



# **Garland Housing Finance Corporation**

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## **INTERNAL AUDIT DEPARTMENT**

**March 24, 2009**

**Report 0807**

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## EXECUTIVE SUMMARY

### OBJECTIVES:

- To evaluate the Corporation's compliance with State and Federal laws, local directives and any grant regulations
- To document and evaluate the system of internal controls for financial management and the Board of Directors activities
- To report the progress toward resolution of audit findings from prior audits

### OVERALL CONCLUSION:

GHFC carries out a valuable function for the citizens of Garland. Our audit provides for opportunities to improve governance, internal controls and decrease risk.

### OPPORTUNITIES FOR IMPROVEMENT:

#### 1. **FINANCIAL ACCOUNTABILITY** *(Reference Page 12)*

**Recommendation:** We recommend that GHFC's staff receive training on what needs 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.

#### **Management Response:**

*The Office Manager will 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 will hire an outside accounting firm as required.*

#### 2. **IRS RULES AND REGULATIONS** *(Reference Page 13)*

**Recommendation:** We Recommend that GHFC becomes familiar with the IRS rules and regulations regarding payroll tax deposits and filing procedures. GHFC needs to ensure all deposits are current and any penalties and interest due are paid. It is GHFC's responsibility to see the deposits are made on time and the reports are filed.

**Management Response:**

*GHFC followed the advice of the previous accounting firm as to IRS payments. This advice was incomplete. Prior to this audit GHFC had begun action through a new CPA to correct the problem and to date the correction is complete. All IRS Rules and Regulations will be followed.*

**3. FDIC LIMITS**  
**(Reference Page 14)**

**Recommendation: We Recommend** that GHFC monitors the FDIC insurance limit and move funds accordingly.

**Management Response:**

*Account balances and FDIC insurance limits will be reviewed at each Board meeting.*

**4. BUSINESS RECORD MAINTENANCE**  
**(Reference Page 15)**

**Recommendation: We Recommend** all adequate and original documentation relating 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.

- If professionals, consultants, or other City Departments need information, copies should be made.
- Payments should only be made from original invoices to prevent duplicate or fraudulent payments. Check copies and original invoices should be filed in the GHFC office and never removed from the office. Payments should only be made from an invoice and not a statement.

**Management Response:**

*The one duplicate 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 backup for the checks sampled has been furnished to Internal Audit. Going forward GHFC will provide original invoices and receipts.*

*The entire Board will continue to review all dispersals at monthly Board meetings.*

**5. EXPENSE POLICY**  
**(Reference Page 16)**

**Recommendation:** We recommend that GHFC strengthen their policy to provide more disclosed expense procedures and to prevent duplicate reimbursements. Based on our audit objectives, valet parking, room service, elongating hotel stays before and after a conference, gift shop purchases, and hotel in-room movie rentals may conflict with the affordable housing objectives of GHFC. We are unable to determine if these items are reasonable costs because sufficient and organized documentation was not attached to each expense report.

**Management Response:**

*GHFC is reviewing its 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.*

**6. HOME IMPROVEMENT LOAN PROGRAM**  
**(Reference Page 18)**

**Recommendation:** We recommend that GHFC develops a documented policy for Home Improvement Loans. GHFC must verify and document all critical loan applicant information before issuing any notes. GHFC needs to issue proper receipts to each loan recipient and enforce the payment of the notes. GHFC needs to deposit all payments received in a timely manner.

**Management Response:**

*The GHFC Board is reviewing the entire Home Improvement Loan Program at this time. If the program is continued GHFC will develop formal procedures and regulations for the program.*

**7. USING CITY RESOURCES TO CONDUCT BUSINESS**  
**(Reference Page 19)**

**Recommendation:** We Recommend GHFC consider the following options:

- Enter into a written agreement with the City for the office space, equipment and any additional resources used with City funds, for financial accounting services provided by the Finance Department and for all assistance provided by the Housing and Neighborhood Services Department.
- Compensating the City for resources used to operate the corporation

**Management Response:**

*GHFC looks forward to having a formal contract with the City if the Council and Staff feel it is in the best interest of the City.*

