



June 28, 2021

Shannon Callahan, Director  
Portland Housing Bureau  
421 SW 6<sup>th</sup> Avenue, 5<sup>th</sup> Floor  
Portland, Oregon 97204

Dear Ms. Callahan,

Attached is the report on the *Portland Housing Bond Audit FY 2019-20*. The audit was conducted in conformance to Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office. The audit objective was to determine if Bond dollars were separately and clearly tracked for FY 2019-20 to maintain fiscal responsibility, including (a) have expenditures fit the language of the Bond measure; (b) have non-eligible expenses been excluded; and (c) have costs been adequately tracked by project.

This audit covered Housing Bond Program expenditures in FY 2019-20. No Bond-funded projects closed on their financing during FY 2019-20, and no Bond funds were disbursed to projects or project-related expenditures. Our audit evaluated administrative expenditures charged to the Bond Program accounts in FY 2019-20, and Housing Bond Program policies and procedures, and found that expenditures charged to the Bond Program account conformed to the Bond measure.

Our audit report includes three findings and six recommendations intended to improve Bond Program documentation and reporting, including:

1. Reviewing and documenting procedures for Portland Housing Bureau staff time allocated to Bond-funded projects;
2. Updating and revising internal control procedures for reviewing loan disbursement requests to ensure compliance with loan agreement terms, Bond measure language, and state constitution requirements; and
3. Enhancing reporting on Bond Program expenditures in the Annual Progress Report and quarterly reports to the Bond Oversight Committee.

We would like to thank the Portland Housing Bureau Director, Deputy Director, Finance and Accounting Manager, Housing Investment and Portfolio Preservation Manager, Housing Development Planning Manager, and their staff for their assistance in providing information, answering questions, and reviewing this report. We would also like to thank the City's Controller and Debt Manager for taking the

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time to talk to us and provide us essential information for this report. We would also like to acknowledge the Portland Housing Bureau Director's written response to our audit findings, beginning on page 25.

Sincerely

A handwritten signature in black ink, appearing to read "Severin", written in a cursive style.

Severin Campbell, Principal  
Harvey M. Rose Associates LLC

**Portland Housing Bond Audit  
FY 2019-20**

**Prepared for:  
Portland Housing Bureau**

**Harvey M. Rose Associates, LLC**

**<http://www.harveyrose.com>**

**June 28, 2021**

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## Executive Summary

### Audit Objective, Scope, and Methodology

The objective of the Portland Housing Bond Audit was to determine if Bond dollars were separately and clearly tracked for FY 2019-20 to maintain fiscal responsibility, including (a) have expenditures fit the language of the Bond measure; (b) have non-eligible expenses been excluded; and (c) have costs been adequately tracked by project. For FY 2019-20, we also reviewed gap financing procedures developed following an amendment to the Oregon Constitution in 2018 to allow general obligation bonds to be used for this purpose.

The audit was conducted in conformance to Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office. The audit scope includes expenditure of bond funds in FY 2019-20 to provide gap financing to eligible affordable housing projects. The audit process included interviews with representatives from the Portland Housing Bureau, including staff responsible for budget and accounting, loan underwriting, loan coordination, and construction coordination; and Portland Bureau of Revenue and Financial Services, including the Controller and Debt Manager; detailed review of documents, including City and State statutes for general obligation bonds, City and Bureau bond program policies, Bond Oversight Committee bylaws and policies, underwriting guidelines, management reports, Housing Investment Committee reports, budget and actual reports, staff time charges, expenditure support documentation, and other documents to assess Bond Program spending; and follow up with Portland Housing Bureau and other City of Portland representatives to ensure an accurate understanding of the Portland Housing Bond Program.

We submitted a confidential draft report on May 17, 2021, summarizing our findings and recommendations, to the Portland Housing Bureau Deputy Director and Finance and Accounting Manager, and conducted an exit conference on June 11, 2021 with the Portland Housing Bureau Director, Deputy Director, and other representatives. Based on information provided at the exit conference, we revised our report and submitted our final report to the Portland Housing Bureau Director and Deputy Director on June 18, 2021. The Portland Housing Bureau Director provided a list of accomplishments of the Housing Bond Program and written response to our findings and recommendations, attached to this report beginning on page 25.

### Summary of Audit Findings

This audit covered Housing Bond Program expenditures in FY 2019-20. No Bond-funded projects closed on their financing during FY 2019-20, and no Bond funds were disbursed to projects or project-related expenditures. Our audit evaluated administrative expenditures charged to the Bond Program accounts in FY 2019-20, and Housing Bond Program policies and procedures, and found that expenditures charged to

the Bond Program account conformed to the Bond measure.

Our audit report includes three findings and six recommendations intended to improve Bond Program documentation and reporting, including:

1. Reviewing and documenting procedures for reporting Portland Housing Bureau staff time to Bond-funded projects;
2. Updating and revising internal control procedures for reviewing loan disbursement requests to ensure compliance with loan agreement terms, Bond measure language, and state constitution requirements; and
3. Enhancing reporting on Bond Program expenditures in the Annual Progress Report and quarterly reports to the Bond Oversight Committee.

## Implementation of the Bond Program

Portland voters authorized the issuance of \$258.4 million in general obligation bonds in November 2016 to pay for affordable housing for low-income families, seniors, veterans, and people with disabilities. According to the ballot measure, bond funds could be used to build new housing, or to purchase and rehabilitate existing housing in order to maintain affordability and prevent displacement. Measure 102, approved by Oregon voters in November 2018, amended the State Constitution to allow local governments to issue bonds to finance affordable housing projects sponsored by nongovernmental agencies. Subsequent to the approval of Measure 102, the Portland Housing Bureau issued a Bond Opportunity Solicitation in April 2019 to select third-party sponsors for housing projects to be funded by Housing Bond loans. Of the ten projects awarded funding through the Bond Opportunity Solicitation, as of April 2021, four are in construction (Crescent Court, Cathedral Village, Hayu Tilixam, and Las Adelitas), and six are in pre-development. In addition, the two projects previously purchased by the Portland Housing Bureau – Ellington Apartments and Burnside – are fully occupied.

To date, the City has issued \$217.3 million in Housing Bonds to finance 1,490 affordable housing units. Of the original \$258.4 million in voter-approved Housing Bonds, the City has remaining bond capacity of \$41.1 million.

## The Housing Bureau should better document processes for monitoring administrative expenses charged to the Housing Bonds

The November 2016 measure authorizing the City of Portland to issue general obligation bonds to fund affordable housing stated that administrative costs charged to the bonds could not exceed 7 percent. Following an Oregon State Constitution amendment in 2018 allowing local governments to use general obligation bond proceeds to pay the capital costs of developing affordable housing, the Portland Housing Bureau instituted a Program Delivery Fee to be charged to affordable housing developers to reimburse

the Bureau's administrative costs.

In FY 2019-20, the Portland Housing Bureau incurred \$1.97 million in Bond program expenses, though no expenses have yet been reimbursed by Bond funds and these costs have not yet been reviewed for eligibility for reimbursement from bond funds. Bond program administrative expenses include staff and non-staff time. Most staff time was charged indirectly based on allocations determined during the budget-setting process, rather than directly charged to Bond projects, which reduces the ability to confirm whether staff time was charged accurately. Also, some Portland Housing Bureau staff responsible for loan underwriting and closing charged time to the Bond program cost account, which may not be consistent with the Bureau's Bond Program Delivery Fee guidelines on eligible capital costs. Our review of non-staff administrative charges to the Bond program cost account found potentially ineligible costs, though these made up only a ½ percent of the total non-staff administrative charges. Reviewing and documenting internal control procedures would reduce the risk of bond funds being used to reimburse ineligible administrative costs and improve accounting of bond and non-bond eligible costs. Regularly training program staff on time charging procedures for Bond programs would also improve the accuracy and transparency of staff costs charged to the Bond. Because Bond funds had not yet been used to reimburse administrative costs in FY 2019-20, no ineligible reimbursements occurred.

The Housing Bureau does not currently have documented procedures for reconciling the administrative costs charged to the Bond program expenditure account against the actual amount charged to developers via the Program Delivery Fee, which according to Bureau staff may not take place until Bond projects have been constructed. To ensure accurate and timely reconciliation of administrative charges, the Portland Housing Bureau should develop procedures on how and when administrative costs incurred will be reconciled against Program Delivery Fees charged to developers.

The Portland Housing Bureau Finance and Accounting Manager and Housing Development Planning Manager should:

- 1.1 Review and document internal controls relating to the monitoring and reimbursement of administrative costs from Bond funds to ensure compliance with Bond measure and State constitutional requirements. This includes ensuring procedures for reviewing and approving staff timesheets and non-staff expenditures provide sufficient assurance of Bond-eligible spending. This should also include providing additional guidance around staff time and non-staff costs that are Bond-eligible and/or ensuring managers with approval authority are aware of Portland Housing Bond-specific requirements.
- 1.2 Review and document procedures for reconciling administrative costs charged to the Bond Fund expenditure account up to 7 percent Program Delivery Fee charged to developers. This should include when and how the reconciliation will take place and interim monitoring reports to compare actual versus projected or budgeted administrative cost spending to identify potential over- or under-spend early on.

