



PORTLAND HOUSING BUREAU:
Bureau acting on risks,
although more remains to be done

May 2012

LaVonne Griffin-Valade
City Auditor

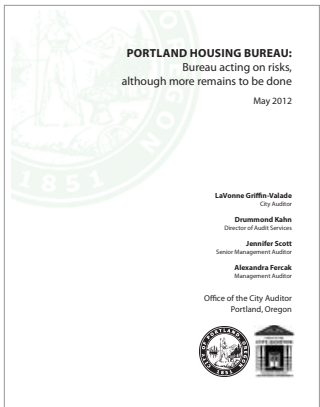
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May 23, 2012

TO: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman
Traci Manning, Portland Housing Bureau Director

SUBJECT: Audit Report – *Portland Housing Bureau: Bureau acting on risks, although more remains to be done* (Report #421)

The attached report contains the results of our audit of risk at the Portland Housing Bureau.

We performed a broad-based audit to assess risk at the Housing Bureau because the Bureau is relatively new and has experienced significant change since its inception. We plan to use the results of this audit to guide future audit work at the Portland Housing Bureau.

A risk differs from an audit finding. An audit finding identifies a problem that is occurring, while a risk identifies potential problems that warrant management attention. We identified six risk areas that warrant management attention.

We also concluded that the Bureau has partially implemented the recommendations from our 2007 audit on the 10-year Plan to End Homelessness. In addition, we found that the Bureau has addressed significant deficiencies identified in the City's 2009 and 2010 financial audits. The Bureau is already working to address many of the risks we identified; we recommend that they continue their efforts and consider implementing the mitigating activities we propose for each risk.

We ask the Portland Housing Bureau to provide us with a status report in one year, through the Office of the Housing Commissioner, detailing steps taken to address our recommendations in this report.

We very much appreciate the cooperation and assistance we received from Portland Housing Bureau staff as we conducted this audit.


LaVonne Griffin-Valade
City Auditor

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Attachment

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Chapter 1 Introduction

Summary The Portland Housing Bureau began operations in 2010, and it engages in a variety of activities to address unmet housing needs for the people of Portland. Since the Bureau was formed, it has seen two rounds of staffing cuts and two new Bureau Directors. Because the Bureau is new, complex, and has experienced significant change since its inception, we performed a broad-based audit to assess risk at the Bureau. Our audit also includes an evaluation of the work the Bureau has done to address issues identified in prior performance and financial audits.

We identified six risk areas that warrant management attention. We also concluded that the Bureau has partially implemented the recommendations from our 2007 audit on the 10-year Plan to End Homelessness. In addition, we found that the Bureau has addressed significant deficiencies identified in the City's 2009 and 2010 financial audits. The Bureau is already working to address many of the risks we identified; we recommend that they continue their efforts and consider implementing the mitigating activities we propose for each risk. We plan to use the results of this audit to guide future audit work at the Portland Housing Bureau.

Portland Housing Bureau Background

The Portland Housing Bureau (Bureau) began operations on July 1, 2010, when housing staff, affordable housing activities, and the associated loan and asset portfolio of the Portland Development Commission (PDC) were combined with the Bureau of Housing and Community Development (BHCD). Before the merger, BHCD worked to end homelessness, and to increase the range of affordable housing opportunities for low income people. PDC's housing programs focused on neighborhood revitalization and homeownership, and they executed the affordable housing development and asset management portion of BHCD's mission through intergovernmental

agreements. The purpose of the merger was to centralize the City's housing functions in one bureau. According to the City Commissioner who oversees the Portland Housing Bureau, before the merger, housing services at the City were disjointed, duplication existed, and there was little strategic focus. The City Auditor came to a similar conclusion in an audit done with the Multnomah County Auditor in 1997.

Since its creation, the Bureau has experienced significant change. After merging staff and operations of two City agencies, the newly formed Bureau eliminated 17 positions in two rounds of layoffs to deal with City budget cuts and reductions in outside funding. In addition to staff reductions, the Bureau has had two Directors since it was created.

In 2011, the Bureau completed a three-year strategic plan that defines its mission: "To solve the unmet housing needs of the people of Portland". The strategic plan sets out four goals for the Bureau and 17 objectives designed to help guide their work towards meeting the goals (see Figure 1).

The Bureau is organized into three divisions: Equity, Policy, Planning, and Communications (EPPC); Business Operations; and Program Delivery (see Figure 2). While EPPC and Business Operations are focused on bureau operations, public relations and administration, services to the public are managed by the Program Delivery team. The Program Delivery team provides few direct services. Rather, staff manage contracts with outside agencies that provide services in three main areas: housing access and stabilization, which works to prevent homelessness and help people experiencing homelessness; housing development finance, focused on the acquisition, development and preservation of new and existing affordable housing, and; homeowner access and retention, designed to help people buy and stay in their homes.

