



Yolo County Housing

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BOARD OF COMMISSIONERS

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DATE: June 9, 2011

TO: YCH Board of Commissioners

FROM: Lisa A. Baker, Executive Director

PREPARED BY: Mark Stern, Finance Director

SUBJECT: **Receive and review audit follow up, consider appointment of ad-hoc audit subcommittee, discuss proposed delegation of duties for new Board and consider revised schedule of delegation to new Board**

RECOMMENDED ACTION:

That the Board of Commissioners:

1. Receive and review audit follow up;
2. Consider appointment of ad-hoc audit subcommittee to oversee development of a plan of action to address outstanding audit findings;
3. Discuss proposed delegation of duties for new Board and approve date to consider delegation resolution and effective date of delegation to new Board.

BACKGROUND/DISCUSSION:

1. Historical Background

It is difficult to have a conversation about the finances and status of Yolo County Housing (YCH) without historical background on the Agency and its recent difficulties. To a large extent, YCH's immediate issues have been addressed and its financial status significantly improved since the Interim Board took control in June 2006. However, staff have always cautioned that systemic issues still exist that need to be remedied. Issues in General Ledger and Interfund Transfers have been discussed with the Board since the first engagement of Casterline Associates as the forensic accounting firm in 2007.

Staff and the Board, along with the assistance of the Agency's outside auditors, have made significant strides since 2006 and the introduction of Interim Director Phil Batchelor's 161 improvement steps. The effects of these improvements have been demonstrated by the elimination of our "troubled agency" status and, subsequently, by the closure of outstanding repeat findings and of the 2007 audit by the U.S. Department of Housing and Urban Development (HUD).

A. Historical Context

A Summary Look at Where We Were and Where We Are:

Fiscal Snapshot

Indicator	2005-2006	2009-2010	April 2011
Cash on Hand	\$1.67 million	\$3.498 million	\$6.36 million
Net Income (Deficit)	(\$2.41 million)	\$1.7 million	N/A
Administrative Cost	\$5.04 million	\$2.2 million	N/A
Vouchers Under Lease	1,259 (\$581,000)	1,243 (\$724,000)	1,347 (\$819,000)
On Time Rent	96.58%	97.73%	98.19%

Overview of Actions

Prior to 2007 - 2008, YCH had run a deficit budget in 2003, 2004, 2005, 2006 and 2007. In addition, as reported by Casterline Associates in 2007, there were issues with Interfund Transfers, as well as issues with the General Ledger, which was reported to be in a “state of confusion.” As Casterline Associates stated,

“...the auditors, in their 2nd draft of the audit, had consolidated the equity of this fund with the Business Activities fund of the Authority for 2006, but had consolidated it with the Low Income Public Housing program in 2005. After extensive discussions with the auditors, we had this classification changed for the 3rd and final draft of the audit so that this equity of \$1.4 million remained with the Public Housing fund. This just demonstrates the confusion and difficulty of interfund and cash “ownership” issues not only among YCH accounting staff, but also with the auditors. This is probably due to YCH, in the past, either not understanding or honoring the restrictions on the sources and uses of cash and/or mismanagement of the general ledger system as it pertains to cash accounting and interfund transactions and reconciliations.”

In 2007, HUD’s Recovery and Protection Corps (RPC) made a determination that Yolo County Housing was “non-viable.” The Agency’s auditors followed on and made a finding that the Agency was not a “going concern.” That finding was removed in the 2009 audit, reflecting the much improved financial condition of the Agency, along with recognition of the approval of the Capital Fund Financing Plan (CFFP) and elimination of the contingent liability for the Capital Funds used in the Administration Building.

Since 2007-2008, YCH has operated a balanced budget, improved cash reporting, made contributions to reserves, corrected the majority of interfund transfer issues, been removed from HUD troubled status and closed its Memorandum of Agreement with HUD for improved financial controls. In addition, HUD has closed the 7 original findings and the 3 repeat findings, which are referenced in the current audit.

