

## **FOLLOW-UP REVIEW #2**

**CITY AUDITOR**

<b>Report Date:</b>	<b>February 21, 2019</b>
<b>Department:</b>	<b>Community Services/Housing &amp; Community Development Division</b>
<b>Subject:</b>	<b>Housing Rehabilitation Program</b>
<b>Lead Auditor:</b>	<b>Karen Newman, Sr Internal Auditor</b>

### **OBJECTIVE**

The objective of this follow-up review was to determine whether the Housing & Community Development Division has effectively implemented the action plans presented in their response to our February 2017 audit.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we reviewed Housing and Community Development policies and procedures, interviewed staff, and reviewed project documentation from Homeowners Rehabilitation projects (under the Housing Rehabilitation Program) completed from April 2018 to December 2018.

### **BACKGROUND**

On February 23, 2017 we issued a report on our audit of the Housing Rehabilitation Program. The objective of the audit was to determine whether adequate controls are in place to ensure compliance with Housing Rehabilitation Program requirements for eligibility, procurement, and expenditures. The report included two recommendations, summarized as follows:

1. Exceptions to program requirements should be documented and approved by the Rehab Committee. Additionally, the "Housing Rehabilitation Program Checklist" should include a step to ensure that the project file includes documentation for exceptions granted.
2. Required signatures should be obtained for all change orders before work proceeds.

Housing & Community Development Division management agreed with all recommendations and submitted action plans.

On April 2, 2018 we issued a report on our follow-up review, noting that while some process improvements had been realized, exceptions were still found during the follow-up testing. We recommended that management's implementation efforts continue.

### **CONCLUSION**

In our opinion, while no exceptions to program requirements occurred during the audited period, the processes in place to document exceptions have improved significantly, which serves as sufficient evidence that IAP #1 has been implemented. However, although there has been a

notable reduction in the frequency of change orders, the approvals associated with change orders are still not being documented in accordance with program rules. Therefore, IAP#2 has not been fully implemented.

A complete list of the original action plans, along with detailed information regarding their implementation status, is presented in the attached Appendix.

No additional follow up review is planned at this time.

## APPENDIX

 = Implemented     
  = In Progress     
  = Not Implemented

<u>Issue and Action Plan</u>	<u>Implementation Status</u>
<b>IAP#1: Exceptions to Program Requirements Not Documented</b>	
<p><b>Recommendation 1:</b> Housing Services should implement more effective internal controls to ensure that exceptions to program requirements are documented in the project files. For example, the “Housing Rehabilitation Program Checklist” should be revised to include a step to ensure all exceptions are documented as required.</p> <p><b>Management Response:</b> More effective internal controls have already been implemented as demonstrated on the updated Housing Rehabilitation Program Checklist.</p> <p><b>Estimated Completion Date:</b> January 2017</p>	<p><b>Implemented –</b></p> <p>We determined that there were no exceptions to program requirements during the audit period; therefore, no exception documentation could be reviewed. However, the applicable policies, procedures, and forms have improved significantly; which should ensure future exceptions are appropriately documented. In addition, there is a process in place to obtain documented approval from the Rehab Committee before accepting the rehab project.</p>
<u>Issue and Action Plan</u>	<u>Implementation Status</u>
<b>IAP#2: Required Signatures Not Obtained for Change Orders</b>	
<p><b>Recommendation 2:</b> Required signatures should be obtained for all change orders before work proceeds. Or, if appropriate, management should re-evaluate the change order process and related risks, and update the Administrative Plan to reflect current practices.</p> <p><b>Management Response:</b> The Administrative Plan was updated July 1, 2016 to state change order approval from the homeowner is required before work proceeds.</p> <p>The following new protocol ensures that internal controls are put in place to effectively utilize these tools.</p> <p><b>Change Orders</b></p> <p>Coordination of all Change Orders will be handled by the Housing Rehab Specialist for all projects.</p>	<p><b>Not Implemented –</b></p> <p>We reviewed three change orders and, in each case, the project files lacked sufficient documentation to show the change order was approved before work proceeded.</p> <p>The specific change order protocols detailed in management’s response to IAP#2 (see highlighted text on next page) were not followed, and the “check and balances” in place did not effectively ensure that the</p>

<p>Prior to any work being performed, all Change Orders will be submitted to the Housing Rehab Specialist.</p> <p>The Housing Rehab Specialist will ensure:</p> <ol style="list-style-type: none"><li>1. The requirements for submission have been met.</li><li>2. If not already performed, a site inspection will be performed to verify the necessity of the Change Order.</li><li>3. The proper documentation will be attached (including the site inspection verification).</li><li>4. City approval (budget &amp; scope) must be approved by: a). the Inspector; b). the Housing Rehab Specialist; and c). Program Supervisor.</li><li>5. After the Program Supervisor has approved, the Homeowner must also approve.</li><li>6. After Step #5, the Housing Rehab Specialist will issue the Notice to Proceed (signed by the Housing Rehab Specialist and the Program Supervisor) on the Change Order with copies to the Homeowner.</li></ol> <p>Notes: Step #4 – The Inspector signature verifies the necessity &amp; the scope/budget; the Housing Rehab Specialist signature verifies the project file, process and documentation are in place and that all steps are performed correctly; the Program Supervisor signature provides the Ok to proceed.</p> <p>This protocol has two separate check &amp; balances by the Housing Rehab Specialist &amp; Program Supervisor ensuring system success.</p> <p><b>Estimated Completion Date:</b> November 2016</p>	<p>required documentation was maintained.</p> <p>However, it should also be noted that, due to other process improvements, the frequency of change orders has been significantly reduced.</p>	
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