



SAN FRANCISCO HOUSING AUTHORITY

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Coordination, Management & Accounting of the Section 8 Voucher Program

SFHA's Mission is to deliver safe and decent housing for low income households and integrate economic opportunity for residents

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San Francisco Housing Authority (SFHA)

Section 8 Housing Choice Voucher (HCV) Accounting

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SFHA Operational Improvements & Challenges

- Established close working relationship with HUD, Mayor's Office of Housing & Community Development (MOHCD), SFCC Controllers Office, HOPE SF, numerous other City Departments and community partners
- Eliminated a \$7 M budget deficit through cost savings measures and concessions with bargaining units; balanced budgets through 2019, although administrative and public housing deficits are projected from 2020 forward
- Accelerated repairs, eliminated 3,800 backlog of work orders for public housing residents and increased rent collections
- Recruited and hired key Housing Choice Voucher, Human Resources, and other management staff
- Converted to Emphasys Elite specialized Public Housing and HCV program software in FY 2016
- Provided all employees with extensive training and regular performance reviews based on goals established through a Five Year Strategic Plan with a primary goal of being a proactive partner within the SF community.
- Achieved "Standard" Performer status for Housing Choice Voucher (HCV) in 2016
- Converted 3,500 public housing units to the Rental Assistance Demonstration Program/Project Based Voucher (PBV) subsidies through \$2.2 billion public and private investment with MOHCD and community based affordable housing providers
- Increased HCV program utilization through collaborations with City Partners (MOHCD, HSH, HSA), the Veterans Administration and community based affordable housing providers

SFHA Operational Improvements & Challenges (Continued)

- SFHA became a Housing Choice Voucher “Standard” performer in 2016 and maintained that status in 2017 after eight years of HUD “Troubled” designation and underutilization of voucher funding
- SFHA is on track to continue designation as a “Standard” performer in 2018 based on a rigorous HUD scoring system for:
 - Waitlist Management
 - Rent Reasonableness
 - Determination of Adjusted Income and Correct Tenant Rent Calculations
 - HQS Quality Control and Pre-Contract HQS Inspections
 - Annual Reexaminations and HQS Inspections
 - Expanding Housing Opportunities
 - Payment Standards
 - Lease-up
 - Family Self Sufficiency
- Despite these improvements, the HCV program now faces an enormous funding shortfall due to over utilization for its Housing Assistance Payments for 2018 that will likely carry over into 2019

SFHA Operational Improvements & Challenges (Continued)

➤ At SFHA's request, in late 2016, the SF City Services Auditor Division conducted an assessment and released a report in August 2017. The report found that the Finance Department was not able to perform critical functions due to staffing and management deficiencies. The status of implementing recommendations is: 19 Implemented, 5 Partially Implemented and 2 Not Implemented

1. *Not Implemented* - Migrate to the City's new financial and procurement systems – SFHA was advised by City representatives to wait until after the new City software is stabilized
2. *Yes* - In September 2017 SFHA worked with the City to explore a shared services agreement for management of the finance operations. In November 2017, CCSF offered to recruit and hire a Chief Financial Officer but no viable candidates were identified by February 2018
3. *Not Implemented* - An exploratory meeting with the City's Treasury Office was held but SFHA has not consolidated all banking activities and funds into the City's treasury and pooled investments fund
4. *Yes* - The Finance Department had only partially implemented a quality assurance (QA) process for its analytical work and had no success providing QA the area of HCV HAP reporting and processing. Despite performance reviews and a corrective action plan, the former Finance Director was unable to finalize and implement clear policies and procedures that include QA. QA is now being implemented after contracting with BDO USA (BDO), a nationally recognized firm with expertise in PHA finance operations

SFHA Operational Improvements & Challenges (Continued)