- 1.3 Develop and carry out training for relevant staff on reviewing and charging staff time for Bond-funded projects. This should include improving both employee timesheet accuracy and manager review of employee timesheets.

## The Housing Bureau relies primarily on developers' accountants' certification and contractual liability to ensure compliance

The Portland Housing Bond and State law require that bond funds be used only for capital costs. However, developer compliance with bond fund use requirements relies primarily on developers' accountants' certification, developer self-certification when requesting disbursement of Bond funds, and legal contractual liability. Portland Housing Bureau's procedures for disbursement of funds and site observation were prepared in 2019, prior to implementation of the Bond program to provide Bond-funded loans to third party developers and need to be updated. Given changes in staffing and organizational structure, the Bureau will need to ensure sufficient staff training on procedures to reduce the risk of non-compliant use of funds going undetected until the very end of project construction or not being detected at all. The Bureau should periodically review and update existing policies to ensure these act as sufficient internal controls.

The Portland Housing Bureau's Housing Development Planning Manager, in coordination with the Finance and Accounting Manager, should:

- 2.1 Update the Bureau's internal control procedures for reviewing Bond-funded loan disbursement requests, and provide staff training to ensure compliance with loan agreement terms, Bond measure language, and state constitution requirements.

## Bond Program reports should enhance reporting of expenditures

The Bond Oversight Committee, established in the Bond measure approved by Portland voters, is responsible to review Bond program expenditures and annually report to the City Council and public. The Portland Housing Bureau provides quarterly reports to the Bond Oversight Committee on Bond Program expenditures and the status of housing projects funded by the Bonds, and the Bond Oversight Committee publishes the Annual Progress Report on the Housing Bond Program. The quarterly reports to the Bond Oversight Committee could provide more detailed information on project expenditures, and while the Bond Oversight Committee's April 2020 memorandum to the City Council provided a high-level summary of bond program expenditures, the Annual Progress Reports do not include information on Housing Bond Program expenditures. Going forward, Portland Housing Bureau staff should include in the quarterly reports to the Bond Oversight Committee more detailed information on Bond Program and Bond-funded project expenditures. The Annual Progress Reports for 2019 and 2020 provided information on Housing Bond Program projects, including populations served and how the Housing Bond Program addressed the Racial Equity criteria set by the Housing Bond Policy Framework, but going forward should also include detailed information on Bond program and Bond-funded project expenditures.



The Portland Housing Bureau Director should:

3.1 Include in the quarterly report to the Bond Oversight Committee:

- a. Summary of property acquisition and Bond issuance expenditures, and differentiation of available Bond proceeds and remaining authorized and unissued Bonds, in the expenditure report;
- b. Information for each project on (i) total project costs and funding sources, and (ii) average project costs and Bond allocation per unit in the project dashboard; and
- c. Information on (i) increases in project loan amounts relative to initial award amounts, and (ii) how project increases conform to the approved criteria for increasing Bond allocations to projects.

3.2 Include Housing Bond Program expenditure information in the Annual Progress Report.

## Benefits and Costs

Implementation of the recommendations are intended to improve Housing Bond Program expenditure controls, ensure compliance with Bond requirements, and enhance Bond expenditure reporting. These recommendations could be accomplished within the existing Portland Housing Bureau resources

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We would like to thank the Portland Housing Bureau Director, Deputy Director, Finance and Accounting Manager, Housing Investment and Portfolio Preservation Manager, Housing Development Planning Manager, and their staff for their assistance in providing information, answering questions, and reviewing this report. We would also like to thank the City's Controller and Debt Manager for taking the time to talk to us and provide us essential information for this report.

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## Introduction

### Audit Objective

The objective of the Portland Housing Bond Audit was to determine if Bond dollars were separately and clearly tracked for FY 2019-20 to maintain fiscal responsibility, including:

- Have expenditures fit the language of the Bond measure;
- Have non-eligible expenses been excluded; and
- Have costs been adequately tracked by project.

For FY 2019-20, we also reviewed gap financing procedures developed following an amendment to the Oregon Constitution in 2018 to allow general obligation bonds to be used for this purpose.

### Audit Scope

The audit scope includes expenditure of bond funds in FY 2019-20 to provide gap financing to eligible affordable housing projects.

### Audit Methodology

This audit was conducted in conformance to Generally Accepted Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office. These 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 began this performance audit with an entrance conference on December 15, 2020 with the Portland Housing Bureau Deputy Director, and Bureau staff with responsibility for the Bond Program. We interviewed representatives from the Portland Housing Bureau, including staff responsible for budget and accounting, loan underwriting, loan coordination, and construction coordination; and Portland Bureau of Revenue and Financial Services, including the Controller and Debt Manager. We obtained and reviewed detailed documents, including City and State statutes for general obligation bonds, City and Bureau bond program policies, Bond Oversight Committee bylaws and policies, underwriting guidelines, management reports, Housing Investment Committee reports, budget and actual reports, staff time charges, expenditure support documentation, and other documents to assess Bond Program spending. We followed up with Portland Housing Bureau and other City of Portland representatives to ensure an accurate understanding of the Portland Housing Bond Program.

We provided a status update on April 27, 2021 to the Portland Housing Bureau Deputy Director. We

submitted a confidential draft report on May 17, 2021, summarizing our findings and recommendations, to Portland Housing Bureau Deputy Director and Finance and Accounting Manager, and conducted an exit conference on June 11, 2021 with the Portland Housing Bureau Director, Deputy Director, and other representatives. Based on information provided at the exit conference, we revised our report and submitted our final report to the Portland Housing Bureau Director and Deputy Director on June 18, 2021. The Portland Housing Bureau Director provided a written response to our findings and recommendations, attached to this report beginning on page 25.

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## Summary of Audit Findings

This audit covered Housing Bond Program expenditures in FY 2019-20. No Bond-funded projects closed on their financing during FY 2019-20, and no Bond funds were disbursed to projects or project-related expenditures. Our audit evaluated administrative expenditures charged to the Bond Program account in FY 2019-20, and Housing Bond Program policies and procedures, and found that these policies and procedures, and expenditures charged to the Bond Program account conformed to the Bond measure.

Our audit report includes three findings and six recommendations intended to improve Bond Program documentation and reporting, including:

1. Reviewing and documenting procedures for reporting Portland Housing Bureau staff time to Bond-funded projects;
2. Updating and revising internal control procedures for reviewing loan disbursement requests to ensure compliance with loan agreement terms, Bond measure language, and state constitution requirements; and
3. Enhancing reporting on Bond Program expenditures in the Annual Progress Report and quarterly reports to the Bond Oversight Committee.

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## Implementation of the Bond Program

Portland voters authorized the issuance of \$258.4 million in general obligation bond in November 2016 to pay for affordable housing for low-income families, seniors, veterans, and people with disabilities. According to the ballot measure, bond funds could be used to build new housing, or to purchase and rehabilitate existing housing in order to maintain affordability and prevent displacement.

The City issued \$53 million in Housing Bonds in 2017 and 2019 to purchase three properties:

- Ellington Apartments at 1610 NE 66<sup>th</sup> Avenue, which is a 263-unit building serving families and formerly homeless families, was purchased for \$47 million, including \$37 million in Housing Bond proceeds and \$10 million in Short Term Rental bond funds and Housing Investment Fund monies;

- East Burnside at 10506 E Burnside Street (E Burnside), which is a 51-unit building serving formerly homeless families, was purchased for \$14.3 million using Housing Bond proceeds; and
- Northeast Prescott at 5827 NE Prescott Street (NE Prescott), which is a lot planned for development, was purchased for \$500,000 using Housing Bond proceeds

Owning and operating affordable housing was a new role for the Portland Housing Bureau, which has traditionally been a lender to third-party sponsors of affordable housing projects. In order to operate the affordable housing projects, Portland Housing Bureau entered into an intergovernmental agreement with Home Forward<sup>1</sup> in which Home Forward contracts for property management and provides asset management services for the Ellington Apartments and East Burnside. Northeast Prescott is slated for future development.

Measure 102, approved by Oregon voters in November 2018, amended the State Constitution to allow local governments to issue bonds to finance affordable housing projects sponsored by nongovernmental agencies. Subsequent to the approval of Measure 102, the Portland Housing Bureau issued a Bond Opportunity Solicitation in April 2019 to select third-party sponsors for housing projects to be funded by Housing Bond loans. Ten projects, including NE Prescott, were awarded Bond funds for development of affordable housing, as shown in Exhibit 1 below.