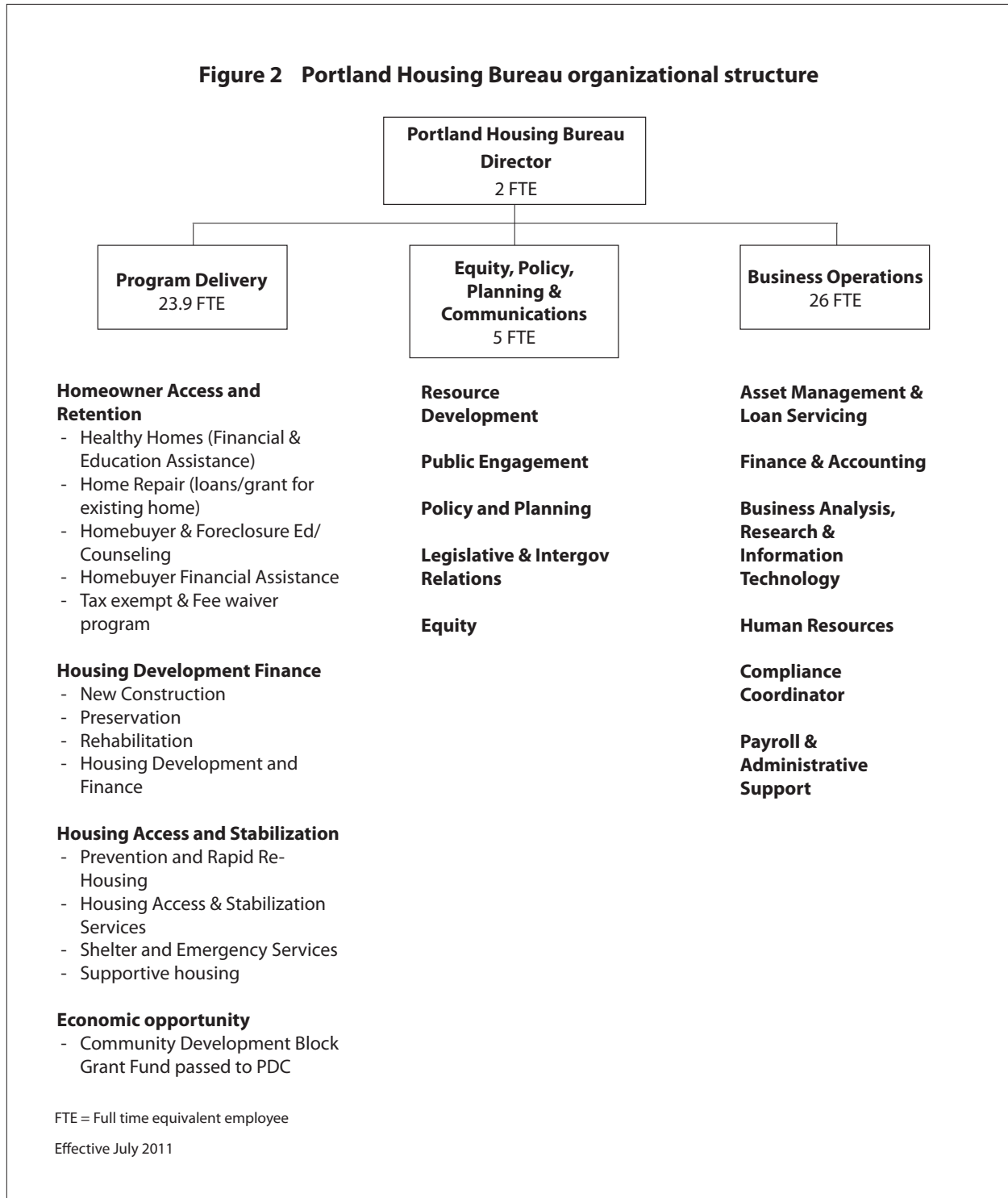
The work of the Bureau is funded through three main sources: Tax increment financing (TIF) set-asides, federal funds in the form of entitlement and competitive grants from the U.S. Department of Housing and Urban Development (HUD), and allocations from the City's General Fund. The Bureau anticipates significant continued reductions in TIF and federal funding (see Figure 3 on page 10).

Figure 1 Housing Bureau Strategic Plan goals and objectives

Goal	Objective
1. Meet Portland's need for quality, affordable homes for its residents.	1. Produce and preserve housing to meet the needs today's market cannot. 2. Move people quickly from homeless into housing in a way that lasts. 3. Increase the ability of low-income, minority households to access homeownership opportunities. 4. Keep families in their homes by preventing avoidable, involuntary evictions and foreclosures. 5. Maintain the health, safety and viability of the existing housing stock.
2. Ensure equitable access to housing.	6. Remove discriminatory barriers to confronting Portlanders trying to access housing. 7. Ensure equity for underrepresented populations in city-supported housing programs. 8. Increase participation by minority-owned and economically disadvantaged firms in Housing Bureau's program and construction projects. 9. Use the housing bureau's influence, investments and partnerships to create fair housing close to quality jobs, schools, transportation and other elements of sustainable communities.
3. Develop, leverage and allocate housing funds to meet needs, sustain our assets and strengthen the housing industry.	10. Develop new financial resources to meet the most critical unmet housing needs. 11. Wisely spend our money in a way that produces the best long-term results while ensuring equitable access to housing services. 12. Manage existing housing stock and landlord partnerships to maintain long-term value for the community.
4. Build a strong, dynamic Housing Bureau that provides the highest level of leadership and service to our customers, stakeholders, employees and the community.	13. Develop an organizational culture that values employees, promotes innovation and respects diversity. 14. Set and meet the highest standards for customer service and regulatory compliance. 15. Provide the community with clear, consistent, reliable data on Portland's housing needs and trends, and on the performance of our programs and projects. 16. Clearly communicate to the public the value of the Portland Housing Bureau, our programs and partners, and the community needs we address. 17. Ensure that a wide range of perspectives inform decision-making and policy-setting.