**8. WRITTEN POLICIES AND PROCEDURES**  
*(Reference Page 20)*

**Recommendation:** We recommend that GHFC develop a written 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.

**Management Response:**

*GHFC has a written 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 conducting business with GHFC funds.*

*Additional policy and procedures will be written to govern office operations as required.*

**9. SEGREGATION OF DUTIES IN REGARD TO CHECK SIGNATURES**  
*(Reference Page 20)*

**Recommendation:** We Recommend GHFC ensures all issued checks, withdrawals and transfers above \$10,000 have two board signatures. GHFC should also have a written policy regarding all bank transactions and handling. The bank does not monitor if the required two signatures are on the checks.

**Management Response:**

*The five transactions were all approved by the entire Board and signatures are in compliance with the corporate by-laws. The Board is reviewing policy of signature requirements. The approved policy will be confirmed as written policy.*

**10. CREATION OF MONTHLY BUDGET VS. ACTUAL REPORTS**  
*(Reference Page 21)*

**Recommendation:** We Recommend a copy of the monthly budget is given to the accountant so a budget vs. actual report can be 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.

**Management Response:**

*The annual budget was 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 predicted last January.*

*An operating budget is developed each fiscal year and will continue to be improved based on the goals and objectives of GHFC, and will be used as a tool for anticipated projects. A five-year plan will be developed for projections and may be revised annually depending on actual projects.*

**11. INCREASING GARLAND HOUSING FINANCE CORPORATION EXPOSURE**  
**(Reference Page 22)**

**Recommendation:** We Recommend GHFC improve its 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 goodwill within the community.

**Management Response:**

*GHFC has selected a 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, faith-based, community, businesses, organizations, and other housing institutions which may have customers needing the assistance of GHFC.*

**12. BOARD OF DIRECTOR MEETINGS TO BE SIGNED BY THE PRESIDENT AND THE SECRETARY**  
**(Reference Page 22)**

**Recommendation:** GHFC ensure signed 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.

Those signed minutes should be filed at the corporate office as official documents.

**Management Response:**

*Signatures will be added to the minutes of the Board meetings. Official minutes, having been approved by the Board, are maintained in the GHFC office and copies will be provided for retention in the City Secretary's office.*

## **Authorization**

We have conducted an audit of Garland Housing Finance Corporation. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Audit Committee of the Garland City Council.

## **Scope and Methodology**

We conducted this audit in accordance with Generally Accepted Government Auditing Standards, with the exception that no peer review has been performed on this audit entity in the past three years. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that produces a reasonable basis for our findings and conclusions based on our audit objectives. These included procedures assessing management controls, such as examining checks and the support for them, reading the minutes of Board of Directors meetings, and talking to accounting and financial professionals who provided services to the organization. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit covered calendar years 2005, 2006, and 2007.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

The objectives of this audit were:

- To evaluate the Corporation's compliance with State and Federal laws, local directives and any grant regulations
- To document and evaluate the system of internal controls for financial management and the Board of Directors activities
- To report the progress toward resolution of audit findings from prior audits

To adequately address the audit objectives, we:

- Interviewed the President of the Board of Directors and Office Manager of Garland Housing Finance Corporation regarding operations and projects
- Interviewed the Deputy City Manager about the history of the organization
- Examined State and IRS requirements related to Housing Finance Corporations and non-profit corporations
- Investigated IRS requirements regarding payments to contractors, 1099 information returns, and W-2 filings
- Examined audit reports from a prior audit as well as the audit report from a 2007 HUD audit

- Interviewed the Neighborhood Services Department about HUD grants and the monitoring activities in regard to Garland Housing Finance Corporation
- Interviewed the City of Garland's Legal Department in regards to the City's relationship with GHFC
- Obtained information from the City's Accounting Manager about GHFC's financial statements and the outside auditor's review of the organization
- Obtained GHFC's financial information from previous accountants
- Examined financial statements, Board meeting minutes, and bank statements to understand the operations of the organization
- Sampled checks and their supporting documents to ensure appropriate amounts and approvals

### **Overall Conclusion**

GHFC carries out a valuable function for the citizens of Garland. Our audit provides for opportunities to improve governance, internal controls and decrease risk.