#### Exhibit 1: Bond Opportunity Solicitation Awards

Project	Units	Target Population	Bond Award
Cathedral Village	110	Families, immigrant and refugee communities, formerly homeless households	\$15,969,750
Emmons Place	144	Seniors, veterans, Communities of Color, people with disabilities	19,786,343
The Westwind <sup>a</sup>	100	Chronically homeless adults, Communities of Color	12,662,077
The Joyce <sup>a</sup>	66	Chronically homeless adults, Communities of Color	2,412,612
Anna Mann House	128	Families, immigrant and refugee communities, formerly homeless households	16,980,195
3000 SE Powell	206	Families, immigrant and refugee communities	33,063,000
Hayu Tilixam (NE Prescott)	50	Families, Communities of Color, American Indian/ Alaska Native	7,450,000
Las Adelitas	141	Families, Communities of Color	15,020,934
Crescent Court (115 <sup>th</sup> @ Division)	138	Families, immigrant and refugee communities, Communities of Color	16,754,923
Stark Street	93	Families, Communities of Color	14,926,500
<b>Total</b>	<b>1,176</b>		<b>\$155,026,334</b>

Source: PHB Report to the April 15, 2021 Bond Oversight Committee

<sup>a</sup> The Westwind was awarded \$4.375 million in other funds, for a total award of \$17 million, and the Joyce was awarded \$3.45 million in other funds for a total award of \$5.9 million.

Of the ten projects awarded funding through the Bond Opportunity Solicitation, as of April 2021, four are

<sup>1</sup> Home Forward is a public housing authority participating in the HUD Moving to Work initiative.

in construction (Crescent Court, Cathedral Village, Hayu Tilixam, and Las Adelitas), and six are in pre-development. In addition, the two projects previously purchased by the Portland Housing Bureau – Ellington Apartments and Burnside – are fully occupied.

To date, the City has issued \$217.3 million in Housing Bonds to finance 1,490 affordable housing units, as shown in Exhibit 2 below. Of the original \$258.4 million in voter-approved Housing Bonds, the City has remaining bond capacity of \$41.1 million.

### Exhibit 2: Housing Bond Issuances Series 2017A, 2019B, and 2020B

	Units	2017 Series A 2019 Series B	2020 Series B	Total
<b>Sources</b>				
Bond Proceeds		\$53,128,685	\$164,205,000	\$217,333,685
<b>Uses</b>				
Bond Issuance Costs		\$429,345	\$650,000	\$1,079,345
Property Purchases <sup>a</sup>	314	51,800,000		51,800,000
Property Acquisition Costs		346,839		346,839
Bond Opportunity Solicitation Awards <sup>b</sup>	1,176		122,676,165	122,676,165
Project Reserves <sup>c</sup>			31,620,952	31,620,952
Project Delivery Fee <sup>d</sup>			9,257,883	9,257,883
Net Proceeds <sup>e</sup>		552,501	0	552,501
<b>Total</b>	<b>1,490</b>	<b>\$53,128,685</b>	<b>\$164,205,000</b>	<b>\$217,333,685</b>

Source: Bond Official Statements, Portland Housing Bureau Bond Disbursement Projections

<sup>a</sup> Three property purchases, totaling \$51.8 million include Ellington Apartments (\$37.0 million), East Burnside (\$14.3 million), and NE Prescott (\$0.5 million).

<sup>b</sup> Equals estimated disbursements of \$122.7 million in FY 2020-21. Total project awards of \$155.5 million (Exhibit 1) include estimates of future bond proceeds in FY 2021-22 and FY 2022-23, and reallocation of funds from project reserves.

<sup>c</sup> Project reserves of \$31.6 million include reserves for additional units, project contingencies of 10 percent, and contingencies for changes in Low Income Housing Tax Credit financing.

<sup>d</sup> The Project Delivery Fee is equivalent to 6 percent of total project allocations of \$155.6 as of April 2021.

<sup>e</sup> Net proceeds of \$552,501 include an allocation of \$173,0123 to site development for 3000 SE Powell, reported in the April 15, 2021 memorandum to the Bond Oversight Committee.

The four projects in construction closed on their construction loans funded by the bond proceeds between October 2020 and March 2021. The remaining six projects in predevelopment are expected to close on their construction loans between April 2021 and December 2021. No projects closed on their construction loans in FY 2019-20, the period covered by the audit. No bond funds had been used to reimburse construction loan disbursements or administrative costs as of May 2021.

## Bond Program Oversight

The ballot measure approving the Housing Bond Program provided for a Bond Oversight Committee to

review bond expenditures and report annually to the City Council and public. The five-member Bond Oversight Committee was established in July 2017, appointed by the City Councilor overseeing the Portland Housing Bureau for the expected duration of the Bond Program of five to seven years. The Bond Oversight Committee meets quarterly, and reviews Bond Program policies, projects, and expenditures.

## Loan Approval Process

### Loan Underwriting and Closing

The Portland Housing Bureau’s Housing Portfolio Finance Coordinators, part of the Bureau’s Housing Investment and Portfolio Preservation Team, are responsible for reviewing construction/permanent loan requests for the 10 projects awarded Housing Bond funding through the Bond Opportunity Solicitation, and making recommendations to the Housing Investment Committee, which reviews and recommends the loans to the Portland Housing Bureau Director.<sup>2</sup> The Portland Housing Bureau developed Underwriting Metrics that provide quantitative measures for the Portfolio Finance Coordinators’ review and recommendation of loans to the Housing Investment Committee.

Once recommended by the Housing Investment Committee and approved by the Portland Housing Bureau Director and the City Council, the Housing Investment and Portfolio Preservation Team’s Loan Coordinators, in support of the Housing Portfolio Finance Coordinator who remain as project managers, are responsible for closing the loans, a process which can take several months to ensure all documents are in order prior to the final loan closing.

### Construction Loans

Housing Bond proceeds finance construction loans, which are gap loans supplementing other project financing sources, including commercial loans, Low-Income Housing Tax Credits, developer equity, and other grants or loans. The subsidy provided by Housing Bond gap loans to new affordable housing construction is capped at \$150,000 per housing unit.

The Housing Bond loan funds are generally to be disbursed in the first few months of construction, with a 5 to 10 percent holdback pending construction completion. The Housing Bond funds must be used for capitalizable expenses in accordance with Generally Accepted Auditing Principles (GAAP). The borrower must certify that the Housing Bond funds are used for capital costs when the Bond funds are drawn down during construction, and at the completion of construction the borrower must obtain certification from a Certified Public Accountant (CPA) that the Housing Bond funds were used for capital costs.

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<sup>2</sup> The Housing Investment Committee, which was established by an ordinance of the City Council to review and recommend financing of housing projects to the Portland Housing Bureau Director, is made up of five members, including the Bureau Deputy Director, other Bureau managers, and representatives from the City’s Office of Management and Finance and from the public.

## Program Delivery Fee

The Housing Investment Committee documents and revised project Award Letters provide for Housing Bond funds to be used for a Program Delivery Fee of up to 7 percent of the Housing Bond loan award.<sup>3</sup> According to Portland Housing Bureau policy, the Program Delivery Fee reimburses the Housing Bureau’s programmatic expenses and could be paid from loan proceeds at the time the loan closes. The actual Program Delivery Fees assessed to the project are based on objectives of delivering affordable housing, and not costs associated with the issuance and servicing of loans, loan compliance monitoring, borrower risk considerations, or interest rate premiums or discounts.

## Predevelopment Loans

Between August 2019 and May 2020, the Housing Investment Committee reviewed predevelopment loan applications for eight projects awarded funds through the Bond Opportunity Solicitation. Predevelopment funding ranged from \$1 million to \$2 million based on the size of the project, and came from various sources, including the Construction Excise Tax assessed to commercial and residential construction projects, Multnomah County funds, and South Park Blocks Urban Renewal Tax Increment Financing. Loans were generally for 18 months at 0 percent interest, to be repaid in full at the closing of construction financing.<sup>4</sup>

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<sup>3</sup> According to Portland Housing Bureau guidelines, the Housing Bond awards were to be amended to account for the 7 percent Program Delivery Fee. For example, in the Portland Housing Bureau staff memorandum to the Housing Investment Committee, the total loan amount funded by Housing Bond proceeds to the Hayu Tilixam project was \$8.025 million, which included \$7.5 million for a construction loan and \$525,000 for the Program Delivery Fee.

<sup>4</sup> One loan was for 24 months, and three 18-month loans allowed extensions up to 24 months. Loans under \$2 million do not require City Council approval.

## Status of Prior Audit Recommendations

### City Auditor Recommendations

In June 2019, the Portland City Auditor released a report on the Housing Bond Program’s selection criteria, including if the criteria were consistent with the promise to the voters. The 2019 audit found the Portland Housing Bureau established project selection criteria in a policy framework that was consistent with most promises to voters, although of three populations emphasized by voters for housing, veterans were not included in the policy framework, and seniors and people with disabilities were only included as subgroups.

In their one-year follow up, released in September 2020, the Portland City Auditor found that the Housing Bureau had implemented the recommendation that in documenting and communicating bond decisions, the Bureau should provide specific information about the underlying rationale for decisions. Two other recommendations were in the process of implementation, including that the Portland Housing Bureau should emphasize ballot measure commitments in addition to the framework criteria and report on service to those priority communities, and should evaluate the effectiveness of the new approach to reaching target populations for bond projects that are not City-owned.