Source: 2011 PHB strategic plan

Figure 2 Portland Housing Bureau organizational structure



Source: Portland Housing Bureau

Chapter 2 **Objective, scope and methodology**

The objective of this audit was to assess risk at the Bureau and identify areas for future audit work. An audit finding is different from a risk. An audit finding identifies a problem that is occurring, while a risk identifies potential problems that warrant management attention.

To assess risk and identify areas for future audit work, our audit included a broad review of the Bureau, including its mission, objectives, tasks and organizational structure as of July 1, 2011. We also evaluated the status of recommendations from our 2007 audit on the 10-year Plan to End Homelessness, which was managed by the Bureau of Housing and Community Development in 2007. In addition, our review included an assessment of the Bureau's work to address significant deficiencies identified in the City's 2009 and the 2010 financial audits. We focused our audit on the organization and work of the Portland Housing Bureau; we did not evaluate the state of housing in the area or assess the social or societal issues that affect housing.

In order to assess risk, we conducted interviews with managers and staff from the Portland Housing Bureau, the City Attorney's Office, the City's Office of Management and Finance, Multnomah County, Home Forward, U.S. Department of Housing and Urban Development (HUD), the accounting firm Moss Adams, and a number of partner and stakeholder organizations. We reviewed numerous Bureau documents including the strategic plan, Bureau policies, budget documents, performance reports, and annual reports on the 10-year Plan to End Homelessness. We also compared the Bureau's goals to the Bureau's activities to identify gaps.

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

AUDIT FINDINGS

Chapter 3 Risks that warrant management attention

Six risk areas warrant attention

We identified six risks areas that warrant management attention. For each area, we describe the current condition of operations in the area, the potential risk that may exist, the bureau's work to address the risk, and activities that may help mitigate the risk.



Source: Portland Housing Bureau photo

The Admiral Apartments, Downtown

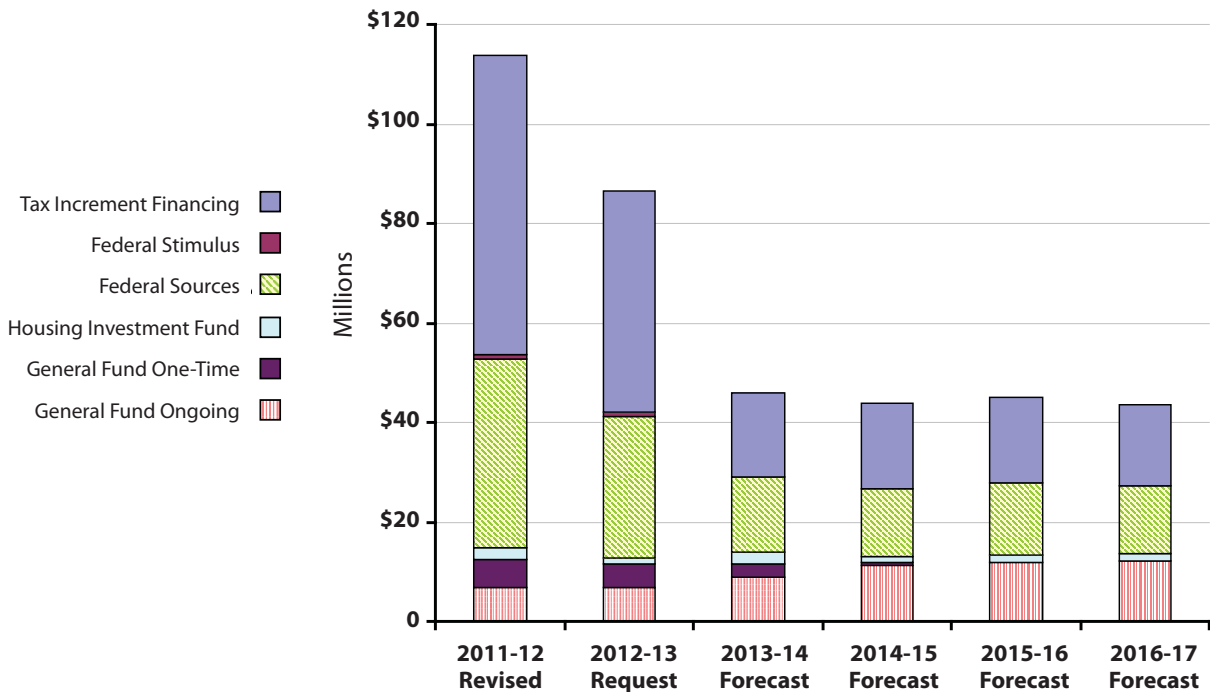
The Portland Housing Bureau invested \$3.7 million to preserve and rehabilitate The Admiral, which provides affordable housing for seniors and people with disabilities.

1. To help ensure its ability to solve Portland’s unmet housing needs, the Bureau should develop and implement a long-term resource development strategy.

Current condition The Portland Housing Bureau projects significant revenue reductions.

As shown in Figure 3, Tax Increment Financing, the Bureau’s largest source of funding, is projected to decline significantly over the next four years, and federal funding for the Bureau is also expected to decrease. The Bureau forecasts that their revenue from the City’s general fund will be relatively constant, with reductions in one-time discretionary funding replaced with on-going funding from the City. Bureau revenue is expected to decrease more than \$27 million between 2012 and forecasts for 2013. The Bureau expects that significant revenue reductions will be felt in 2014 when revenue will be almost half of what they expect to receive in 2013.

