



Dave Yost • Auditor of State

March 31, 2014

The Honorable John R. Kasich
Governor
Riffe Center, 30th Floor
77 S. High Street
Columbus, OH 43215

Dear Governor Kasich,

In compliance with Ohio Revised Code 117.463, the Auditor of State's office is pleased to present the Ohio Performance Team annual report for the period ending March 31, 2014. This report provides a status update of state agency performance audits.

The Auditor of State's office strives for clean, accountable and efficient governments for those we serve, the people of Ohio. Thank you for your shared commitment.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost". The signature is fluid and cursive, with a large loop at the end of the last name.

Dave Yost
Auditor of State

Cc: William G. Batchelder, Speaker
Keith Faber, Senate President
Tracy Maxwell Heard, House Minority Leader
Joe Schiavoni, Senate Minority Leader

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OPT | Ohio
Performance Team

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Purpose of this Report

Ohio Revised Code (ORC) § 117.46 requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. ORC § 117.463 requires the Auditor of State to submit annually a report in writing to the Governor, Speaker and Minority Leader of the Ohio House of Representatives, and President and Minority Leader of the Ohio Senate. Its purpose is to document whether state agencies that received performance audits in the immediately preceding year implemented the audit recommendations and to report the amount of money saved as a result of the implementation.

OPT Overview & Experience

Savings of \$42 for every dollar spent to audit

The Ohio Performance Team, whose motto is OPTimizing Performance, was strategically created to build upon the Auditor of State's long-standing reputation for conducting detailed and effective performance audits of local governments. Historically, performance audits have identified approximately \$25 in taxpayer savings for every dollar spent to audit. Building on the agency's existing capacity, OPT merged the knowledge within the former performance auditing division with additional expertise and skill sets from professionals with significant private and public sector management experience. OPT has a broad range of cumulative experience upon which to draw to identify best practice research and organizational knowledge in performance auditing, government operations, and business environments. With this experience, OPT identified taxpayer savings of approximately \$42 for every auditing dollar spent in the first biennium of state agency performance audits.

Lean Six Sigma Overview

The Auditor of State's Ohio Performance Team remains committed to using Lean Six Sigma tools and methodologies. Six Sigma focuses on the elimination of variation within processes. The lean approach focuses on the elimination of waste and the implementation of standard work. Both sets of tools and methodologies are widely used by top private sector companies, and the Auditor of State's Ohio Performance Team is on the forefront of bringing them to Ohio government. The Ohio Performance Team has embraced both foundational aspects of the Lean Six Sigma approach as integral to identifying and achieving greater operational efficiency and effectiveness.

Lean Six Sigma Capabilities

The Ohio Performance Team continues to build upon its partnerships with Cintas Corporation and Parker Hannifin Corporation. This foundation has been strengthened through increased collaboration and mutual support with LeanOhio. Through these partnerships, the Ohio Performance Team has significantly expanded its Lean Six Sigma capabilities. OPT currently features 7 trained Black Belts and 6 trained Green Belts; in total, representing 40 percent of the Ohio Performance Team.

Lean Six Sigma Deployment

The Ohio Performance Team has allocated its Lean Six Sigma resources to maximize return on investment. In addition to the extensive use of Lean Six Sigma methodologies and tools in the state agency performance audits, the Ohio Performance Team also collaborates with partners across the Lean Network to provide training, mentoring, and Black Belt and Green Belt project support. This collaborative outreach allows Ohio Performance Team staff to gain experience while supporting statewide initiatives to improve process efficiency and effectiveness. Finally, the Ohio Performance Team is putting the Lean Six Sigma tools and methodologies to use internally to develop new processes and reengineer existing processes. These internal activities are key to the Ohio Performance Team's commitment to continuous improvement and value creation for Ohio's citizens.

State Agency Performance Audits

State agency performance audits include an analysis of the operations of the selected agencies by identifying possible cost savings, duplicative or underused services that could be reduced or eliminated, and gaps and overlaps in services. These audits focus on using objective metrics and standards to measure the cost and productivity of state government operations and provide a roadmap to implement best practice improvements and achieve greater operational efficiencies on behalf of Ohio taxpayers.

In 2011, OPT initiated the first ever round of regular state agency audits by focusing on four state agencies:

- Ohio Department of Education (ODE);
- Ohio Department of Transportation (ODOT);
- Ohio Department of Job and Family Services (ODJFS); and
- Ohio Housing Finance Agency (OHFA).

These engagements provided an opportunity to increase efficiency, effectiveness, and customer satisfaction while maximizing taxpayers' return on investment. OPT uses an objective, data-driven approach to conduct performance audits. Audit scope for each engagement was a collaborative effort between key agency stakeholders and the Ohio Performance Team to select items that would provide the greatest benefit.

Released Reports and Implementation Overview

According to ORC § 117.461 and § 117.462, each audited state agency has a 14-day public comment period following the release of the audit. Within three months following the end of the comment period, the agency must commence implementation of the recommendations. If implementation is not commenced, the agency must report the reasons to the Governor and the legislative leaders of the Ohio House and Senate. In addition, the agency must also report to the Governor and Ohio legislative leaders if the agency does not fully implement the performance audit recommendations within one year after the end of the comment period.