### Portland Housing Bond Audit Recommendations

In February 2020, the Portland Housing Bond Audit found that the Housing Bond Program funds were spent in a manner that adheres to the language of the measure approved by the voters, and that the Bond Program was operating in a fiscally responsible manner. The report made recommendations to (1) formally document Housing Bond Program policies and procedures for determining bond-eligible expenses, accounting processes related to the Bond Program, and property appraisals; and (2) enhance reporting on the Bond Program for Bureau management and external audiences. The Portland Housing Bureau developed the Program Delivery Fee Guidelines, providing information on eligible expenses eligible to be charged to the program, and completed the capitalization of bond-funded assets and close out of sub-funds. Housing Bureau staff also began written quarterly reports to the Bond Oversight Committee on Bond Program expenditures and funding allocations to housing projects.

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The following sections contain our findings and recommendations.



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## 1. Tracking Administrative Costs

The November 2016 measure authorizing the City of Portland to issue general obligation bonds to fund affordable housing stated that administrative costs charged to the bonds could not exceed 7 percent. Following an Oregon State Constitution amendment in 2018 allowing local governments to use general obligation bond proceeds to pay the capital costs of developing affordable housing, the Portland Housing Bureau instituted a Program Delivery Fee to be charged to affordable housing developers to reimburse the Bureau's administrative costs.

In FY 2019-20, the Portland Housing Bureau incurred \$1.97 million in Bond program expenses, though no expenses have yet been reimbursed by Bond funds and these costs have not yet been reviewed for eligibility for reimbursement from bond funds. Bond program administrative expenses include staff and non-staff time. Most staff time was charged indirectly based on allocations determined during the budget-setting process, rather than directly charged to Bond projects, which reduces the ability to confirm whether staff time was charged accurately. Also, some Portland Housing Bureau staff responsible for loan underwriting and closing charged time to the Bond program cost account, which may not be consistent with the Bureau's Bond Program Delivery Fee guidelines on eligible capital costs. Our review of non-staff administrative charges to the Bond program cost account found potentially ineligible costs, though these made up only a ½ percent of the total non-staff administrative charges. Reviewing and documenting internal control procedures would reduce the risk of bond funds being used to reimburse ineligible administrative costs and improve accounting of bond and non-bond eligible costs. Regularly training program staff on time charging procedures for Bond programs would also improve the accuracy and transparency of staff costs charged to the Bond. Because Bond funds had not yet been used to reimburse administrative costs in FY 2019-20, no ineligible reimbursements occurred.

The Housing Bureau does not currently have documented procedures for reconciling the administrative costs charged to the Bond program expenditure account against the actual amount charged to developers via the Program Delivery Fee, which according to Bureau staff may not take place until Bond projects have been constructed. To ensure accurate and timely reconciliation of administrative charges, the Portland Housing Bureau should develop procedures on how and when administrative costs incurred will be reconciled against Program Delivery Fees charged to developers.

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The Housing Bureau should better document processes for monitoring administrative expenses charged to the Housing Bonds

### FY 2019-20 Bond Expenses

The Housing Bond Program's activities in FY 2019-20, the period of this audit, were primarily to review and approve the Bond financing of projects selected through the Bond Opportunity Solicitation. Activities

and expenses related to the purchase of the three Bond-funded properties were largely completed by June 2019. The Portland Housing Bureau issued the Bond Opportunity Solicitation in Spring 2019 and selected 10 projects to be funded by the Housing Bond, but no loans funded by the Housing Bond for projects selected through the Bond Opportunity Solicitation closed in FY 2019-20. Total Housing Bond Program spending in FY 2019-20 was \$1.97 million, shown in Exhibit 1.1 below.

**Exhibit 1.1: FY 2019-20 Bond Program Expenditures**

	<b>FY 2019-20 Amount</b>
Non-Program	\$1,831,435
Projects	137,226
<b>Total</b>	<b>\$1,968,661</b>

Source: FY 2019-20 Budget to Actuals Report, Fund 404 and Fund 230000

## Policies and Procedures for Charging to Bonds

The November 2016 measure authorizing the City of Portland to issue general obligation bonds to fund affordable housing stated that administrative costs charged to the bonds could not exceed 7 percent. Following an Oregon State Constitution amendment in 2018, allowing local governments to use general obligation bond proceeds to pay the capital costs of developing affordable housing, the Portland Housing Bureau instituted a Program Delivery Fee to be charged to affordable housing developers to reimburse the Bureau’s administrative costs. According to the Portland Housing Bureau’s Program Delivery Fee Guidelines, the Program Delivery Fee can be attributed to the capital costs of affordable housing development under Generally Accepted Accounting principles (GAAP) if the “costs are incurred based on objectives of delivering affordable housing, and not costs associated with the issuance and servicing of loans, loan compliance monitoring, borrower risk considerations, or interest rate premiums or discounts.” The Program Delivery Fee Guidelines also provide examples of the specific types of administrative costs that will be included in the Program Delivery Fee such as Bond program oversight coordination, project planning and design, project construction coordination, program management, audits, and indirect costs related to services provided by the City’s Debt Management, Treasury, and Central Services departments (but not costs related to loan financing).

The Program Delivery Fee Guidelines do not provide more specific procedures on charging administrative expenses to the Housing Bond Program or ensuring that administrative expense charges are allowable charges. While the Portland Housing Bureau has technical procedures for charging and approving staff time and purchase requisitions in the financial system, SAP, the Portland Housing Bureau does not have documented procedures regarding the review and/or approval of administrative costs to be reimbursed by Housing Bond funds to ensure these are allowable costs. In particular, no documented procedures exist to ensure that staff time charged to the Bond program by eligible staff is appropriate and that time is not charged for ineligible activities (i.e. staff involved in non-capitalizable financing-related activities). While informal procedures were reported by staff, these relied heavily on the Finance and Accounting manager. City-wide guidance provided by the Portland Housing Bureau included only technical guidance for completing, submitting, and reviewing timesheets in the City’s electronic payroll system. Bureau staff

indicated that administrative costs charged to the Bond Program account would be reviewed for bond-eligibility prior to the disbursement of Bond funds to reimburse administrative costs. As this reconciliation may not occur until at least a year from when the expense was incurred, i.e. until a project reaches financial closing or even completion of construction, and given recent staff turnover at Portland Housing Bureau, some risk remains that ineligible expenses could be reimbursed from Bond funds.

## Staff Time Charges

### Indirect Staff Time

Most Bureau staff time charged to the Bond program account in FY 2019-20 was allocated indirectly rather than charged to specific projects. Although awards for housing projects were made in October 2019, no loans funded by the Bonds were closed in FY 2019-20. The Program Delivery Fee Guidelines state that the Program Delivery Fee will be assessed and collected as the loans are approved and disbursed, but neither the Guidelines nor Housing Bureau policies specify how indirect administrative expense charges will be charged to projects prior to the funding of those projects, or how unallocated charges will be reallocated to specific projects when the respective loans close. As discussed above, Bureau staff indicated that staff time will be reviewed for Bond-reimbursement eligibility after projects close, prior to Bond fund disbursement. However, charging staff time indirectly rather than to specific projects reduces the ability to confirm whether staff time was charged accurately and is not consistent with the Portland Housing Bureau’s staff time charging guidelines, which provide a matrix on how to charge staff time by type of activity. Staff time not charged to specific projects is allocated to general programs based on proportions determined during the Portland Housing Bureau’s budget-setting process. Exhibit 1.2 below shows that 81 percent of staff time was allocated to the Bond program in FY 2019-20 rather than charged to a specific project, or \$627,990 of total staff spending of \$753,954.<sup>5</sup>

**Exhibit 1.2: Direct and Indirect Staff Time Charged to Bond Fund by Division FY 2019-20**

PHB Division & Function	Staff Hours Charged by Type			% Indirect Hours	Staff Costs by Type	
	Allocated (Indirect)	Program (Direct)	Total		Allocated (Indirect)	Total
Management & Coordination <sup>a</sup>	4,655	94	4,749	98%	\$362,774	\$370,548
Program & Financing <sup>a</sup>	2,168	1,923	4,091	53%	\$139,180	\$257,370
Communications	889		889	100%	\$57,617	\$57,617
Finance & Accounting	824		824	100%	\$68,420	\$68,420
<b>Total</b>	<b>8,536</b>	<b>2,017</b>	<b>10,553</b>	<b>81%</b>	<b>\$627,990</b>	<b>\$753,954</b>

Source: Portland Housing Bureau ZFIPYFOR Payroll Report for Fund 230000 for FY 2019-20

Notes: <sup>a</sup> Management & Coordination staff includes the Housing Investment & Portfolio Preservation (HIPP) Division Deputy Director, HIPP Manager, Bond Policy Coordinator, Bond Program Coordinator, and Capital Projects Manager.

<sup>b</sup> Program & Financing includes Housing Investment & Portfolio Preservation (HIPP) Division underwriting and closing staff, i.e. Senior Construction Coordinators, Housing Portfolio Finance Coordinators, Senior Housing Loan Coordinators, and Housing Portfolio Loan Coordinators.

<sup>5</sup> According to PHB, this amount differs slightly from the actual amount reflected in the City’s budget reports (\$765,360) due to accruals.