5. *Yes* - SFHA developed and implemented performance reviews, attendance oversight, training, testing, employee engagement, policies for use of temporary staff and personnel policies and procedures. However, finance operations continued to struggle despite these human resource improvements and specialized training both onsite and at offsite training seminars
6. *Yes* - In September 2017, SFHA worked with the City to explore a shared services agreement for management of the finance operations. In November 2017, CCSF offered to recruit and hire a Chief Financial Officer but the City concluded that no viable candidates had been identified by February 2018
7. *Yes* - Key positions have been filled timely through a network of recruitment services despite challenges with the City's high cost of living, low unemployment rates and SFHA's limited compensation levels. The exception has been recruiting and retaining experienced and competent finance staff. In March 2018, SFHA initiated procurement for professional consultant services to take over management of its finance operations. BDO was selected for a long term contract in August 2018. In September 2018, with BDO in place, SFHA terminated the Director of Finance and Senior Budget Analyst in charge of HCV HUD Voucher Management System (VMS) reporting. BDO oversees finance operations, including management of VMS reporting to HUD

SFHA Operational Improvements & Challenges (Continued)

8. *Partially complete* - SFHA is 38% complete with revising job classifications/minimum qualifications and compensation structures within the financial resources available. SFHA is unable to ensure comparability with the City's and similar local government compensations structures
9. *Yes* - See #7 above
10. *Partially Complete* – SFHA does bi-annual salary and compensation surveys and provides comparables in preparation for bargaining every two years
11. *Partially Complete* - All bank accounts are reconciled and reported to the Commission monthly except general fund
12. *Partially Complete* - The former Finance Director was unable to effectively oversee staff providing general fund bank reconciliations. In March 2018, SFHA asked the City Auditor to assist with FY 2017 reconciliation. This as completed by June 2018. Under BDO's oversight, the general fund reconciliation is complete through February 2018 and will be fully up-to-date by December
13. *Yes* - Automatic transmittal reporting with the bank has been in place since mid-2017
14. *Yes* - The rent payment and documentation process recommended by the City Auditor has been in place since mid-2017
15. *Yes*- Operating funds received from HUD are already coded with the Asset Management Project numbers and for restricted or unrestricted uses.
16. *Yes* - The Section 8 HCV program funds have been segregated by restricted and unrestricted uses since late 2017

SFHA Operational Improvements & Challenges (Continued)

17. *Yes* - HUD only allows funds budgeted for certain Capital Fund Program (CFP) uses to be incorporated into the agency wide budget. Funds for capital related work are separate in compliance with HUD requirements.
18. *Yes* - The Finance Department reviews all of the capital fund journal entries provided by the CFP accountant
19. *Yes* - The Capital Fund Accountant regularly reviews and updates policies and procedures in compliance with HUD accounting guidelines
20. *Yes* – SFHA has adopted requirements and schedules for record retention and filing procedures
21. *Yes* – Staff have been trained to make journal entries that include complete descriptions and sufficient documentation that is centrally filed
22. *Yes* – SFHA uses only schedules that include the use of proper account coding
23. *Yes* – SFHA’s Microsoft Dynamics Great Plains software provides a comparative analysis procedure to detect duplicate payments that may be recorded across the systems for managing capital awards, grants and loans
24. *Yes* – SFHA’s CFP Accountant reconciles capital awards, grants and loans every month so that balances of capital awards, grants and loans accurately reflect respective draws
25. *Yes* – Procedures are in place to monitor capital awards, grants and loan transactions
26. *Partial* – The Finance Department operations are being managed by BDO consultants. Among other responsibilities, they are assessing staff and reorganizing the department to ensure comprehensive and timely reporting to meet the agency’s needs

SFHA Dramatic Increase in HCV Program Utilization

- SFHA dramatically expanded its HCV programs by 4,641 households over the past five years to provide more people with better housing
- Through mid-2017, HUD urged SFHA to increase its overall HCV program utilization, get its funds under contract, avoid recapture of its reserves and serve more people. Reserve estimates at the beginning of CY 2018 were \$34 M but actual amount was \$28.4 M available for CY 2018 expenses
- 3,500 public housing units were rescued from chronic underfunding and rehabilitated into beautiful Rental Assistance Demonstration (RAD)/Project Based Voucher (PBV) subsidized community partner owned housing with services beginning in CY 2015 and CY 2016
- 1,141 additional PBVs and Tenant Based Vouchers committed primarily in 2017 for: (1) new affordable housing, (2) City funded Local Operating Subsidy Program (LOSP) housing for formerly homeless, (3) VASH housing for veterans, (4) set-aside MOI vouchers for residents transitioning out of housing with supportive services freeing up housing for homeless, (5) set-aside vouchers for families with minor children living in SROs, and (6) other

