature lines should be signed by the President and Secretary upon approval by the Board of Directors.	to the minutes of the Board meetings. Official minutes, having been approved by the	We obtained nine months of meeting minutes and verified both signatures were present on the document. The meeting minutes were also approved by the Board and filed with the corporate office. GHFC is in compliance with our recommendation.	Fully Implemented