Figure 3 Portland Housing Bureau 2011-2017 revenue outlook



Source: Portland Housing Bureau

Potential risk	Lack of resources may impact the Bureau's ability to achieve its mission since significant reductions in revenue may require staffing cuts and reductions in services.
Bureau's work to address risk	<ul style="list-style-type: none"> ● One of the four goals in the Bureau's strategic plan is to develop, leverage and allocate housing funds to meet needs, sustain assets and strengthen the housing industry. ● Bureau management told us the newly formed Equity, Policy, Planning and Communication division is developing a resource development strategy. ● Bureau management told us they are evaluating available federal grants and applying for those that align with their mission.
Potential mitigating activities	<p>Prioritize and implement the resource development goal and objectives outlined in the 2011-13 Strategic Plan:</p> <ul style="list-style-type: none"> ● Develop new financial sources to meet the most critical unmet housing needs. ● Wisely spend money in a way that produces the best long-term results while ensuring equitable access to housing services. ● Manage existing housing stock and landlord partnerships to maintain long-term value for the community.

2.

To ensure that the Bureau achieves its mission and goals given current staffing levels and available funding, the Bureau should further prioritize their objectives.

Current condition

The Bureau is working towards numerous and diverse objectives during a time of organizational change, limited resources, and staffing cuts.

The Bureau is engaged in many substantial and diverse activities, including addressing homelessness, creating and maintaining affordable housing, encouraging homeownership, and ensuring housing equity. As shown in Figure 1 in the report summary, the 17 objectives set out in the Bureau's strategic plan span a wide range of housing and organizational areas.

Potential risk

In light of the Bureau's reduced staff and limited resources, working towards 17 significant and concurrent objectives may limit the Bureau's ability to address unmet housing needs.

Bureau's work to address risk

- The Bureau developed a strategic plan for the years 2011-13, which helped them identify and focus on their four key goals.
- The Bureau's Strategic Plan includes four prioritized investment strategies that the Bureau uses to make funding decisions.
- According to Bureau management, the Portland Housing Advisory Commission was created to assist the Bureau to prioritize services set forth in the strategic plan and resource allocation.
- According to Bureau management, over the last few years they eliminated funding for some activities, outsourced a few projects, and eliminated some direct work that staff provided. In 2009, the Bureau stopped providing direct homebuyer financial assistance in the form of first mortgage lending outside of Urban Renewal Areas. Beginning in 2010, PHB staff have spent less time operating and marketing the Rent Well tenant education and landlord guarantee program. In 2011, the Bureau outsourced

project management, analysis and reporting of the biennial homelessness street count project to a consultant. Effective in the 2012 budget, the Bureau stopped funding a needle exchange program.

Potential mitigating activities

- Prioritize Bureau objectives and tasks outlined in the 2011-13 Strategic Plan. With the help of PHAC, align staff and resources to match the prioritization.
- Clearly communicate Bureau priorities to housing stakeholders and staff.



Source: Portland Housing Bureau photo

Bud Clark Commons, Old Town Chinatown

The Bud Clark Commons is a partnership between the Portland Housing Bureau, Home Forward, Transition Projects, Inc., and Multnomah County. The center contains 130 rental homes, a 90-bed shelter, and a day center offering a number of services including telephones, showers, resource information and mental health services.

3.

To maximize the impact of available resources and ensure the Bureau achieves its mission, the Bureau should further collaborate across jurisdictions and with area housing partners.

Current condition

Housing needs and solutions are cross-jurisdictional, and all jurisdictions and housing partners have limited resources to address needs.

Housing affordability and homelessness are issues that span across jurisdictions. In the Portland area, where the City has historically built housing infrastructure and provided housing services to adult singles, while the County has provided general social services and housing services to families and youth, the jurisdictions' clients and services are intertwined. Many housing services and projects involve multiple actors, including the City, County, State, Federal government, and HomeForward, the entity formerly known as Housing Authority of Portland. In addition, some service providers have similar contracts with both the City and the County.

During our audit, we saw individual projects that were the result of collaboration. However, we have not observed system-wide solutions resulting from cross-jurisdictional collaboration. In addition, some PHB partners told us that recent organizational and leadership changes at PHB have required Bureau managers and staff to focus internally, which has limited their ability to fully engage with partners to work towards shared objectives.

Potential risk

Lack of collaboration may cause duplication and misalignment of services. Opportunities to maximize the impact of available resources may be missed and housing needs may go unmet.

Bureau's work to address risk

- The Bureau engages with State, County and private partners on a regular basis.
- The Bureau engaged with housing partners to create the *Analysis of Impediments to Fair Housing Choice Report*, released in June 2011 and Fair Housing Action Plan, approved by City Council in September 2011.
- Bureau managers and staff are working with housing partners and other jurisdictions on a variety of projects, including the Short Term Rent Assistance program, the Bud Clark Commons housing development, and a workgroup to address issues that arise in the implementation and administration of the Limited Tax Exemption programs.
- The Bureau has also begun meeting with housing partners to review and "reset" the 10-year Plan to End Homelessness.

Potential mitigating activities

The Bureau should continue to collaborate with housing partners. Efforts should focus on producing measurable results designed to share resources, better align services and remove any duplication.

4.

To maximize the impact of available resources, the Bureau should implement robust tools and policies to effectively manage their portfolio of assets and loans.