Mixed Indications of Possible Funding Shortfall

- In March and April 2018, SFHA and HUD began to question the accuracy of the SFHA's custom Two Year Tool (TYT), a HUD product that was developed to forecast HCV Housing Assistance Payments (HAP) fund utilization, reserves and potential shortfall or negative balances. In March, SFHA also initiated procurement for professional consultant services to take over management of its underperforming finance operations.
- Between March and August, SFHA began to advise our City and community partners that there might be some shortfall in late 2018 or early 2019. Based on the forecasts we had, the HUD Field Office cautioned us but said that we could continue to issue 25 vouchers per month for the Moving On Initiative
- In August, BDO was selected for a long term contract and asked to immediately begin assessing the accuracy of data in the HCV Voucher Management System (VMS) and the status of the HCV HAP reserves. Significant errors in reporting and forecasting were immediately identified and concerns about a funding shortfall by the end of the calendar year were raised
- In September 2018 SFHA put BDO fully in charge of the VMS reporting and TYT forecasting after terminating the Director of Finance and Senior Budget Analyst who had been doing the reporting.
- On September 6, 2018, the HUD Shortfall Prevention Team (SPT) confirmed with SFHA that shortfall was likely before the end of the year. The initial shortfall estimate was between \$600,000 and \$26 M.

Mixed Indications of Possible Funding Shortfall (Continued)

- SFHA immediately notified and consulted with MOHCD about this alarming situation and also immediately complied with the HUD SPT requirements: stopped issuing vouchers, stopped accepting port-ins, stopped issuing vouchers to families wanting to move from PBV properties and began implementing other cost savings measures. SFHA applied for shortfall funds that HUD budgets annually to assist PHAs in this situation
- On the week of October 2, 2018, the HUD Quality Assurance Division (QAD) arrived at SFHA for onsite review of HCV financials. QAD, with SFHA's BDO consultant, confirmed that SFHA's TYT was unable to forecast an impending shortfall, primarily due to inaccurate VMS reporting by finance staff, problems with the initial set up of the Emphasys Elite software and complexities of SFHA's HCV portfolio
- QAD also noted that there were an enormous number of retroactive rent payments for RAD/PBV and SF LOSP conversion projects that could not be adequately reflected in the TYT without custom manual adjustments. The retroactive payments that went back to the prior calendar year could only be paid out of reserves and were not eligible for shortfall funds. From 2013 to 2018, SFHA's Budget Authority from HUD increased by \$89.5 M while HAP expenditures, including \$28.5 M from reserves, increased by \$144 M resulting in a shortfall of \$29.8 M for CY 2018

HUD shortfall funding for the entire country for 2018 was \$75 M and greatly depleted by this time of the year. Requests early in the year are critical

Factors Contributing to Shortfall

➤ Of the 11 PHAs around the Bay Area, nine are in shortfall balancing the goal of full HCV program utilization within federal funding constraints. The two agencies that are not in shortfall are Moving To Work Agencies with HUD allowed flexible use of funding

➤ Reliance on HUD Two Year Tool (TYT) forecasts that were based on inaccurate and incomplete data and require custom manual adjustments for units that come on line over time for SFHA's complex HCV portfolio

➤ Long retroactive payment periods for 489 LOSP units converting to HCV PBV subsidies that are only reflected in TYT projections with custom manual adjustments. Overly aggressive leasing assumptions and delays in SFHA receiving complete tenant documentation for start up of HAP payments contributed to the problems. Converting these properties to HCV PBV does save the City \$9 M annually over 20 years but requires \$12 M in HCV annual HAP payments.

➤ Long retroactive payment periods for 1,584 RAD/PBV units that are only reflected in TYT projections with custom manual adjustments. Delays are due to RAD phased rehabilitation, units passing HQS inspections and contract document execution. Integration of RAD/PBV units into SFHA's HCV subsidy system is still taking place as these steps are completed.