### **Background**

The Garland Housing Finance Corporation (GHFC) was incorporated under the provisions of Chapter 394 of the Texas Local Government Code as evidenced by the filing of legal documents by the Office of the Secretary of the State of Texas on December 10, 1990. City Council Resolution #6758 approved the formation of GHFC, GHFC's Articles of Incorporation and Bylaws on December 4, 1990. Garland Housing Finance Corporation is independent from the City but serves as a component unit due to the Board of Directors being appointed by the City Council. Chapter 394 grants several powers to housing finance corporations, including:

- Make contracts and other instruments as necessary or convenient to the exercise of powers under this chapter
- Incur liabilities
- Borrow money at rates determined by the corporation
- Issue notes, bonds, and other obligations
- Secure any of its obligations by the mortgage or pledge of all or part of the corporation's property, franchises, and income
- Plan, research, study, develop, and promote the establishment of residential development
- Make donations for the public welfare or for charitable, scientific, or educational purposes
- Enter into contracts to perform services for any other housing finance corporation, any housing authority, non-profit enterprise or similar entity

- Lend money for its corporate purposes, invest and reinvest its funds, and take and hold real or personal property as security for the payment of the loaned or invested funds
- Mortgage, pledge or grant security interested in any residential development, home mortgage, note or other property in favor of the holders of bonds issued for those items
- Purchase, receive, lease or otherwise acquire, own, hold, improve, use or deal in and with real or personal property or interests in that property
- Sell, convey, mortgage, pledge, lease, exchange, transfer and otherwise dispose of all or part of its property and assets

According the Articles of Incorporation, GHFC is a non-profit corporation organized exclusively for the purpose of benefiting and accomplishing public purposes of, and on behalf of, the City, by financing the cost of residential ownership, and development that will provide decent, safe and sanitary housing for residents of the City at prices they can afford. GHFC has a five member Board of Directors appointed by the City and one Office Manager that performs the operations set forth by the Board.

## **Management Accomplishments**

### **2006-2008**

In June 2006, Garland Housing Finance Corporation (GHFC) participated in the opening of its first senior housing development, Primrose at Park Place, located Crist and Beltline Roads. The apartment complex provides 204 units of quality affordable housing to Garland residents 60 years of age and older. Within 18 months, Primrose at Park Place reached 98% occupancy. Since then, it has maintained essentially full occupancy.

GHFC has worked with Integrated Real Estate Corporation for another senior housing complex with 210 units on Castle Drive. The development has been approved by the City Council. Depending upon the credit market, the development should begin in 2009. The developer is working on an adjacent market rate complex to develop at a later date. This will bring a total of almost 450 senior living units, sponsored by GHFC, for this growing segment of Garland since 2006.

In 2006, GHFC purchased a lot at 3501 Edgewood Drive and Jupiter Roads, inside Council District 6, that retained only the original slab following a house fire. For numerous years, the condition of the lot created an eyesore to the neighborhood. Redevelopment of this lot provides a new single family home for a Garland family, improves the aesthetics of the area, and provides motivation for continued improvements to the neighborhood.

A second house was constructed with GHFC funds in 2008 on Cortez Drive, within Council District 5, extending redevelopment of an additional vacant lot adding to the revitalization of this neighborhood. A family of four now enjoys home ownership here. These infill homes are for hard to develop lots. GHFC does not compete with private builders for these lots. We seek to place homes slightly above the surrounding homes as a means to stabilize the neighborhood without the necessity of a profit. GHFC is now pursuing several lots that fit these criteria.

While GHFC is not participating directly in the First-Time Homebuyers Assistance Program now, during previous years, it has assisted 663 families in becoming homeowners in Garland.

### **2007**

GHFC designed a pilot home improvement loan program, allocating \$100,000 of corporate funds to launch the program. After reexamining this program, those funds were converted toward a Community Enhancement Program. The purpose of this program is to quickly respond to community needs that city

departments are not equipped to handle. Depending on the financial status of the home owner, GHFC will:

1. Approve it as a loan expecting monthly payments with interest.
2. Approve it as a loan with a very flexible repayment plan.
3. Approve it as loan with possible conversion to a grant.