Current condition

The Portland Housing Bureau manages a large and complex portfolio of housing loans and assets. The majority of the loans and assets were inherited from the Portland Development Commission.

The Bureau aids in creating affordable housing by providing tax incentives and financing that may not be available to developers of low-income housing in the real estate market. Through underwriters, the Bureau originates loans to for-profit and not-for-profit developers and private individuals to assist with affordable housing development and rehabilitation. The total loan balance during FY 2011 was \$302 million. Bureau staff are responsible for managing and tracking the loans in their portfolio, which includes processing loan disbursements, recording loan receivables, and receipting program income associated with loan repayments. During our audit, we found that the Bureau does not have a long term guiding policy for asset management and loan issuance to help determine investment priorities, including whether resources are best spent on maintaining existing assets versus investing in new projects.

According to Bureau staff, most of the loans the Bureau issues are called soft-loans, which have low interest rates and long amortization periods. Repayment requirements for the loans vary and in part, are dependent on the financial condition of the housing project and the borrower, which is also affected by renters' income level and ability to pay rent. Bureau management told us that some of these soft loans may not be repaid. The Bureau has the ability to restructure borrowers' debt, but has yet to develop a shared approach to doing so with City Council.

The Bureau also monitors affordable housing properties in their portfolio to ensure that they are maintained and that affordability requirements are met. The Bureau currently monitors about 10,000 affordable housing units. The Bureau also owns 16 housing properties, and two additional properties are being transferred from PDC. In addition, the bureau provides financial assistance to developers for the rehabilitation and preservation of housing properties.

Currently, the Bureau is using the MITAS data system administered by PDC to help manage the asset and loan portfolio. However, according to Bureau staff, the current system is not an effective tool to manage, track and report on loans and assets, and data generated from the system is not reliable. The Bureau is in the process of replacing the old data system with a new Housing Development System (HDS). Bureau management told us that the new system will improve their asset and loan management capabilities.

During our audit, the Bureau proposed, and Council adopted changes to the City Code section on tax exemptions to update administrative processes and sunset dates. These changes did not include updates to correct the method for assessing financial need for multi-family condominium properties that receive tax exemptions. We recommended the City address this issue in our 2008 audit on tax exemptions.

Potential risk

Without adequate resources, guiding policy and robust tools, the asset and loan portfolio may not be effectively managed, and the impact of Bureau resources may not be maximized.

Bureau's work to address risk

- According to Bureau management, as part of the Portfolio and Investment Project, PHB is currently reviewing and updating their lending and asset management guidelines in close coordination with the Office of Management and Finance and other stakeholders.
- Bureau management told us they are prioritizing asset management in funding decisions, and they will allocate Community Development Block Grant (CDBG), the most flexible type of funding from the Federal Government, so that some funds are available to maintain existing affordable housing stock.
- The Bureau is in the process of implementing Housing Development Software (HDS), which replaces their old loan management system.

Potential mitigating activities

In order to ensure the sustainability of the asset portfolio, the Bureau should develop robust tools to guide and manage investments and loans including:

- Revise policies for investment tools and develop long-term guiding policies for asset management and loan issuance.
- Develop a process and shared approach for restructuring borrower's debt.
- Develop sufficient resources to maintain existing affordable housing stock.
- Transition to the new asset management data system.
- Update lending and investment guidelines to correct the method for assessing financial need for multi-family condominium properties that receive tax exemptions.



Source: Portland Housing Bureau photo

Walnut Park Apartments, NE Portland

The Portland Housing Bureau invested \$1.6 million in Community Development Block Grant funds to help REACH Community Development preserve, acquire and rehabilitate the Walnut Park Apartments. Its 38 rental homes serve low-income seniors and persons with disabilities.

5.

To enhance public transparency and help ensure the sustainability of long-term solutions to housing issues, the Bureau should define their core business functions and authority in City Code.

Current condition The Bureau's core business functions and authority are not defined in City Code, as many other City bureaus' are.

Nearly all City bureaus have a section in the City Code that defines their core business functions and the source of their authority to carry out those functions. While there is a Code section about the Portland Housing Advisory Commission (PHAC), there is no section about the Housing Bureau itself. When the administrative work to create the Bureau began, a January 2009 City Council ordinance directed the Bureau "to develop amendments to City Code to establish the duties and responsibilities of the Portland Housing Bureau and bring those amendments to Council". When we met with the Bureau Director in February 2012, these amendments had not been developed. City Attorney officials told us that while it is not prohibited for the Bureau to be conducting City business without being in Code, it would be a good practice for the Bureau to be established in Code.

Potential risk The Bureau's core business functions and authority are not included in City Code, so this information is not easily available to members of the public. As such, the Bureau is less transparent than ones where the core business functions are clearly defined and easily available to the public. Additionally, because the core business functions are not defined in Code, Bureau or City leaders could arbitrarily change the focus of the Bureau or alter the Bureau's core business functions. Since many housing solutions require long-term approaches, there is a risk that Bureau goals and solutions may not be achieved.

Bureau's work to address risk

According to Bureau management, they began the process of updating City Code in early 2011, but were advised that the Code changes were not required to conduct business. After we shared information about this risk with Bureau management in 2012, they began working to revise City Code to incorporate detail of their authority and told us they are currently in the process of filing documents to update City Code.

Potential mitigating activities

The Bureau should develop amendments to City Code to define their core business functions and authority and bring these amendments to City Council for public discussion.