## Year-end Adjustment of Staff Charges

Payroll data provided for FY 2019-20 indicates that a significant number of adjustments were made at the end of the fiscal year to address inaccurate staff time charging. Exhibit 1.3 shows that initial staff hours charged to the Bond fund account were reduced by 46 percent, or 9,126 hours, to account for incorrect staff time charging, equivalent to \$660,948 in staff costs. This included adjusting two staff who had initially billed more than 2,080 hours to the Bond expenditure account. While some adjustments were made throughout the year, 87 percent were made in June 2020, indicating reconciliation primarily at the end of the fiscal year. Our review of the payroll data also identified 39 hours of staff time spent on a non-Bond Fund project (“Riverplace Phase II”) totaling \$2,742.

**Exhibit 1.3: Initial, Adjusted, and Final Staff Hours Charged by Division, FY 2019-20**

PHB Division & Function	Staff Hours Charged			%
	Initial Charge	Adjustment	Final	Adjustment
Management & Coordination <sup>a</sup>	8,986	(4,237)	4,749	-47%
Program & Financing <sup>a</sup>	6,460	(2,369)	4,091	-37%
Communications	1,450	(561)	889	-39%
Finance & Accounting	1,797	(973)	824	-54%
Business Analysis, Research, & IT	306	(306)	0	-100%
Policy & Data	374	(374)	0	-100%
Contracting Services	306	(306)	0	-100%
<b>Total Staff Hours</b>	<b>19,679</b>	<b>(9,126)</b>	<b>10,553</b>	<b>-46%</b>
<b>Total Staff Cost</b>	<b>\$1,414,902</b>	<b>(\$660,948)</b>	<b>\$753,954</b>	<b>-47%</b>

Source: Portland Housing Bureau ZFIPYFOR Payroll Report for Fund 230000 for FY 2019-20

Notes: <sup>a</sup> Management & Coordination staff includes the Housing Investment & Portfolio Preservation (HIPP) Division Deputy Director, HIPP Manager, Bond Policy Coordinator, Bond Program Coordinator, and Capital Projects Manager.

<sup>b</sup> Program & Financing includes Housing Investment & Portfolio Preservation (HIPP) Division underwriting and closing staff, i.e. Senior Construction Coordinators, Housing Portfolio Finance Coordinators, Senior Housing Loan Coordinators, and Housing Portfolio Loan Coordinators.

The Portland Housing Bureau should document the procedures for charging staff time to Housing Bond projects to enhance internal controls. The Portland Housing Bureau’s practice is to assign staff a percentage of work hours to be allocated to Bond-funded projects, but whether these work hours should be charged directly to projects, or charged indirectly and reallocated to projects, is not documented. The Government Accountability Office’s (GAO) internal control standards recommend that internal controls be documented to ensure clear accountability and communication of procedures. The Bureau should review existing internal controls, develop and document new procedures as needed that include specific guidance related to the Housing Bond program, and train relevant staff on these procedures.

## Staff Time for Financing Activities

As discussed above, the Bureau’s Program Delivery Fee Guidelines stipulate that administrative costs included in the Program Delivery Fee meet Bond measure and State Constitution capital cost requirements, and not include costs “associated with the issuance and servicing of loans.” The Guidelines further define non-capital “financing costs” as those related to obtaining financing, including “borrower’s

## 1. Tracking Administrative Costs

legal and administrative costs associated with seeking and getting loans approved, developing terms of the loan, negotiating loan provisions, and costs incurred to close the loans.” Based on interviews with Housing Bureau staff and a review of relevant job descriptions for Housing Bureau program staff, the activities of several program staff may qualify as non-capital “financing costs.” Exhibit 1.4 shows that, according to the City of Portland’s job classification descriptions, Senior Housing Loan Coordinators, Housing Portfolio Finance Coordinators, and Housing Loan Coordinators are involved in the PHB Bond Fund Loan origination, negotiation, approval, and closing process.

### Exhibit 1.4: Assessment of PHB Job Classifications Associated with Financing Activities

Job Classification	Job duties associated with:		
	Loan Approval	Loan Term Development & Negotiation	Loan Closing
Senior Housing Loan Coordinator (“Closer”)	✗	✗	✓
Housing Portfolio Finance Coordinator (“Underwriter”)	✓	✓	✗
Housing Loan Coordinator (“Closer”)	✗	✗	✓

Source: HMR analysis of City of Portland Job Classification Specifications.

Based on payroll data for FY 2019-20, 2,530 staff hours, or 24 percent, charged to the Bond Program account were for the Loan Finance-related positions noted above. This was equal to \$157,986. While some of these costs were likely associated with the Bond Opportunity Solicitation review that occurred in July and August 2019, the payroll data shows that 43 percent of closer and underwriter staff time was charged to specific Bond projects and 73 percent of staff time was charged from October 2019 to June 2020. These hours, while charged to the Bond Program account, have not yet been reimbursed by Bond funds and will be reviewed further by Bureau staff for bond-eligibility prior to reimbursement from Bond funds.

### Exhibit 1.5: Staff Hours and Costs Associated with Loan Finance-Related Positions, FY 2019-20

Job Type & Classification	Staff Hours	Staff Hours (FTE)	Staff Costs (\$)	% of Staff:	
				Hours	Costs
<i>Loan Finance-Related Positions</i>					
Housing Portfolio Finance Coordinator	1,739	0.84	\$107,878	69%	68%
Senior Housing Loan Coordinator	790	0.38	\$50,108	31%	32%
<b>Finance-Related Total</b>	<b>2,530</b>	<b>1.22</b>	<b>\$157,986</b>	<b>24%</b>	<b>21%</b>
<i>Non-Loan Finance-Related Positions</i>					
<b>Non-Finance-Related Total</b>	<b>8,023</b>	<b>3.86</b>	<b>\$595,968</b>	<b>76%</b>	<b>79%</b>
<b>Grand Total</b>	<b>10,553</b>	<b>5.07</b>	<b>\$753,954</b>	<b>100%</b>	<b>100%</b>

Source: Portland Housing Bureau ZFIPYFOR Payroll Report for Fund 230000 for FY 2019-20

The Housing Bond Program staff will need to review hours charged by the Housing Portfolio Finance Coordinators and Senior Housing Loan Coordinator to the Bond Fund account prior to assessing the Program Delivery Fee to Bond projects at the close of the loans to ensure conformance to Bureau’s Program Delivery Fee Guidelines.

## Non-Salary Expenditures

Overall, the majority of non-salary expenditures incurred by the Housing Bureau for Bond Fund projects that were sampled were consistent with the Bond Measure. However, some exceptions indicate potential risk as Bond project spending and disbursements scale up.

As part of our audit, we identified a judgmental sample of non-staff expenditures charged to the Bond Fund expenditure account in FY 2019-20 to review to check consistency with the Bond measure. None of these expenditures had been reimbursed from Bond funds at the time of our audit. The selected expenditures included expenditures that met the following criteria:

- 1) Charged to Fund 230000 (gap-funded “Bond Opportunity Solicitation” (BOS) projects) or Fund 404203 (acquisition projects) incurred in FY 2019-20;
- 2) Greater than \$100; and,
- 3) Where information in the Bureau financial reports did not provide sufficient information to confirm compliance with the Bond Measure.

Based on this methodology, we selected for review 18 transactions related to gap-funded Bond Opportunity Solicitation projects totaling \$676,995 and one transaction of \$1,743 related to acquisition projects. These represented 56 percent and 100 percent of non-salary expenditures respectively.<sup>6</sup> A summary of sampled transactions for Fund 230000 is included below in Exhibit 1.6. As shown, the majority of these costs, 92 percent, were debt issuance costs, followed by professional services.

### Exhibit 1.6: Summary of Sampled FY 2019-20 Non-Salary Expenditures Reviewed for Fund 230000 (Bond Opportunity Solicitation Projects)

Expenditure Type	\$ Amount	# of Transactions	% of Amount
Debt issuance costs	\$621,949	5	92%
Professional services	\$47,000	2	7%
Advertising	\$3,801	3	1%
Coordinated Site Assessment ("S") <sup>a</sup>	\$1,458	1	0%
Coordinated Site Assessment	\$1,135	1	0%
Food	\$728	3	0%
Printing & repro	\$447	1	0%
Copy/Print/Bind	\$270	1	0%
Miscellaneous services	\$207	1	0%
<b>Grand Total</b>	<b>\$676,995</b>	<b>18</b>	<b>100%</b>

Source: Portland Housing Bureau Actuals Budget Report

Notes: <sup>a</sup> separate accounting code was used for two types of “Coordinated Site Assessments”, however, PHB was unable to confirm the difference between the two.

<sup>6</sup> The largest transaction not included in the sample was Bureau Overhead costs totaling \$469,951 or 39 percent of total non-salary expenditures in Fund 230000 in FY 2019-20.

Our review of supporting documentation for the sample from Fund 230000 found that more than 99 percent of spending was consistent with the Bond Measure. Minor inconsistencies with six transactions, totaling \$3,768, or approximately ½ percent of total sampled spend, are described in Exhibit 1.7 below. The single transaction reviewed in Fund 404203 was consistent with the Bond Measure.