Several Garland residents have received funds to repair foundations, roofs, plumbing, structural damage, and many other property issues. It has been an opportunity to aid the overall community. It has been an opportunity to aid the overall community. It reverses the decline of properties that would otherwise negatively impact surrounding residences. To date, six homeowners have received the funds.

## **2004**

The Board also established the *GHFC Community Spirit Award* in 2004. Homeowner Associations and organized neighborhood groups within subdivisions that are 25 years or older may receive the one thousand dollar award. The purpose of the award is to encourage continued efforts of the groups to enhance the quality of life within their communities. Since the award was designed, twelve awards have been presented.

## **Ongoing**

GHFC has been active in the area of land banking for future development in certain critical areas. This effort takes considerable time of the Board. However, GHFC is equipped to respond to these situations and willingly accepts these assignments. However, GHFC is equipped to respond to these situations and willingly accepts these assignments. Results of this effort are usually years into the future.

GHFC is in the process of acquiring the property known as Miller Garden Apartments. The structures have become a health and safety issue, but upon completion of the purchase, the buildings will be razed and eventually be the focus of redevelopment to enhance this area of Garland.

## Opportunities for Improvement

During our audit we identified certain areas for improvement. This audit was not intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement might be needed.

### 1. **FINANCIAL ACCOUNTABILITY**

GHFC's improvement needs to focus on the following issues:

- Proper monthly bank reconciliations
- General ledger for 2007 in good form
- Ensure outstanding checks are reviewed periodically
- Ensure they receive all their bank statements monthly
- Deposit payments received in a timely manner

During 2005, a Bank of America CD was closed and transferred to a First National Bank CD. GHFC provided us with a cashiers check in the amount of \$100,070.36 showing the closing of the Bank of America CD in May 2005. We found no activity reported on the general ledger regarding this closing and the interest on the Bank of America CD account had not been reported in the 2005 financial statements. Furthermore, the interest earned during the remainder of the 2005 fiscal year on the \$100,070.36 transfer to First National Bank CD account had not been reported on the financials. Without the Bank of America bank statements or the First National bank statements, we are unable to verify the account was closed or the amount of interest that should have been reported in the 2005 financial statements. Also, a Wells Fargo savings account was listed on the financials during our audit period, but GHFC was unable to provide us with the bank statements.

GHFC should have monthly reconciliations matching the balance of the reconciled ledger to the balance of the bank statements. GHFC should also adjust outstanding checks at years' end to show true assets on the financial statements, keep all their bank statements at the GHFC office, and deposit all payments immediately upon receipt. Having financial integrity promotes accurate and reliable financial statements.

GHFC is listed in the Comprehensive Annual Financial Report as a component unit and due to GHFC's inadequate resources, the City's Accounting Department began completing GHFC's financial statements in 2007. GHFC lacks the expertise to perform the necessary and essential bookkeeping functions.

**We recommend** that GHFC's staff receive training on what needs 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.

## **Management Response:**

*The Office Manager will 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 will hire an outside accounting firm as required.*

## **2. IRS RULES AND REGULATIONS**

During 2005, 2006 and 2007, GHFC did not adhere to the Internal Revenue Service's rules and regulations. A review of the financial statements and bank statements revealed that GHFC did not deposit payroll tax withholdings on a monthly basis. Due to lack of sufficient documentation, we are unable to determine whether Form 941 was filed each quarter to report wages earned and taxes paid or whether Form 1099-MISC was filed yearly for each non-employee contractor. We are unable to determine if GHFC supplied each non-employee contractor a W-9, Request for Taxpayer Identification Number and Certification, for income reporting purposes.

IRS instructions for Form 941 state that:

- Each quarter, all employers who pay wages are subject to income tax withholding or social security and Medicare taxes must file Form 941, Employer's Quarterly Federal Tax Return. Form 941 must be filed by the last day of the month that follows the end of the quarter.
- Employers must file Form W-2 for wages paid to each employee from whom income, social security, or Medicare tax was withheld.
- If you reported \$50,000 or less in taxes during the lookback period (prior year), you are a monthly schedule depositor.