6. To help ensure that all current and future staff are familiar with and deliver consistent regulatory compliance and contract management, the Bureau should develop a training system that includes required training, policies, tracking, and documentation of training for all current and future staff.

Current condition

Regulatory compliance and contract management are significant responsibilities for the Bureau.

The Bureau receives many federal grants to fund various projects, and these grants contain requirements the Bureau must comply with. As part of the City's annual financial audit, which is designed to obtain assurance about whether the City's financial statements are free of material misstatements, the outside financial auditors perform tests of compliance with certain provisions of law, regulations, contracts, and grant agreements. In addition, funding agencies like HUD audit the Bureau's work to determine whether regulations, contracts, and grant agreements are followed. Ensuring and documenting regulatory compliance is an essential aspect of the Bureau's work.

In addition, the Bureau provides few direct services. Rather, program staff manage contracts with not-for-profit agencies that provide services to the public on the Bureau's behalf.

While many staff and managers told us that the Bureau's approach to regulatory compliance and contract management has improved over the past few years, we found that there is no required training for staff and managers. When we began our audit, when staff participated in training, there was no central system to track or document completion of training. However, Bureau management told us that staff are now required to submit documentation of training attended, which is tracked by the Bureau Compliance Coordinator. In addition, while some staff told us that compliance is a priority, they also stated that there is not always adequate time and resources available for compliance work and training.

Potential risk Without requiring training in regulatory compliance and contract management, and without tracking and documenting training, Bureau management may not have the assurance that all staff are trained in elements essential to their work. As a result, regulatory compliance and contract management may be dependent on a few individuals, and staff changes may mean that regulatory compliance and contract management expertise is lost. Inconsistent regulatory compliance and contractor oversight may impact federal funding, contractor deliverables, and the cost of the City's annual financial audit.

- Bureau's work to address risk**
- For the past two years, the Bureau has offered internal training covering topics such as budgets, contracts, ordinances and payment of invoices.
 - The Bureau has a Compliance Coordinator who informs staff about training opportunities and helps direct staff to regulatory compliance resources. During our audit, the Compliance Coordinator began maintaining training records in personnel files and in a spreadsheet.
 - A contract managers' work group meets regularly and is developing a contract management manual and training for staff who manage sub-recipient contracts.

Potential mitigating activities Develop a Bureau-wide training system that includes required training and policies on regulatory compliance and contract management. Track and document training for all Bureau staff and managers.

Chapter 4 **Results of Homelessness Plan audit follow-up**

Bureau's implementation of recommendations is mixed

In 2005, the Portland City Council adopted *Home Again: A 10-Year Plan to End Homelessness in Portland and Multnomah County*. A commission of elected officials, business and community leaders, neighborhood association chairs, and persons experiencing homelessness developed the Plan, which is a partnership between a number of public agencies, such as the City of Portland, City of Gresham, and Multnomah County; private sector businesses; and non-profit organizations. The Bureau of Housing and Community Development (BHCD) was responsible for the City's participation in the Plan, and these responsibilities were transferred to the Portland Housing Bureau when it was created. Bureau staff provide administrative support to the Coordinating Committee to End Homelessness (CCEH), a group that oversees the Plan and facilitates monthly meetings designed to coordinate Plan implementation among government and nonprofit agencies serving the homeless.

The 10-Year Plan to End Homelessness was part of a national movement to end homelessness as a large social problem. According to Bureau management, the Plan was a Federal mandate that dictated the title, approach, timeline and other requirements. The Plan established nine actions designed to end homelessness. At the time we performed our audit in 2007, first and second year goals had been established for most of the nine actions.

In our 2007 audit, we performed a high-level review of the Plan's accomplishments and made three recommendations. As part of this audit to assess risk at the Bureau, we followed up on the status of the recommendations. The table below summarizes the 2007 audit recommendations and our assessment of their current status. To read the 2007 audit, see <http://bit.ly/IRSgG7>

Figure 4 Status of 2007 Homelessness Plan audit recommendations

2007 Audit Recommendation	Auditor's assessment of status
1. Further develop short-term measures for Action Steps #2 and #6. Performance indicators for Action Step #2 should address some of the community institutions' efforts, such as hospitals and the foster care system, if possible, as laid out in the 2004 plan. Performance indicators for Action Step #6 should address not only how many Homeless Connect events are taking place but should also address level of participation by community partners.	Implemented
2. Develop a monitoring program to determine the reliability of the housing information system and the accuracy of the data. One element of this may be to sample provider information periodically.	In Process
3. Refine and/or develop long-term performance measures associated with the end of the 10-year Plan.	Not Implemented

Source: Audit Services Division

Bureau developed short-term measures for 10-year Plan

In 2007, we found that two of the nine action steps in the Plan lacked strong short-term measures, and we recommended that the Bureau improve short-term measures for those that were lacking.

During this 2012 audit, we conclude that the Bureau implemented the recommendation. We found that annual reports on the Plan included short-term measures for action steps #2 and #6. The aims of the short-term measures were similar from year to year; however, the strength of the measures varied over the years. In some years, the short-term measures identified the number of people to be served and the organization responsible for providing the service. In other years, the measures were not as strong since they did not include the number they aimed to serve and did not identify the organization that would provide the service.

Bureau's data monitoring has improved, but on-site monitoring still needed

In 2007, we recommended the Bureau develop a monitoring program to determine the reliability of the Homelessness Monitoring Information System (HMIS) and the accuracy of the data. We recommended that the monitoring program include an effort to sample provider information periodically.