**Exhibit 1.7: Summary of Findings for Non-Consistent Bond Spending Among Sampled Transactions for Fund 230000**

Issue/ Finding	Amount (# of Transactions)	Description of Issue/ Finding
<b>Insufficient Documentation</b>	\$2,593 (2)	Two expenditures for “Coordinated Site Assessments” completed by the Bureau of Environment Services. While the expenditures appeared to be associated with a BOS Bond project, PHB and BES staff were unable to provide detailed documentation for how the specific charges were calculated.
<b>Non-Bond Fund Project Expense</b>	\$428 (1)	Reimbursement expenditure for food for a community meeting related to PHB Metro Bond implementation strategy. PHB staff confirmed that no Portland Housing Bond projects were using Metro Bond funds.
<b>Potentially Non-Capital Cost Expense</b>	\$747 (3)	Three reimbursement expenditures which may not be considered capital costs under PHB’s PDF Guidelines. Two expenditures were reimbursements for food for BOS Community Review Committee interviews with potential awardees. The final expenditure included printing posters for BOS Project Awardees, however, the documentation did not indicate where these posters were being used or whether this was related to an eligible Bond fund use.
<b>Total</b>	<b>\$3,768 (7)</b>	

Source: HMR Review of supporting documentation provided by Portland Housing Bureau

The sample review findings indicate non-salary administrative costs billed to Bond Program expenditure accounts are generally consistent with the Bond Measure. However, to mitigate the risk of any non-eligible administrative costs being reimbursed by Bond Funds once project construction begins and Bond Fund disbursements increase, the Bureau should review existing procedures for internal control effectiveness and timeliness and document these procedures to ensure there is clear communication of roles and accountability for implementation of the controls.



## Reconciliation of Administrative Costs

The Housing Bureau does not currently have documented procedures for reconciling the administrative costs charged to the Bond Program expenditure account (i.e. Fund 230000) against the actual amount charged to developers via the Program Delivery Fee (i.e. 7 percent fee). Housing Bureau staff indicated that this reconciliation may not take place until Bond projects have been constructed given the Project Development Fee is charged at the project-level. Delaying this reconciliation until projects have been completed could increase the risk that non-eligible expenditures go undetected (i.e. due to greater time between when the expense is incurred and when the reconciliation is undertaken, staff turnover, etc.) and result in surplus funds not being identified for several years. For example, total FY 2019-20 administrative costs were 48 percent below what was budgeted (\$1.97m vs. \$3.82m) and 23 percent lower for salaries and benefits.

The Bureau should develop procedures relating to how and when administrative costs incurred will be reconciled against Program Delivery Fees charged to developers. This should include exploring ways to monitor actual versus projected administrative cost spending on a regular basis (i.e. quarterly or yearly). While it may be difficult to segment and reconcile costs on a per project basis, the Bureau could monitor incurred administrative costs against projected or budgeted spending assumed in the up to 7 percent Project Development Fee.

## Conclusion

Portland Housing Bureau's procedures for monitoring bond-eligible administrative expenses are not formally documented and could result in non-eligible expenses being charged to bond funds. The Housing Bond Program does not have documented procedures on how staff should charge time to projects. Staff time charges were primarily indirect allocations rather than direct charges to specific projects, reducing the ability to confirm whether staff time was charged accurately, and some Portland Housing Bureau staff responsible for loan underwriting and closing charged time to the Housing Bond Program account, which may not be consistent with the Bureau's Bond Program Delivery Fee guidelines on eligible capital costs. Our review of non-staff administrative charges to the Bond Program account found potentially ineligible costs, though these made up only ½ percent of the total non-staff administrative charges. Finally, the Portland Housing Bureau should develop procedures on how and when administrative costs incurred will be reconciled against Program Delivery Fees charged to developers. Because Bond funds had not yet been used to reimburse administrative costs in FY 2019-20, no ineligible reimbursements occurred.

## Recommendations

The Portland Housing Bureau Finance & Accounting Manager, the Housing Investment and Portfolio Preservation Manager, and Housing Development Planning Manager should:

- 1.1 Review and document internal controls relating to the monitoring and reimbursement of administrative costs from Bond funds to ensure compliance with Bond measure and State constitutional requirements. This includes ensuring procedures for reviewing and approving staff



timesheets and non-staff expenditures provide sufficient assurance of Bond-eligible spending. This should also include providing additional guidance around staff time and non-staff costs that are Bond-eligible and/or ensuring managers with approval authority are aware of Portland Housing Bond-specific requirements.

- 1.2 Review and document procedures for reconciling administrative costs charged to the Bond Fund expenditure account with the Program Delivery Fee charged to developers. This should include when and how the reconciliation will take place and interim monitoring reports to compare actual versus projected or budgeted administrative cost spending to identify potential over- or under-spend early on.
- 1.3 Develop and carry out training for relevant staff on reviewing and charging staff time for Bond-funded projects. This should include improving both employee timesheet accuracy and manager review of employee timesheets.

## Benefits and Costs

Implementation of the proposed recommendations would reduce the risk that Bond funds are used to reimburse non-eligible administrative costs and improve early identification of any problematic expenditures. Implementation of the recommendation can likely be completed with existing staff resources.

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## 2. Developer Compliance with Capital Costs Requirement

The Portland Housing Bond and State law require that bond funds be used only for capital costs. However, developer compliance with bond fund use requirements relies primarily on developers' certification from their accountants, self-certification when requesting disbursement of Bond funds, and legal contractual liability. Portland Housing Bureau's procedures for disbursement of funds and site observation were prepared in 2019, prior to implementation of the Bond program to provide Bond-funded loans to third party developers and need to be updated. Given changes in staffing and organizational structure, the Bureau will need to ensure sufficient staff training in procedures to reduce the risk of non-compliant use of funds going undetected until the very end of project construction or not being detected at all. The Bureau should periodically review and update existing policies to ensure these act as sufficient internal controls.

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### The Housing Bureau relies primarily on developers' accountants' certification and contractual liability to ensure compliance

The 2016 Portland Housing Bond, Measure 26-179, and Oregon State Constitution Article XI require that general obligation bond funds only be used to finance capital costs for affordable housing development. According to Generally Accepted Accounting Principles, capital costs are those directly or indirectly related with the acquisition, development, and construction of a project, but excludes costs associated with financing or loans. This requirement is further reiterated in the City of Portland's Debt Policy which places responsibility for documentation and record keeping with the Housing Bureau.

Following voter approval of an amendment to the Oregon Constitution in 2018, Portland was able to transition from using general obligation bond funds to directly purchase properties for affordable housing to providing gap-financing to third party developers. While this enables the Portland Housing Bureau to leverage other financing, such as federal Low-Income Housing Tax Credits, and reduces the Bond subsidy per housing unit, it also entails new risks, because third-party developers, rather than the City, are responsible for ensuring that Bond funds are used for capital expenses.

While no Bond funds were disbursed to developers during the audit period, FY 2019-20, we assessed plans for monitoring and enforcing compliance with this requirement given the expected Bond disbursements of up to \$155 million in FY 2020-21 and 2021-22. According to interviews with Bureau staff and documents provided, monitoring and enforcement will rely primarily on: (1) developer self-certification for each construction cost reimbursement request; (2) certification by a developer-hired CPA at the end of construction (i.e. final disbursement); and (3) legal obligations set forth in the relevant Bond loan and regulatory agreements.

Bureau staff will use the Bureau's procedures for disbursements and site observations, prepared in 2019 prior to implementation of the Bond program to finance loans to third party developers, to review and approve disbursement of Bond funds. Project staff indicated they would confirm certifications were

## **2. Developer Compliance with Capital Costs Requirement**

submitted and review developer invoices for general reasonableness of costs but did not plan to review these for compliance with the capital costs requirement.

Compliance with the requirement that Bond funds be used only for capital expenses relies heavily on developers understanding based on review by the developers’ accountants, and self-certifying compliance at each request for disbursement of bond funds, creating a risk that non-compliant bond fund uses may not be identified until the end of the project or not at all given the complexity and volume of documentation to be reviewed. While strong enforcement tools and legal liability specified in the Bond Loan contracts act as a disincentive for misuse of funds, the possibility of errors in invoicing remains given the complex nature of contracting arrangements needed to develop the approved housing projects.

### **Housing Bureau Compliance Monitoring**

Several City departments and divisions are involved in reviewing and approving developer requests for Bond loan fund disbursements including the Portland Housing Bureau’s Housing Investment & Portfolio Preservation team (plus the new Housing Planning and Construction Services team) and Finance and Accounting, and the City of Portland Office of Management and Finance, as shown in Exhibit 2.1. However, the primary review rests with the Senior Construction Coordinator and Housing Investment & Portfolio Preservation Manager and the Housing Development Planning Manager who review the disbursement request and supporting invoices in depth based on their knowledge of the project.