IRS instructions for Form 1099-MISC state that, *"If the following four conditions are met, you must generally report a payment as non-employee compensation."*

- You made a payment to someone who is not your employee.
- You made the payment for services in the course of your trade or business (including government agencies and non-profit organizations).
- You made the payment to an individual, partnership, estate, or, in some cases, a corporation; and
- You made payments to the payee of at least \$600 during the year.

IRS instructions for Form W-9 state that, *"A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA."*

The penalties for the failure to deposit tax withholdings range from 5%, to a maximum of 25%, plus the interest due on the unpaid amount. Under the Trust

Fund Recovery Penalty, any one of the Board members could be liable for the entire amount of the withholding and any penalties and interest for the amount that was not deposited. Depending on the employer's payroll tax liability, the employer is to deposit the payroll tax deductions in the bank at least monthly. Also, GHFC is to provide 1099's to the companies it made payments to during the year. If an information return and IRS filing is made after August 1 in the year it is due, the penalty can be up to \$50 per return for a maximum of \$250,000 (\$100,000 for a small business).

GHFC was to deposit the Office Manager's social security, Medicare, and withheld federal income taxes per month in the bank or through the Electronic Federal Tax Payment System and file a Form 941 each quarter. At year-end, they were to issue a W-2 to the employee and report the annual earnings on Form W-3. GHFC did not make the required deposits and due to lack of sufficient documentation, we are unable to determine whether they filed the appropriate quarterly and annual payroll reports or issue 1099-Misc returns for non-employee contractors. GHFC expected the accountant to do the filings. No follow-up was performed to ensure deposits were made and if the reports were filed or issued.

A local CPA is currently negotiating with the IRS concerning the penalties and interest due for late deposits and filings.

**We Recommend** that GHFC becomes familiar with the IRS rules and regulations regarding payroll tax deposits and filing procedures. GHFC needs to ensure all deposits are current and any penalties and interest due are paid. It is GHFC's responsibility to see the deposits are made on time and the reports are filed.

**Management Response:**

*GHFC followed the advice of the previous accounting firm as to IRS payments. This advice was incomplete. Prior to this audit GHFC had begun action through a new CPA to correct the problem and to date the correction is complete. All IRS Rules and Regulations will be followed.*

**3. FDIC LIMITS**

GHFC's bank account balances exceeded the \$100,000 FDIC insurance limit periodically during 2005, 2006 and 2007. The bank does not pledge additional collateral to secure the deposits against loss in the event of a bank failure.

The Federal Deposit Insurance Corporation (FDIC) insures bank accounts up to \$100,000 per customer in any one bank. The account balances should be less than \$100,000 or have additional collateral pledged by the bank to secure the deposit. Should the bank have financial difficulties, amounts in excess of \$100,000 would not be insured by FDIC. The unsecured balances could be

subject to loss if the Federal government does not cover the unsecured balances. Effective October 3, 2008, Congress temporarily increased the FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009.

The bank account balances went unnoticed by management and the corporate funds were at risk because their balances exceeded the FDIC insured limits. The balances were not adequately collateralized by FDIC insurance, pledged bonds and securities, and/or surety insurance.

**We Recommend** that GHFC monitors the FDIC insurance limit and move funds accordingly.

**Management Response:**

*Account balances and FDIC insurance limits will be reviewed at each Board meeting.*

**4. BUSINESS RECORD MAINTENANCE**

Adequate business records are not all kept in the GHFC office. Records are left with accountants, attorneys, and other City departments. While reviewing supporting payment documentation, approximately 20% of the 101 checks sampled did have supporting documentation but they were not rigorous enough for accounting standards. On July 21, 2006, GHFC made a duplicate payment totaling \$2,839.05 to McKinney Lumber. The duplicate payment was a result of making two separate payments, one from an invoice and another from a statement. During the exit conference, GHFC provided audit with verification of reimbursement from McKinney Lumber of the duplicate payment. The reimbursement was made on August 3, 2006.

Well kept financial and business records promote accuracy and facilitates in the quick correction of mistakes that may occur. GHFC should keep all records of checks written and supporting documentation for writing them. Records to operate the organization or for referencing previous activity should be kept in the corporate office of the organization. The Office Manager is willing to learn but has not been given adequate office managing training.