➤ Retroactive payments transcending calendar years. HUD funds the next year based only upon the amount spent in the most current calendar year that are related to the calendar year

Factors Contributing to Shortfall (continued)

- Previous conversion of RAD low subsidy units lowered overall per unit cost (PUC) and distorted the monthly HAP per unit cost in TYT projections. Accurate projections required manual adjustments
- RAD/PBV units coming on line at a cost of over and above TPV funding provided by HUD (\$7 M). This funding and actual cost differential is also true for VASH and Mainstream vouchers
- Upward spike in the SF rental market led to a large gap between what HUD considers adequate funding and the amount being paid out based on FMRs and Payment Standards
- SFHA need to perform market rent study to increase FMRs so that the program payment standards remain competitive in the market. Rent increase requests with effective date backdated but not paid until completion of all necessary items
- Overall size of SFHA's HCV program where regular HAP expenditures for one month were close to \$20 M. A 10% error in forecasting results in a \$24 M over expenditure
- Use of the full reserve funding to expand the HCV program and supplement the budget rather than retaining reserves for unexpected rent increases, new units coming online at higher per unit costs than HUD award amounts, HUD proration of subsidies, or other

Increased Oversight and Control Over HCV Finances

- SFHA contracted with BDO, a nationally recognized firm with extensive expertise in PHA financial management, to manage the SFHA's finance operations and finance tasks that had been inadequately performed previously
- BDO is now responsible for reporting in HUD's Voucher Management System (VMS), the basis for establishing funding for subsequent calendar years and updating the Two Year Tool for forecasting HAP expenditures on a monthly basis. BDO has already corrected data in VMS for prior years and while this cannot help past funding shortages, it will help annual Budget Authority funding determinations moving forward
- The HCV department is assuring that any retroactive payments that have been outstanding outside of the 60 day window are monitored closely on a case by case basis and not paid automatically
- HCV program and finance staff are working toward a cleanup of stale or incorrect data that exists within the software.
- Data mapping and accuracy of reporting issues with the Emphasys Elite software that contributed to the oversight and forecasting problems are being corrected so that reports provide information that will make them more useful.
- Reconciliation between the Elite program software and the GP finance software will be completed to improve the data integrity and reduce errors in statements of expenses

Limitations on Future Program Commitments

- SFHA anticipates needing shortfall funding in 2019 as projects with PBV commitments come on line and require funding that exceeds the CY 2019 budget authority.
- SFHA does not anticipate having to end any contracts or rescind vouchers as a result of shortfall, however it will not be able to issue new Tenant Based Vouchers. An agency that accepts shortfall funding is required to freeze its new leasing activity in the given calendar year when the funding was received.
- Since most of the currently funded projects already have 20 year contracts in place, it is not anticipated that there will be an effect on them. Vacant units will be re-leased
- Shortfall funding does not prohibit PHAs from committing incremental funding awards (VASH and Mainstream vouchers) and converting HUD approved Tenant Protection Vouchers awarded for replacement of HOPE SF public housing to Project Based vouchers for new construction of replacement housing is not prohibited
- SFHA is looking at ways of curtailing program costs by either preventing retroactive payments farther back than 60 days, working with landlords to not pursue rent increases as diligently, collecting payments due from other PHAs for voucher holders “porting-in to San Francisco and raising the minimum rent to the HUD standard of \$50 per month
- Cashflow and timing will be highly important for any projects or RAD conversions undertaken in the upcoming fiscal years.

Funding to Address Current Shortfall

- SFHA immediately began talking with MOHCD when a shortfall was a possibility by the end of CY 2018 and kept MOHD informed as analysis was performed and the estimates were confirmed
- MOHCD has committed to provide a loan to SFHA of up to \$20 M to cover the CY 2018 projected and \$29.5 M shortfall
- SFHA is committing, subject to HUD and Commission approval, \$7.1 M from its reserves
- SFHA applied for shortfall funds that HUD budgets annually to assist PHAs in September and is waiting for confirmation that some funds will be provided. BDO is in regular communication with HUD as the agency identifies funds and determines the amount that will be provided
- On October 16, 2018, the Mayor Breed wrote to HUD and expressed how alarmed she is at the depth of SFHA's financial distress in the HCV program that was just recently brought to light. The Mayor committed to accelerated actions so that vulnerable residents are protected and to HUD's requirements for City assumption of all responsibilities for SFHA's essential functions once SFHA has satisfied any required meet-and-confer obligations with the labor organizations that represent SFHA employees