**Exhibit 2.1: Developer Bond Loan Disbursement Review and Approval Process**

<b>Department &amp; Division</b>	<b>Position</b>	<b>Role</b>
Portland Housing Bureau Housing Investment Portfolio & Preservation	Senior Construction Coordinator	Reviews & approves developer disbursement request, supporting documentation, and cost certification. Submits approved request to HIPP manager.
	Manager	Reviews & approves developer disbursement request, supporting documentation, and cost certification. Submits approved request to PHB Finance & Accounting.
Portland Housing Bureau Finance & Accounting	Accounting Staff Manager	Reviews & approves approved disbursement request and checks HIPP approvals. Submits Bond Fund disbursement request to OMF Debt Management Division and payment request to OMF Accounting.
Office of Management & Finance Debt Management Division	Debt Manager and/or Staff	Reviews and approves PHB Bond Fund disbursement request.
Office of Management & Finance Central Accounting	Accounting Staff	Review and approve payment request, check supporting documentation and approvals included.

Source: HMR review of documents provided by Portland Housing Bureau and staff interviews

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## 2. *Developer Compliance with Capital Costs Requirement*

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As indicated above, Bureau staff stated that the disbursement request review would include a review of the reasonableness of costs in developer-submitted requests as well as ensuring the disbursement request is fully supported by costs included in invoices. However, this does not include determination of whether spending was only for capitalizable costs according to Generally Accepted Accounting Principles (GAAP). The Bureau's procedures for disbursement and site observations were prepared in 2019, prior to implementation of the Bond program for financing loans to developers and will need to be updated to reflect the Bond program requirements. Because of the specific requirements of the Bond program, recent turnover of Senior Construction Coordinators in the Housing Bureau, and recent reorganization of the Housing Investment and Portfolio Preservation team, updated documentation and staff training are likely to be increasingly important as Bond projects move to the construction phase.

The Government Accountability Office's (GAO) Internal Control Standards states that "[e]ffective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel." These standards also indicate that documentation can mitigate the risk of knowledge loss from staff turnover. The Bureau should review existing policies to ensure these act as sufficient internal controls and document these controls in revised policies and procedures.

### Recommended Validation of Cost Certifications

The Portland Bond Measure and Oregon Constitution do not specify specific monitoring or enforcement mechanisms for the bond use requirement but national best practices for the Low-Income Housing Tax Credit program (LIHTC) recommend additional due diligence. This includes auditing general contractor invoices or sampling subcontractor invoices to verify developer cost certifications. While difference exist between general obligation bonds and the LIHTC program, similarities exist in terms of the Certified Public Accountant (CPA) cost certification process, the nature of projects funded, and requirements around permissible use and spending. The National Council of State Housing Agencies (NCSHA), in its best practices for state agencies, recommends that additional validation be undertaken to confirm developer and CPA cost certifications.

While this level of due diligence may not be needed, strengthening guidance and internal controls for reviewing invoices submitted to PHB would improve the likelihood of identifying non-compliance early on with relatively low costs.

### Conclusion

Portland Housing Bureau's transition to a gap-funding model for spending 2016 Housing Bond funds requires oversight over affordable housing developers to ensure compliance with local and state requirements. In particular, the Bureau's procedures for disbursement of funds and site observations were prepared in 2019 prior to implementation of the Housing Bond gap-funding model and need to be updated to reflect Bond program requirements. The Bureau will need to ensure that staff are sufficiently trained in the Bond program disbursement procedures.

## Recommendation

The Portland Housing Bureau's Housing Development Planning Manager, in coordination with the Finance and Accounting Manager, should:

- 2.1 Update the Bureau's internal control procedures for reviewing Bond-funded loan disbursement requests and provide staff training to ensure compliance with loan agreement terms, Bond measure language, and state constitution requirements.

## Benefits and Costs

Implementation of the proposed recommendations would reduce the likelihood of non-compliant uses of bond funds by developers and improve early identification of any problematic expenditures. Implementation of the recommendation can likely be completed with existing staff resources.

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### 3. Bond Program Reporting

The Bond Oversight Committee, established in the Bond measure approved by Portland voters, is responsible to review Bond program expenditures and annually report to the City Council and public. The Portland Housing Bureau provides quarterly reports to the Bond Oversight Committee on Bond Program expenditures and the status of housing projects funded by the Bonds, and the Bond Oversight Committee publishes the Annual Progress Report on the Housing Bond Program. The quarterly reports to the Bond Oversight Committee could provide more detailed information on project expenditures, and while the Bond Oversight Committee's April 2020 memorandum to the City Council provided a high-level summary of bond program expenditures, the Annual Progress Reports do not include information on Housing Bond Program expenditures. Going forward, Portland Housing Bureau staff should include in the quarterly reports to the Bond Oversight Committee more detailed information on Bond Program and Bond-funded project expenditures. The Annual Progress Reports for 2019 and 2020 provided information on Housing Bond Program projects, including populations served and how the Housing Bond Program addressed the Racial Equity criteria set by the Housing Bond Policy Framework, but going forward should also include detailed information on Bond program and Bond-funded project expenditures.

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#### Bond Program reports should enhance reporting of expenditures

Measure 26-179, which was approved by Portland voters in November 2016 and authorized the Housing Bond program, provided for the establishment of the Bond Oversight Committee to review Bond program expenditures, and annually report to the City Council and public. In October 2017, the Bond Stakeholder Advisory Group<sup>7</sup> issued the Housing Bond Policy Framework to guide decision making and spending of Bond proceeds. The Housing Bond Policy Framework provided for the following metrics to be collected and reported by the Portland Housing Bureau:

- Total housing units funded by the Bonds, including the average cost per unit, and the total costs and sources of funds;
- Racial equity in awarding housing construction contracts; and
- Racial equity in access to Bond-funded housing.

The Framework stated that the Portland Housing Bureau should provide quarterly and annual reporting to the Bond Oversight Committee, City Council, and public.

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<sup>7</sup> The Stakeholder Advisory Group was convened by the Portland Housing Bureau (PHB) to develop the policy framework ensuring that bond funds would be spent to achieve the goals of Measure 26-179. The Stakeholder Advisory Group consisted of 22 members representing communities, providers, and agencies in Portland.

## Quarterly Reporting to the Bond Oversight Committee

The Portland Housing Bureau’s memorandum to the February 6, 2020 Bond Oversight Committee outlined the reports to be provided to the Bond Oversight Committee by the Bureau staff each quarter, including (1) a dashboard on funded projects, detailing unit and income mix, communities served, Bond award amount, and project status; (2) details on Bond expenditures; and (3) a template for reporting on specific projects.

In subsequent Bond Oversight Committee meetings, Bureau staff have presented the expenditure report and project dashboard approved at the February 6, 2020 Bond Oversight Committee meeting. The dashboard provides information on each project, including the location, development team, number and size of units, household incomes, target population, Bond amount, and key project dates. The expenditure report provides an overview of expenditures for acquisitions, commitments to projects for construction, project reserves, program delivery costs, and remaining funds. The expenditure report does not include expenditures for 2017 and 2019 bond issuance and property acquisition, resulting in an overstatement of the remaining available Bond proceeds. Nor does the expenditure report, in reporting available Bond funds, differentiate between unallocated and unspent proceeds from Bond issuances, and authorized but unissued Bond funds. According to discussions with Portland Housing Bureau staff, neither the dashboard nor the expenditure reports presented to the Bond Oversight Committee meetings in February 2020 and July 2020 gave details on total project development costs and funding sources, or on average Bond allocation by unit, as recommended in the Housing Bond Policy Framework, because bond and other funding to these projects had not been finalized.

The memorandum from Portland Housing Bureau staff to the April 13, 2020 Bond Oversight Committee defined the criteria for increasing the Bond allocation to projects. Between February 6, 2020, and July 16, 2020, only one of the ten projects awarded Bond funds in response to the Bond Opportunity Solicitation had an increase in the Bond allocation, and the quarterly dashboard for July 16, 2020 noted the reason for this increase, which was due to the addition of housing units to the project.

## Annual Reports to Policy Makers and Public

The 2019 Progress Report for the Housing Bond Program provided summaries of the Ellington and East Burnside Apartments, and of the ten projects awarded Bond funds for construction. These summaries addressed the Racial Equity criteria for access to affordable housing defined in the Housing Bond Policy Framework. The 2020 Progress Report for the Housing Bond Program also addressed the Housing Bond Policy Framework’s criteria for Racial Equity in contracting.

The Progress Report does not address Housing Bond Program expenditures, although the April 2020 memorandum from the Bond Oversight Committee to the City Council provided a high level of Bond program expenditures. Both Measure 26-179 and the Housing Bond Policy Framework provide for reporting on Bond expenditures to the public. Going forward, Portland Housing Bond Program should enhance reporting on bond expenditures to the City Council and the public. Examples of other bond programs’ reporting of expenditure details include:

- The Portland Parks Replacement Bond Program Annual Report for FY 2019-20, which included appendices showing (a) cost categories (professional services, construction, administration) and expenditures by cost category; and (b) project budgets and expenditures, including bond and other sources.
- The Metro Bond Program Quarterly Report, available to the public on the Metro website, which shows (a) for each funded project the total sources of funds, the Bond allocation, and funding per housing unit; and (b) for the Bond Program, the total proceeds, disbursements, and commitments; and administrative and project expenditures by jurisdiction.
- The San Francisco Affordable Housing General Obligation Bond Report for December 2020, which shows (a) allocation of bond funds, expenditures, and remaining balances by program area and by project, and (b) in the project summaries shows total funding sources and bond allocation.