**We Recommend** all adequate and original documentation relating 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.

- If professionals, consultants, or other City Departments need information, copies should be made.
- Payments should only be made from original invoices to prevent duplicate or fraudulent payments. Check copies and original invoices should be

filed in the GHFC office and never removed from the office. Payment should be made from an invoice and not from a statement.

As recommended in our FY04 audit, GHFC should ensure that adequate and original documentation is maintained to support payments. GHFC failed to ensure that adequate and original documentation was maintained to support payments.

**Management Response:**

*The one duplicate 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 backup for the checks sampled has been furnished to Internal Audit. Going forward GHFC will provide original invoices and receipts.*

*The entire Board will continue to review all dispersals at monthly Board meetings.*

**5. EXPENSE POLICY**

GHFC's expense policy states that GHFC will be responsible for all reasonable costs related to GHFC business travel while attending seminars, conferences, retreats and other related activities. The expense policy gives each Board member their own judgment when deciding what is or is not a reasonable expense. The policy does not encourage the use of an expense report form with attached detailed receipts; it simply states that as long as the expenses are listed in writing and proper receipts attached, any form will be accepted. Also, the expense report form used by GHFC specifies that a mileage sheet should be attached if applicable but the expense policy does not discuss this. The expense policy states that all expenses must be reasonable and approved by the President. After our review of 23 travel expenses, we found the following:

- 3 travel expenses did not have a completed expense report attached
- 21 expense reports did not show appropriate approval
- Of the 14 expense reports receiving reimbursement for mileage, all 14 did not have a mileage sheet attached to the expense report
- 15 expense reports did not have supporting detailed receipts attached
- A duplicate reimbursement for \$177.10 was given to both a board member and a staff member for a one night hotel room charge during a conference in 2005. The staff member is currently disputing the hotel room charge with the hotel. The staff member has reimbursed GHFC.
- 1 expense report shows two additional hotel nights stay before a conference in 2005

After further review, we found the following to be questionable travel expenses in regards to the objectives of GHFC:

- Itineraries were not all attached to the expense reports to verify dates allowed for travel and the purpose of the travel
- Multiple rental vehicles were used on a conference; it is questionable as to why Board members did not share a larger vehicle
- Room service, valet parking, gift shop purchases and movie rentals were charged to hotel rooms at GHFC's expense

Of our sampled 101 checks reviewed for supporting documentation, 14 were reimbursements for expenses other than for travel made payable to a staff member. We found that approved expense reports were not attached; however, the checks were signed by the President.

GHFC's expense policy should be similar to the City Directive's Employee Business Expense stating details for expenditures. Expense reports should be well organized with all proper documents attached. Each expense report should be approved by the President. A detailed expense policy promotes consistency and fairness while achieving the affordable housing objectives of GHFC. GHFC does not have a detailed policy and is lacking management oversight on expenditures.

**We recommend** that GHFC strengthen their policy to provide more disclosed expense procedures and to prevent duplicate reimbursements. Based on our audit objectives, valet parking, room service, elongating hotel stays before and after a conference, gift shop purchases, and hotel in-room movie rentals may conflict with the affordable housing objectives of GHFC. We are unable to determine if these items are reasonable costs because sufficient and organized documentation was not attached to each expense report.

As recommended in our FY04 audit, GHFC should strengthen its travel policy. GHFC failed to strengthen its travel policy.

**Management Response:**

*GHFC is reviewing its 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.*

## **6. HOME IMPROVEMENT LOAN PROGRAM**

GHFC developed a Home Improvement Loan Program in 2007 and did not follow the following procedures that were outlined in the Board of Director's meeting minutes:

- Document that the applicant owned the subject property for one year
- Verify that the applicant had a consistent 12 month history of on-time mortgage payments
- Complete a credit check on the applicants
- Complete a title search for verification of legal ownership of property
- Document or verify the appraised value of the subject property
- Verify all property taxes were current
- Make copies of social security card or driver's license for identity verification
- Verify if loan funds were used for home improvements

Additionally, GHFC did not:

