

File No. 181055

Committee Item No. 1

Board Item No. 32

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight

Date: Dec. 5, 2018

Board of Supervisors Meeting:

Date: Dec. 11, 2018

Cmte Board

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OTHER

- SFHA Presentation - October 25, 2018
- Referral FYI - November 6, 2018
- _____
- _____
- _____

Prepared by: John Carroll

Date: Nov. 30, 2018

Prepared by: John Carroll

Date: Dec. 6, 2018

1 [Budget and Legislative Analyst Performance Audit - San Francisco Housing Authority and
2 Mayor's Office of Housing and Community Development]

3 **Motion directing the Budget and Legislative Analyst to conduct a performance audit of**
4 **the San Francisco Housing Authority's reported financial shortfall that includes a**
5 **prospective analysis of the City's assumption of all responsibilities for the San**
6 **Francisco Housing Authority's essential functions, including the role currently**
7 **performed by the Mayor's Office of Housing and Community Development and related**
8 **oversight.**

9
10 WHEREAS, California Government Code, Section 25170 authorizes the Board of
11 Supervisors to examine persons regarding subjects or matters within the jurisdiction of the
12 Board and to examine documents relating to the affairs or interests of the City and County;
13 and

14 WHEREAS, California Government Code, Section 25207 authorizes the Board of
15 Supervisors to perform all acts necessary to the full discharge of the duties of the legislative
16 authority of the City and County government; and

17 WHEREAS, California Health and Safety Code, Section 34200 et seq. provides that the
18 Board of Supervisors may exercise certain oversight powers over the organization and
19 operations of the San Francisco Housing Authority (SFHA); and

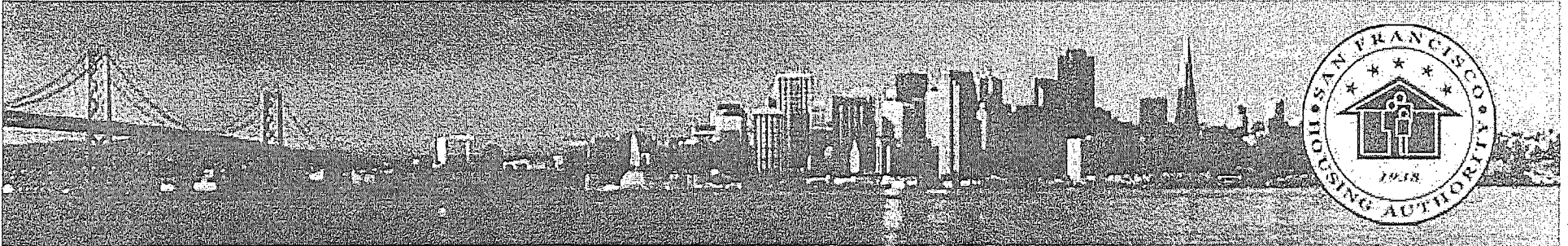
20 WHEREAS, Charter, Section 4.102 gives the Board of Supervisors the authority to
21 conduct investigations into any aspect of governmental operations within its jurisdiction
22 through the power of inquiry, and make recommendations to the Mayor or the Board of
23 Supervisors; and

24 WHEREAS, The Acting Director of the SFHA reported to the Government Audit and
25 Oversight Committee on October 25, 2018, that one of the conditions of the federal

1 Department of Housing and Urban Development providing additional funds to SFHA to cover
2 the financial shortfall will be for the City to assume all responsibilities for SFHA's essential
3 functions, including assuming State-mandated oversight requirements; and

4 WHEREAS, The Mayor's Office of Housing and Community Development currently
5 oversees development of housing on property under the jurisdiction of SFHA; now, therefore,
6 be it

7 MOVED, That the Budget and Legislative Analyst is hereby directed, as a priority, to
8 conduct a performance audit of SFHA's reported financial shortfall, including analyzing
9 prospectively the assumption by the City of all responsibilities for SFHA's essential functions,
10 including the potential role of MOHCD in assuming responsibility and related oversight.



SAN FRANCISCO HOUSING AUTHORITY

Barbara T. Smith, Acting Executive Director

San Francisco Housing Authority &
Mayor's Office of Housing and Community Development
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

October 25, 2018

San Francisco Housing Authority (SFHA)

Section 8 Housing Choice Voucher (HCV) Accounting

- I. SFHA Operational Improvements and Challenges
- II. SFHA Dramatic Increase in HCV Program Utilization
- III. Mixed Indications of Funding Shortfall
- IV. Factors Contributing to Funding Shortfall
- V. SFHA Actions to Identify and Address Shortfall of Funds
- VI. Increased Oversight and Control of HCV Financial Management
- VII. Limitations on Future Program Commitments
- VIII. Funding to Address Current Shortfall

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 was 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 MOHCD 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

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

TO: Harvey Rose, Budget Analyst, Office of the Budget and Legislative Analyst
Barbara Smith, Acting Executive Director, San Francisco Housing Authority
Kate Hartley, Director, Mayor's Office of Housing and Community Development

FROM: John Carroll, Assistant Clerk, Government Audit and Oversight Committee, Board of Supervisors

DATE: November 6, 2018

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Government Audit and Oversight Committee has received the following hearing request, introduced by Supervisor Peskin on October 30, 2018:

File No. 181055

Motion directing the Budget and Legislative Analyst to conduct a performance audit of the San Francisco Housing Authority's reported financial shortfall that includes a prospective analysis of the City's assumption of all responsibilities for the San Francisco Housing Authority's essential functions, including the role currently performed by the Mayor's Office of Housing and Community Development and related oversight.

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Debra Newman, Office of the Budget and Legislative Analyst
Severin Campbell, Office of the Budget and Legislative Analyst
Gabriela Loeza, Office of the Budget and Legislative Analyst
Amanda Guma, Office of the Budget and Legislative Analyst
Cindy Gamez, San Francisco Housing Authority
Daruish Kayhan, San Francisco Housing Authority
Linda Martin-Mason, San Francisco Housing Authority
Eugene Flannery, Mayor's Office of Housing and Community Development
Amy Chan, Mayor's Office of Housing and Community Development

Introduction Form

By a Member of the Board of Supervisors or Mayor

RECEIVED
10/30/2018 @ 5:25pm
B

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning : "Supervisor [] inquiries"
- 5. City Attorney Request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attached written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Topic submitted for Mayoral Appearance before the BOS on []

ase check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission
- Youth Commission
- Ethics Commission
- Planning Commission
- Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.

Sponsor(s):

Supervisor Peskin

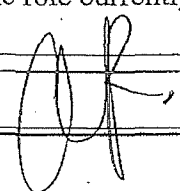
Subject:

[Motion directing the Budget and Legislative Analyst to conduct a performance audit of the San Francisco Housing Authority and Mayor's Office of Housing and Community Development]

The text is listed:

Motion directing the Budget and Legislative Analyst to conduct a performance audit of the San Francisco Housing Authority's reported financial shortfall that includes a prospective analysis of the City's assumption of all responsibilities for the San Francisco Housing Authority's essential functions, including the role currently performed by the Mayor's Office of Housing and Community Development and related oversight.

Signature of Sponsoring Supervisor: []



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