City policy makers and residents should have easy access to information on Bond expenditures to understand the Bond Program’s progress in meeting goals. The Government Finance Officers’ Association (GFOA) also recommends basic financial statements and budget reports include comparisons of budget to actual spending to facilitate financial performance monitoring. Going forward, the Annual Progress Reports should include information on Bond allocations and expenditures, and available Bond funds and remaining Bond authority.

## Conclusion

The Portland Housing Bureau reports regularly on the Housing Bond Program to the Bond Oversight Committee, City policy makers, and the public, in accordance with the provisions of the Bond measure and the Housing Bond Policy Framework. However, the reports should include more information on Bond Program expenditures for City policy makers and the public.

## Recommendations

The Portland Housing Bureau Director should:

3.1 Include in the quarterly report to the Bond Oversight Committee:

- a. Summary of property acquisition and Bond issuance expenditures, and differentiation of available Bond proceeds and remaining authorized and unissued Bonds, in the expenditure report;
- b. Information for each project on (i) total project costs and funding sources, and (ii) average project costs and Bond allocation per unit in the project dashboard; and
- c. Information on (i) increases in project loan amounts relative to initial award amounts, and (ii) how project increases conform to the approved criteria for increasing Bond allocations to projects.

3.2 Include Housing Bond Program expenditure information in the Annual Progress Report.



## Benefits and Costs

Implementation of the recommendations would better allow the Bond Oversight Committee, City policy makers, and the public to assess the financial status of the Housing Bond Program. These recommendations could be accomplished within the existing Housing Bureau resources dedicated to quarterly and annual reporting.

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## Portland Housing Bureau Written Response



# Portland Housing Bureau

June 25, 2021

Severin Campbell, Principal  
Harvey Rose Associates LLC  
1390 Market St # 1025  
San Francisco, CA 94102

Dear Ms. Campbell,

The Portland Housing Bureau (PHB) greatly appreciates the work done by Harvey Rose Associates in compiling the FY19-20 financial audit and recommendations for the Portland Housing Bond (“Bond”) program. The audit found that Bond Program administrative expenditures, policies and procedures conformed to the Bond measure. We appreciate the opportunities provided for improvement which are laid out in the findings and recommendations.

Below are our responses to the three recommendations cited in the Portland Housing Bond Audit report:

## **Recommendation 1. The Portland Housing Bureau Finance & Accounting Manager, the Housing Investment and Portfolio Preservation Manager, and Housing Development Planning Manager should:**

1.1 Review and document internal controls relating to the monitoring and reimbursement of administrative costs from Bond funds to ensure compliance with Bond measure and State constitutional requirements. This includes ensuring procedures for reviewing and approving staff timesheets and non-staff expenditures provide sufficient assurance of Bond-eligible spending. This should also include providing additional guidance around staff time and non-staff costs that are Bond-eligible and/or ensuring managers with approval authority are aware of Portland Housing Bond-specific requirements.

### **PHB Response:**

PHB agrees that any draw on Bond funds be thoroughly reviewed for eligibility. In addition to a certification by the developer that all costs submitted for payment are capitalizable, thus meeting state constitutional requirements, bureau staff review the invoices to ensure the construction costs are appropriate, that no City administrative costs are included, and the amount billed in the City’s accounting system matches the invoice and the Bond draw documents. The Deputy Director, the Housing Investment and Portfolio Preservation Manager and Finance and Accounting Manager are all familiar with the compliance requirements of Bond funds. The Housing Development Planning Manager will approve the disbursement requests from the Senior Construction Coordinators, who ensure costs are eligible before a draw on Bond funds is sent to the Director for signature certifying as such. The draw requests are then further reviewed by the Office of Management and Finance (OMF) Debt Management before and Bond funds are applied to the expenses.

1.2 Review and document procedures for reconciling administrative costs charged to the Bond Fund expenditure account up to 7 percent Program Delivery Fee charged to developers. This should include when and how the reconciliation will take place and interim monitoring reports to compare actual versus projected or budgeted administrative cost spending to identify potential over- or under-spend early on.

PHB Response:

As noted in the recommendation, PHB intends to review and reconcile administrative expenses before any Bond funds are used to pay such expenses. At this time, the bureau does not foresee the use of any Bond funds on administrative expenses through the first ten financed projects. If Bond funds are needed to cover administrative expenses during this period, PHB has segregated those expenses in such a manner that they can either be charged to and/or reimbursed by a non-Bond funding source.

1.3 Develop and carry out training for relevant staff on reviewing and charging staff time for Bond-funded projects. This should include improving both employee timesheet accuracy and manager review of employee timesheets.

PHB Response:

PHB agrees that timekeeping training (for both the many new staff as well as existing staff) will improve accuracy for Bond-funded activities. This effort would be conducted by the Business Operations Team Administration & Finance and Accounting groups, and will include the following:

- Training on the concepts of charging time; including tools available within SAP, the City's integrated financial software system, to understand time allocations, tools available to recognize authorized charging codes, and why timesheets are important cost control tools
- Training for managers on the tools available in SAP for reviewing time allocations and timesheet entries and reviewing certifications by staff and the subsequent approval by the manager.
- Bi-monthly review process of time charges by managers to confirm appropriate charges so that Finance and Accounting staff can make adjustments as needed.

**Recommendation #2 - The Portland Housing Bureau's Housing Development Planning Manager, in coordination with the Finance and Accounting Manager, should:**

2.1 Update the Bureau's internal control procedures for reviewing Bond-funded loan disbursement requests and provide staff training to ensure compliance with loan agreement terms, Bond measure language, and state constitution requirements.

PHB Response:

PHB agrees that the disbursement procedures manual needs to be updated to reflect the additional forms and certifications we have recently created to facilitate compliance with Oregon General Obligation Bonds and the Portland Bond measure. Additionally, we will ensure that the updated policies and procedures are part of the on-boarding process and training plans for the Senior Construction Coordinators as it is their role to monitor the construction budget and generate approvals for draw requests, which includes a review of the costs compared to the construction progress, invoices for all project costs, and an analysis to identify capitalizable items.

In addition to the certifications we require from the developers' Certified Public Accountants that the bond proceeds only went to capitalizable costs, the initial projects' financing plans are approved and reviewed by the Finance Coordinators, who facilitate a series of certification at the time of financial close. Through this initial certification step of the sources and uses in the project proforma, we will require that they will certify and inform us of which funding sources will be used to cover PHB's Program Delivery Fee, so it is known from the very beginning of construction. This additional information will be included in the bond certification forms.

## Recommendation #3 - The Portland Housing Bureau Director should:

### 3.1 Include in the quarterly report to the Bond Oversight Committee:

- a. Summary of property acquisition and Bond issuance expenditures, and differentiation of available Bond proceeds and remaining authorized and unissued Bonds, in the expenditure report;

#### PHB Response:

PHB appreciates this recommendation. While Bureau management and the BOC are comfortable with the current approach to reporting Bond proceeds and expenditures, PHB will engage the BOC to determine revisions to or a more detailed approach to the quarterly expenditure report format.

- b. Information for each project on (i) total project costs and funding sources, and (ii) average project costs and Bond allocation per unit in the project dashboard

#### PHB Response:

PHB understands the public's desire to see how much Bond funds leverage other sources to create affordable housing. Portland's Housing Bond website includes Project Profiles for the projects that have been awarded Bond funds. The public can see the total project costs, the amount of Bond funds awarded and the communities to be served. The Project Profiles do not include a summary of funding sources included in a project, but project teams that have presented to the BOC have included funding source information in their presentation slides which are available to the public through PHB's website.

PHB agrees that the bond funds per unit per project and average amount of bond investment per unit would improve the project dashboard report. The addition of this information will also help to better meet the Bond Policy Framework's reporting guidelines.

- c. Information on (i) increases in project loan amounts relative to initial award amounts, and (ii) how project increases conform to the approved criteria for increasing Bond allocations to projects.

#### PHB Response:

PHB agrees with this recommendation. When the project dashboard report was conceived, PHB did not anticipate how many projects' funding amounts would change significantly (mostly due to the change in the 4% LIHTC cap). In response to this recommendation, PHB has revised the Notes column in the project dashboard report to include updates and/or changes to the Bond allocations, unit/affordability mix, etc. from the previous quarter. A reference to the criteria for increasing Bond allocations will be included when applicable.

### 3.2 Include Housing Bond Program expenditure information in the Annual Progress Report.

#### PHB Response:

PHB publishes two annual reports: 1) a public-facing annual Progress Report that does not currently include expenditure information; and 2) the BOC's annual report to City Council that includes a summary of financial information, including the amount of Bond funds expended and committed for projects and the administrative program delivery allowance. The BOC's 2020 annual report to City Council is scheduled for June 23, 2021 and will include expenditure report totals. Moving forward, PHB will consider including more detailed information for both Bond program and Bond-funded project expenditures in the annual progress reports.

We again thank Harvey Rose Associates for conducting this audit and providing us with several recommended areas for improvement as we continue implementation of the Portland Housing Bond.

Sincerely,

A handwritten signature in blue ink that reads "Callahan". The signature is written in a cursive, flowing style.

Shannon Callahan  
Director