- Disclose the loan applicants in the board meeting minutes
- Issue proper receipts to loan recipients for payments made
- Deposit loan payments in a timely manner
- Supply loan recipients proper payment instructions
- Enforce a monthly payment plan

GHFC did not verify and document the necessary information needed to provide loans to applicants. GHFC did not issue proper receipts for payments made on the notes. Cash received from Citizen A, a \$20,000 loan recipient, in October and December 2007 totaling approximately \$900 for 5 months of payments, was deposited in December 2008, only after audit discovered the missing deposits. Citizen A has not made a loan payment since June 2008. After phoning loan recipients, we discovered check deposits to GHFC from Citizen B, a \$20,000 loan recipient, were not being deposited by GHFC in a timely manner. On two occasions, Citizen B had to issue new checks to GHFC due to GHFC failing to deposit the initial check payments in a timely manner. Citizen C, a \$5,000 note recipient in July 2008, has not made any payments on the note because GHFC told Citizen C to wait for a payment coupon book. Citizen C has never received a coupon book as of December 2008, and has called GHFC on two occasions. Citizen C has still not heard from GHFC nor has any payments been made.

Good internal controls dictate that GHFC should document and verify all necessary information before providing a loan, fully disclose all loan information during the Board of Directors meetings for purposes of approval, issue proper receipts to loan recipients, deposit all payments immediately upon receipt and enforce a monthly payment plan. Having proper loan documentation ensures the right citizens are receiving the right amount of support. Enforcing a monthly payment policy and depositing the payments in a timely manner ensures accurate and reliable financial statements. GHFC is not providing the necessary

oversight on the Home Improvement Loan program. GHFC should make the payments and record keeping a high priority.

**We recommend** that GHFC develops a documented policy for Home Improvement Loans. GHFC must verify and document all critical loan applicant information before issuing any notes. GHFC needs to issue proper receipts to each loan recipient and enforce the payment of the notes. GHFC needs to deposit all payments received in a timely manner.

**Management Response:**

*The GHFC Board is reviewing the entire Home Improvement Loan Program at this time. If the program is continued GHFC will develop formal procedures and regulations for the program.*

**7. USING CITY RESOURCES TO CONDUCT BUSINESS**

Garland Housing Finance Corporation uses the following City resources to conduct business:

- City property without cost for office space and equipment
- Finance Department's Accounting Manager without cost for financial accounting services
- Housing and Neighborhood Services for assistance

The Board of Directors is responsible for the operations of GHFC. It would be beneficial for GHFC and the City to enter into a written agreement regarding the resources GHFC uses to conduct business.

GHFC is a component unit of the City and is a legally separate organization. GHFC is listed in the Comprehensive Annual Financial Report and due to the lack of financial integrity on GHFC's part, the Finance Department's Accounting Manager began completing the statements for GHFC in 2007. Also, Neighborhood Services partnerships with GHFC on a continual basis upon request by GHFC for grant assistance. Along with financial and grant support, GHFC conducts business on City property without cost for office space and equipment.

**We Recommend** GHFC consider the following options:

- Enter into a written agreement with the City for the office space, equipment and any additional resources used with City funds, for financial accounting services provided by the Finance Department and for all assistance provided by the Housing and Neighborhood Services Department.
- Compensating the City for resources used to operate the corporation

**Management Response:**

*GHFC looks forward to having a formal contract with the City if the Council and Staff feel it is in the best interest of the City.*

**8. WRITTEN POLICIES AND PROCEDURES**

GHFC does not have written policies and procedures for GHFC funds used for operations. GHFC needs a written policy to conduct business with GHFC funds because a written policy states necessary procedures for staff and Board members to abide by when using GHFC funds. A policy provides a plan of action to help guide GHFC in achieving their affordable housing objectives.

A written policy detailing the procedures for using GHFC funds prevents unintended use and promotes fairness and consistency while achieving the affordable housing objectives of GHFC. GHFC relies on Board meeting minutes to serve as what should be done with GHFC funds.