However, YCH still has unresolved issues surrounding Interfund Transfers that are related to the original set up of the General Ledger system by the staff then in control, as well as unresolved issues surrounding the original contingent liability and spin off of the Administration Building, prior real estate transactions and the changeover to AMPS. And, unrelated to the audit, YCH still has two real estate transactions that need to be developed and/or sold – the Esparto Duplex properties and the lot at 1212 “L” Street, which are outstanding real estate transactions from the prior administration.

YCH continues to seek ways to improve the fiscal stability and reporting of the Agency and retained the Reznick Group as their third set of single auditors since 2006 -2007. This gives us the ability to see “with a different set of eyes” to ensure that we are able to do everything we can do to continue to improve. This ability has been borne out by the two (2) new findings from the Reznick Group, which were overlooked by prior auditors and which were presented to the Board at its April meeting.

II. Executive Committee Meeting

The 2009 – 2010 audit was presented at the April 14, 2011 Board meeting. At that time, the auditors were not in attendance for the presentation and several board members were not able to attend as well. Because of this, Chairman Provenza asked staff to bring the item back to the full Board at a subsequent meeting, tentatively scheduled for June 2011 so that the issue could be reviewed by the full Board prior to the transfer of governance. (Since that time, staff has learned that the date conflicts with mandatory training for single auditors that do housing authority audits. As a result, the item will be brought back to the Board at its July 14, 2011 meeting.)

Subsequent to that direction, Commissioner Provenza asked for an executive meeting with staff and the auditors, along with the Chairman and Vice Chairman to review the audit and the findings contained therein. That meeting was held on May 26, 2011. The Chairman requested that County personnel also attend the executive session. In attendance at that meeting were the following persons:

- Chairman Jim Provenza
- Vice Chairman Duane Chamberlain
- Yolo County Auditor-Controller, Treasurer & Tax Collector Howard Newens
- Yolo County Counsel Robyn Drivon
- Ahamadou Bocar, Reznick Group (YCH audit firm)
- Lyn DellaPenna, Reznick Group (YCH audit firm)
- Lisa Baker, Executive Director, YCH
- Mark Stern, Finance Director & Treasurer, YCH
- Sonia Cortes, YCH Counsel

The goal of the meeting was to review the outstanding audit findings and to lay out the framework for the development of a corrective action plan to guide future improvements that would minimize potential risk and resolve outstanding audit findings.

A. HUD Follow Up

Subsequent to setting up this meeting, YCH received a letter from HUD, which is presented to the Board as item 2.02 of the June 9, 2011 agenda. This letter closes the three (3) repeat findings from 2008 -2009 and the three related findings for the 2010 audit. In addition, it finally closed the seven findings and the audit from 2007 that had remained open due to the formerly troubled status of YCH.

B. Executive Meeting

The proposed outline plan of action was presented during the executive meeting, and Reznick Group affirmed that they believe follow through of the plan being developed will mitigate the 2009-2010 findings. Reznick cautioned, however, that their audit guidelines require that certain language be included in the audit and recognize that with the limited staff available, YCH will most likely be prevented from ever meeting the "Best Practice" standards that audit guidelines suggest. Staff and the Reznick Group agreed that these findings are not unusual in Housing Authorities due to limited funding, but agreed that potential risk could be further mitigated and discussed in the audit report.

Complete resolution of the issues cannot be accomplished before completion of the 2010 – 2011 audit and will likely take more than a year to correct. And due to audit guidelines, YCH will still have "audit findings" even if the entire corrective action plan is implemented prior to the 2010-2011 audit. During the meeting, Reznick stated that, while the findings were made in the 2010 -2011 audit, none of the findings are significant.

In the meeting, YCH staff stated that they believe the underlying cause of the problem appears to be the initial set up and operation of the Revolving Account, Interfund Transfers and Chart of Accounts, as well as the remaining financial issues that surround the Administration Building and the real estate transactions that pre-date the current Board and staff.

Because of this, staff had already engaged the services of Tenmast, our system provider, to provide forensic analysis, work with the General Ledger (including Interfund Transfers and the Revolving Account) and provide staff refresher training June 27 – 30, 2011 here at YCH.