In this audit, we conclude that the recommendation was partially implemented. We found that the Bureau held meetings and training with HMIS users to improve data completeness. In 2010, the Bureau reported that they planned to do on-site monitoring to sample provider data. However, during this audit, Bureau staff told us that on-site monitoring has not taken place because HMIS staff are too busy working as administrators for the statewide HMIS system. Bureau staff and managers told us that they are working to integrate on-site HMIS monitoring into the monitoring currently done by contract managers.

Bureau has not developed long-term performance measures associated with the end of the 10-year Plan

In 2007, we recommended the Bureau develop long-term performance measures associated with the end of the 10-year Plan. In this audit, we concluded that the Bureau has not developed long-term measures.

When the Plan was adopted in 2005, the Bureau received competitive federal and private grants earmarked for programs designed to end homelessness. Program managers told us that this funding for the program has dried up and the program now relies on funding from the City's general fund. Bureau managers told us the City's investment in homelessness activities has increased during the life of the plan, but that almost half the City's support are one-time allocations, though the activities being funded are ongoing. Program managers at the Bureau told us that because of the uncertain nature of funding for their homelessness efforts, it is not effective to set long-term measures. Instead, they told us that they have focused on annual measures for the Plan.

Program managers also told us that the nature of homelessness has changed since the Plan was developed. Some managers said that the plan was aspirational from the beginning since, in their opinion, the plan will not end homelessness.

During our review, we found that there is a project underway to re-evaluate and “re-set” the 10-year Plan to reflect the current state of homelessness, new theories on how to best address homelessness, and the funding available for homelessness efforts. There is a re-set committee comprised of staff and managers from the Bureau, Multnomah County, Home Forward, housing and service providers. The re-set committee meetings are facilitated by a third party consultant. The procurement process to hire the consultant was completed in February 2012, and Multnomah County handles the contract with the consultant.

Chapter 5 **Results of financial audit follow-up**

Bureau has resolved significant deficiencies from 2009 and 2010 financial audits; training system may help ensure that improvements are sustained

Each year, an independent CPA firm under contract to the City Auditor's Office performs the audit of the City's Comprehensive Annual Financial Report (CAFR), and the Schedule of Federal and State Grant Programs (Single Audit). The CAFR is designed to fairly present the financial position of the City as measured by the financial activity of its various funds. The Single Audit is a federal requirement and is designed to present additional analysis on the financial statements of the City. In both reviews, the auditors consider the City's internal controls over financial reporting of statements used in the auditors' assessment. When problems with internal controls are identified, they are reported on a range from most severe to least severe: deficiency in internal controls, material weakness, or significant deficiency.

In the City's 2009 and 2010 financial audits performed by the CPA firm Moss Adams, there were four significant deficiencies related to the Bureau. A significant deficiency is defined as: *deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.*

As part of our audit, we followed up on the Bureau's work to address the significant deficiencies. We concluded the Bureau had addressed the deficiencies, but that a training program, which includes required training and policies, and tracking of training for all current and future staff and managers, may help ensure that compliance is not dependent on a few individuals. When the independent CPA firm re-tested controls in 2010 and 2011, they determined that the deficiencies were resolved. We summarize the significant deficiencies and our assessment of work done to address them in the table below.

Figure 5 Follow-up on Portland Housing Bureau’s significant deficiencies in 2009-2010 financial audits

Financial audit significant deficiency	Conclusion on the Bureau’s work done to address deficiency
Sub-recipient monitoring – significant deficiency in internal controls and instance of noncompliance (2009)	City auditors conclude that the Bureau improved their process for sub-recipient monitoring. Moss Adams did not find any issues with sub-recipient monitoring when they retested the Home program in 2010.
Timeliness of report filing –significant deficiency in internal controls and instances of noncompliance. Federal program: Home investment partnership program (2009)	City auditors conclude that the Bureau filed reports on time since the deficiency occurred. Moss Adams concluded that the deficiency was resolved when they followed up in 2010.
Not recording expenditures in accordance with Generally Accepted Accounting Principles (GAAP) – Significant deficiency in internal control and instance of noncompliance. Federal Program: Home, investment partnership program (2009)	City auditors conclude that the Bureau improved their process for recognizing loans in the financial statements. Moss Adams concluded that the deficiency was resolved when they followed-up in 2010.
Loans not recognized in the financial statements – significant deficiency in internal controls (2010)	City auditors conclude that the Bureau improved their process regarding recognizing loans in the financial statements. Moss Adams concluded that the deficiency was resolved when they followed up in 2011.

Source: Audit Services Division

RECOMMENDATION & CONCLUSION

Chapter 6 **Recommendation and conclusion**

Audit recommendation

We recommend that the Bureau continue work to address the risks we identified in this report. We also recommend the Bureau consider implementing the mitigating activities for the risks we outlined.

Conclusion

The Portland Housing Bureau is a new City bureau that engages in a variety of activities related to housing. Since the Bureau began operations in 2010, it has seen two rounds of staffing cuts and two Bureau Directors. Since the Bureau is new, complex, and has experienced significant change, we performed an audit to assess risk at the Bureau. In our review, we identified six risk areas that warrant management attention. We also concluded that the Bureau has partially implemented the recommendations from our 2007 audit on the 10-year Plan to End Homelessness. In addition, we concluded that the Bureau has addressed significant deficiencies identified in prior financial audits. We plan to use the results of this audit to guide our future audit work at the Portland Housing Bureau.