**We recommend** that GHFC develop a written 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.

**Management Response:**

*GHFC has a written 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 conducting business with GHFC funds.*

*Additional policy and procedures will be written to govern office operations as required.*

**9. SEGREGATION OF DUTIES IN REGARD TO CHECK SIGNATURES**

Three checks, one withdrawal and one transfer exceeding \$10,000 cleared the bank with only one signature. Garland Housing Finance Corporation has a verbal policy of two Board member signatures on checks that are \$10,000 or above.

<b>Type of Debit</b>	<b>Date</b>	<b>Amount</b>
Check #1595	1/15/05	\$10,562.84
Withdrawal	12/19/05	\$28,188.00
Check #1778	7/28/06	\$10,531.50
Check #1195	10/17/07	\$20,380.69
Transfer	12/11/07	\$50,000.00

GHFC needs to ensure all checks written above \$10,000 are signed by two board members. The signature card at the bank indicates what board members have check signing privileges. A two signature policy for checks over \$10,000 is a good start in reducing the opportunity for fraud. Lack of enforcement cancels the benefits of the policy, making it only a suggestion. GHFC did not ensure all checks over \$10,000 were signed by two board members.

**We Recommend** GHFC ensures all issued checks, withdrawals and transfers above \$10,000 have two board signatures. GHFC should also have a written policy regarding all bank transactions and handling. The bank does not monitor if the required two signatures are on the checks.

**Management Response:**

*The five transactions were all approved by the entire Board and signatures are in compliance with the corporate by-laws. The Board is reviewing policy of signature requirements. The approved policy will be confirmed as written policy.*

**10. CREATION OF MONTHLY BUDGET VS. ACTUAL REPORTS**

The Board of Directors prepares an annual budget, but the budget is not compared to the results of the operations. A budget vs. actual report should be created to address how well the estimates from the beginning of the year match the operations during the year. At the end of each month, any variances regarding the budget vs. actual should be explained.

Unless the budget is compared to monthly actual activity, there is no reason to develop a budget. A budget is developed to anticipate and plan what the organization will accomplish during a year. A budget provides information, communication and monitoring to ensure management internal control functions. A budget serves as a plan of action for achieving objectives, a standard for measuring performance and a device for monitoring anticipated adverse situations.

**We Recommend** a copy of the monthly budget is given to the accountant so a budget vs. actual report can be 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.

**Management Response:**

*The annual budget was 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 predicted last January.*

*An operating budget is developed each fiscal year and will continue to be improved based on the goals and objectives of GHFC, and will be used as a tool for anticipated projects. A five-year plan will be developed for projections and may be revised annually depending on actual projects.*

## **11. INCREASING GARLAND HOUSING FINANCE CORPORATION EXPOSURE**

Garland Housing Finance Corporation is very limited in its advertising within the community it serves. GHFC needs a way to make it known through advertising along with the services it provides to the citizens of Garland. GHFC exists to provide affordable housing to citizens of Garland. Citizens need to know what the organization does, where it is located and how to contact them. This information would be important to recipients, as well as those who may offer assistance or opportunities for the organization.

**We Recommend** GHFC improve its 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, within the Texas Housing Finance Corporation's website and within other beneficial agency websites to promote GHFC within the community.

### **Management Response:**

*GHFC has selected a 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, faith-based, community, businesses, organizations, and other housing institutions which may have customers needing the assistance of GHFC.*

## **12. BOARD OF DIRECTOR MEETING MINUTES TO BE SIGNED BY THE PRESIDENT AND THE SECRETARY**

Minutes from Board of Directors meetings are not signed by the President and the Secretary to show that they have been approved by the Board. Minutes from the Board meetings have signature lines for two directors, but most are not signed to show that they have been approved.

The President and the Secretary should sign the minutes of the previous meeting after they have been approved by the Board. Another officer can sign should the Secretary be absent. Each set of meeting minutes should stand alone as official documents.

**We Recommend** GHFC ensure signed 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. Those signed minutes should be filed at the corporate office as official documents.

As recommended in our FY04 audit, GHFC should ensure that signed meeting minutes are maintained. GHFC failed to ensure that signed meeting minutes were maintained.

**Management Response:**

*Signatures will be added to the minutes of the Board meetings. Official minutes, having been approved by the Board, are maintained in the GHFC office and copies will be provided for retention in the City Secretary's office.*