With regard to the other findings on Segregation of Duties and Public Housing Tenant File Review (since closed by HUD), staff will be working with the auditors to outline for the auditors the existing internal audit process used to mitigate the potential risk associated with the Segregation of Duties Finding and to discuss other potential mitigation steps during the 2010-2011 audit. Management staff for the Public Housing program is also conducting quality control samples to determine if corrective actions have been fully implemented as a result of the 2009 – 2010 audit.

C. Next Steps

Chairman Provenza has asked for a follow up meeting to review the action plan prior to the report to the Board at the July 14, 2011 meeting. In addition, the Commissioner has asked that the creation of an Ad-Hoc Audit Subcommittee be placed on the agenda for consideration by the

Commissioners in order to help guide the action plan, as well as to ensure that a sound plan is in place prior to the transition to a new Board.

As part of this process, staff is requesting that the Board also discuss the proposed delegation of duties to the new Board, as well as the issue of timing for the transition so that the audit and the governance transition can run on parallel tracks and lead to an organized changeover to the new form of governance.

D. Proposed Delegation of Duties

Earlier, the Board appointed an Ad-Hoc Subcommittee, made up of Commissioner Rexroad and Commissioner Thomson, to consider the proposed structure and duties of the new Board. As a result, the Board decided on a two-tier form of governance, with a Board of Governors and a Housing Commission. In addition, there were discussions about the respective duties of each Board. In order to bring back a proposed Resolution for Delegation of Duties to be considered by the Board of Governors, staff requests that the Board review the proposed delegation of duties and direct staff on how to proceed.

It was recommended by the Ad-Hoc Subcommittee that the duties be divided and delegated between the Board of Governors and the Housing Commission. Based on those initial recommendations, staff has developed the following proposed delegation for consideration by the Board:

DELEGATION OF POWERS

1. The following powers, duties, and functions are not delegated to the Housing Commission:
 - a. Section 3411(a) – Ability to sue and be sued;
 - b. Section 3411(b) - Have a seal and alter it;
 - c. Section 3411(c) - Have perpetual succession;
 - d. Section 34315(d) – Acquisition of real property by eminent domain;
 - e. Section 34316(b) –Purchase of bonds;
 - f. Section 34325 – Eminent domain authority.

The authority to issue bonds pursuant to Article 5, Chapter 1, Part 2, Division 24 of the Health and Safety Code shall be exercised by the Board of Governors of the Housing Authority. The Housing Commission may only recommend such action as the issuance of bonds or conditions relating thereto.

The Board of Governors of the Housing Authority would delegate to the Housing Commission the authority set forth in Chapter 3, Part 2, Division 24 of the Health and Safety Code titled the "Housing Operations Law."

EMPLOYEES OF HOUSING AUTHORITY

- A. The Board of Governors of the Housing Authority would delegate to the Housing Commission authority to adopt policies and regulations for the Housing Authority not inconsistent with State and Federal law and regulations on all matters, including matters relating to housing program

operations, fiscal matters, personnel matters, and other general administrative practices of the Housing Authority, subject to the following conditions:

1. The following procedure shall be followed for appointing the Executive Director of the Housing Authority:
 - a. The Housing Commission or its delegated representative would screen candidates for the position.
 - b. The Housing Commission would select the three (3) most qualified candidates and submit their names and qualifications to the Board of Governors of the Housing Authority. The Housing Commission may indicate its judgment as to the single most qualified candidate for the Board of Governors' consideration.
 - c. The Board of Governors of the Housing Authority would appoint the Executive Director of the Housing Authority.
2. The Executive Director of the Housing Authority would serve at the will and pleasure of the Board of Governors of the Housing Authority, and may be removed upon recommendation of the Housing Commission. The Executive Director would serve as Executive Officer of the Housing Authority, and serve as Secretary of the Housing Commission, and would be responsible to the Housing Commission. In any matters subject to approval by the Board of Governors, or in matters wherein the Board of Governors takes action, the Executive Director would be responsible to the Board of Governors of the Housing Authority.
3. Housing Authority employees as of July 1, 2011 would be subject to the personnel rules and procedures then in place for the Housing Authority, as well as, any subsequent amendments thereto. Housing Authority employees would be subject to the provisions of the 2010-2011/2011-2012 General Unit Memorandum of Understanding, or the 2010-2013 Management Unit Memorandum of Understanding, whichever, if any, applies.