RESPONSES TO THE AUDIT



Commissioner Nick Fish
City of Portland

DATE: May 10, 2012

TO: Auditor LaVonne Griffin-Valade

FROM: Commissioner Nick Fish *NF*

SUBJECT: Response to Audit of Risk at the Portland Housing Bureau

Thank you for the opportunity to comment on your risk assessment of the Portland Housing Bureau (PHB).

In 2010, Mayor Adams and I merged the Bureau of Housing and Community Development with the housing functions of the Portland Development Commission. We delivered on a promise I made to change the way we deliver affordable housing and services to struggling families, older adults, the homeless, and the disabled. I pledged to build a new house, not just renovate the old one.

We faced many challenges: the merging of two complex organizations; two rounds of difficult layoffs and budget cuts; two new Directors.

At the same time, we made noteworthy strides to lay a strong foundation for our new house:

- We worked with community partners to develop a new Strategic Plan, placing our values of equity and opportunity at the heart of everything we do;
- To strengthen accountability, we formed a new citizen advisory body, the Portland Housing Advisory Commission (PHAC), and asked new voices from Portland's communities of color to serve; and
- We created a new bureau management position charged with developing and implementing an Equity Agenda.

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The future is uncertain. As you mention, the bureau faces significant declines in revenue, while our community faces a rising tide of need.

PHB is a “learning organization,” continually striving to identify ways to more effectively and efficiently serve our community’s most vulnerable. I am working with the talented team at PHB to deliver better programs and services to those in need, and to deliver on the promise of this new bureau.

The risks you highlight and the mitigation strategies you propose will help guide our work to strengthen the foundation of the new Portland Housing Bureau.



CITY OF
PORTLAND, OREGON

PORTLAND HOUSING BUREAU

Nick Fish, Commissioner
Traci Manning, Director
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May 10, 2012

LaVonne Griffin-Valade, City Auditor
1221 SW 4th Avenue Room 140
Portland, OR 97204

RE: Portland Housing Bureau Audit Response

Dear Auditor Griffin-Valade:

I appreciate the opportunity to review and respond to your audit report, *Portland Housing Bureau: Bureau acting on risks, although more remains to be done*. Thanks to you and your staff for your thoughtful and collaborative approach to this audit. The timing of the report is especially helpful, as the bureau is completing the major structural work required by the merger and has begun work to improve its systems, as you note.

The audit acknowledges PHB's accomplishments and the critical work we perform, and highlights areas for continued improvement. PHB is gratified to know the audit identified only six risk areas requiring additional effort out of all of the services and activities performed by the bureau. PHB particularly appreciated the Auditor's focus on asset management, as we strongly agree that maintenance of the City's existing investment should be our highest priority. PHB will continue to work closely with our partners at the Office of Management and Finance to review and refine our policies.

As you noted in Section 1 of the audit, financial constraints will continue to present challenges for PHB in funding our investment priorities. We agree that we must develop new dedicated funding to meet the needs of our community, and we intend focus attention on resource development.

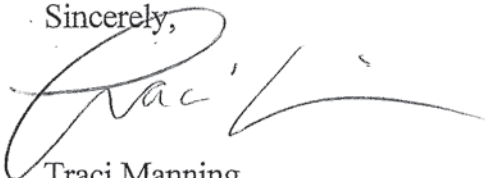
We will also continue to place significant emphasis on the importance of partnerships, as noted in Section 3. In the face of declining resources and increasing need, we cannot succeed without strong partnerships. We are proud of our many collaboration with partners during the past few years, including the following:

- With Multnomah County Chair Jeff Cogen and Commissioner Fish in the lead, PHB is working on a review of the City's Limited Tax Exemption program, a tool we use to encourage the development of affordable homes.
- We partnered with Home Forward, Transition Projects, and Multnomah County to build Bud Clark Commons, a unique three-in-one center combining shelter space, permanent apartments, and a day center under one roof.
- We partnered with Home Forward and Multnomah County on a "Section 8 Success Rate Task Force," and are working to reduce barriers to housing choice throughout our community.
- We worked with local non-profit REACH CDC to bring the first affordable homes to South Waterfront. "Gray's Landing," which includes 42 homes reserved for low-income veterans, is scheduled to open early next year.
- We partnered with the Veterans Administration, Home Forward, and Central City Concern to remove bottlenecks in programs serving our homeless veterans.

Further, we are pleased that you included follow-up on two previous audits. You report that PHB has implemented or is in the process of implementing two of the three recommendations regarding our community's "10-Year Plan to End Homelessness," and that PHB has successfully resolved the deficiencies identified in the 2009 and 2010 financial audits.

PHB will continue to work proactively to mitigate the risks identified in the audit. Your recommendations will help us continue to fine-tune bureau systems and processes to better meet our mission and address our community's needs.

Sincerely,

A handwritten signature in black ink, appearing to read "Traci Manning", with a long horizontal flourish extending to the right.

Traci Manning
Director

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*Portland Housing Bureau: Bureau acting on risks,
although more remains to be done*

Report #421, May 2012

Audit Team Members: Jennifer Scott
Alexandra Fercak

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandoregon.gov/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

Portland Police Bureau Learning: Improvements needed to strengthen existing processes (#416, May 2012)

Downtown Office Space: City uses most of its owned space, but lease practices need attention (#417, April 2012)

PDC Economic Development Loans: Loan programs improved, but tracking major borrowers limited (#419, March 2012)