PROCEDURE FOR REVIEW

- A. All actions of the Housing Commission may be reviewed by the Board of Governors of the Housing Authority upon a request. When such a request is made, the Housing Commission's action would not be final until action is taken by the Board of Governors, or withdrawal of the request for review. A request for review shall be made to Clerk of the Board within ten (10) days after the Housing Commission action. Notwithstanding the provisions of this section, any action specifically deemed by the Housing Commission as an urgency measure shall be final after three (3) business days following action on the measure unless a review is requested pursuant to this section within (3) business days.
- B. The Clerk of the Board would provide notice of the request for review to the Board of Governors and the Executive Director of the Housing Authority on the first business day following the request for review. An action of the Housing Commission may be reviewed by the Board of Governors upon the written request of the Board of Governors as a whole, any one member of the Board of Governors, or the Executive Director of the Housing Authority. No cause for review need be stated when a request is made.

In the next step, staff will prepare the delegation resolution for consideration by the Board of Governors, with an effective date designed to coincide with the transition in governance.

E. Revised Timetable for Transition

The timetable for transition has been fluid, due to a number of factors, including the need to resolve outstanding legal issues surrounding the transition. Once those issues were resolved, the Board of Supervisors approved the Ordinance for the proposed governance structure and the 1st and 2nd reading of the Ordinance and adoption was approved. The Ordinance went into effect in the month of April; however, not in time to be considered by the Board at its April 14, 2011 meeting. Since that time, the transition has been delayed due to the development of the information package for the cities and the County, as well as to the need to recruit for new Tenant Commissioners, as well as at the request of Chairman Provenza, who wishes to have the audit issues addressed prior to completion of the transition. At the meeting of May 19, 2011, the Board asked for a revised timetable for the transition. At that time, staff responded that the transition was scheduled to take place in September due to the need to have an audit review before the Board in July and the fact that the Executive Director would not be available for the August 2011 Board meeting.

At the executive meeting of May 26, 2011, there was some concern that the transition would need to be further delayed, pending the review by the future Ad-Hoc Audit Subcommittee of the action plan to address outstanding findings and approval by the Board of the proposed action plan. Based on these concerns and assumptions, staff recommends that the Board discuss and consider a revised timetable for implementation by staff.

FISCAL IMPACT:

There are no items in the 2009-2010 Audit findings that present a significant fiscal impact. HUD has recognized the improvement that has occurred at YCH over the last four years and closed the 2007 through 2010 audits and findings with the exception of findings 2010-4 and 2010-5 relating to interfund accounts. Staff has been in communication with the auditors on these issues, has developed a working plan with the auditors and retained the services of its software provider to assist in resolution of these issues.

In addition, Chairman Provenza raised the issue of timing with respect to the inclusion of the YCH financial information for County audit purposes. It is recognized that the timing of the respective audits for each separate entity are not on the same cycle. This was recognized and discussed with both the Ad-Hoc Governance Committee, legal counsel and the County prior to adoption of the proposed form of governance. Staff and the County's Treasurer have discussed the provision of HUD-submitted unaudited financial statements to the County, along with a copy of prior year audit and the provision of audited statements as soon as possible for the County's purposes.

CONCLUSION:

YCH is in the midst of transitioning from an Interim Board of Commissioners to a new permanent Board, which will ensure the continued independent status of the Agency. The audit has been closed and accepted by HUD. There are no findings of a significant fiscal impact; however, the outstanding issues are of long standing. In addition, it is likely that certain findings will continue due to ongoing staffing constraints that prevent implementation of audit "best practices." Staff has begun work under the proposed corrective action plan. Staff recommends that the Board consider the Chairman's request for an Ad-Hoc Audit Subcommittee, the proposed delegation of authorities

to the new Board and Board of Governors, as well as the revised timetable for transition to the new Board and give staff further direction on how to proceed.

Attachment: Interim Report on Outstanding Audit Issues, 2011