OPT has developed a collaborative, process-driven approach to assist agencies in meeting the requirements for reporting as set forth in the above ORC. This approach is largely one of agency self-reporting, but is coupled with OPT oversight to ensure that recommendations are being implemented in an objectively verifiable manner.

Ohio Housing Finance Agency (OHFA) Audit Implementation

On September 20, 2012, the full and final report of the performance audit of OHFA was released. OHFA has reported to OPT the steps taken to implement the performance audit recommendations. A listing of the steps taken by OHFA to address these recommendations and the potential financial savings expected by OHFA administrative leadership follows. OPT discussed these steps with OHFA management and reviewed the estimates for reasonableness. Total projected savings or cost avoidance for implementation of all recommendations and agency initiatives stemming from the audit is expected to be approximately \$1.7 million for FY 2012-13 and FY 2013-14.

Based on the summary statements and supporting financial implications identified by OHFA and presented to OPT, OHFA is on track to fully implement all recommendations outlined in the 2012 Performance Audit and to do so in compliance with ORC § 117.461 and § 117.462.

A final report provided by OHFA is available in the Appendix to this report.

Released Reports During 2013

Since the 2013 Annual Report, OPT has issued three final reports. These reports, and the OHFA report, represent the completion of the first biennium state performance audits.

Final audit reports released since the last Annual Report include:

- Ohio Department of Education (ODE) July 1, 2013
- Ohio Department of Transportation (ODOT) June 27, 2013
- Ohio Department of Job and Family Services (ODJFS) June 13, 2013

Final performance audit reports are available on the Auditor of State's website (<https://ohioauditor.gov/performance.html>).

As previously identified, OPT has developed a process to collaboratively work toward agency self-reporting of implementation for final reporting. Final implementation updates for ODJFS, ODOT, and ODE will be included in the March 2015 annual report in a manner similar to the OHFA final implementation information which has been included in this annual report.

It is important to note that while substantial, or even full, implementation is possible for many of the recommendations within the desired timeframe, this is not the case for all recommendations. Some recommendations require systems, support network, statutory changes, or even additional detailed study prior to full implementation. In these select cases, it would be imprudent to force implementation and compromise the final results. However, framework for implementation may be included in future annual reports to ensure that agencies are pursuing recommendation implementation in good faith.

Ohio Department of Education

Summary of Recommendations with Financial Impact and Management Implications

The following table lists the objective areas yielding recommendations with a quantifiable financial impact. Potential savings are annual except as otherwise noted.

RECOMMENDATIONS BY ASSESSMENT AREA	FINANCIAL IMPACT
IT Governance and Investment Practices	
IT Governance	\$874,993
Statewide Student Identifier System	\$432,000
Core Responsibilities	
General Education Development	\$347,425
Office for Exceptional Children	\$161,597
Office of Early Learning and School Readiness	\$75,095
Records Retention	\$42,649
Organizational Structure	
Span of Control	\$2,410,548
Licensure and Professional Conduct	\$997,941
Test Operations & Communication and Technical Assessment	\$363,667
Contract Processing	
Process Improvement	\$83,000
Total Cost Savings from Performance Audit Recommendations:	\$5,788,915

In addition to recommendations with financial implications, the audit also identified management recommendations that do not include financial implications. These

recommendations are likely to provide improvement to overall operations and otherwise serve management purposes, including in some cases the subsequent identification of cost savings and improvements in efficiency and effectiveness. These areas include:

- Shared Services
- Disaster Recovery
- Records Retention
- Budget and Financial Management

Ohio Department of Transportation

Summary of Recommendations with Financial Impact and Management Implications

The following table lists the objective areas yielding recommendations with a quantifiable financial impact. Potential savings are annual except as otherwise noted.

RECOMMENDATIONS BY ASSESSMENT AREA	FINANCIAL IMPACT
Regions Review	
Aerial Engineering	\$334,000
Geotechnical Engineering	\$233,000
Fleet Management	
Asset Sale (one-time savings)	\$7,114,000
Maintenance Savings	\$1,872,000
New Asset Cost Avoidance	\$1,089,000
Blended Biodiesel	\$800,000
Cost / Benefit	
Vegetation Management	\$4,400,000
Rest Areas	\$7,200,000
Total Cost Savings from Performance Audit Recommendations:	\$23,042,000

In addition to recommendations with financial implications, the audit also identified management recommendations that do not include financial implications. These recommendations are likely to provide improvement to overall operations and otherwise serve management purposes, including in some cases the subsequent

identification of cost savings and improvements in efficiency and effectiveness. These areas include:

- Geotechnical Engineering
- Structural Engineering
- Fleet Operating Cost
- Compressed Natural Gas
- Office of External Audit
- Rest Areas

Ohio Department of Job and Family Services

Summary of Recommendations with Financial Impact and Management Implications

The following table lists the objective areas yielding recommendations with a quantifiable financial impact. Potential savings are annual except as otherwise noted.

RECOMMENDATIONS BY ASSESSMENT AREA	FINANCIAL IMPACT
Unemployment Compensation Review Commission	
Hearing Officer Staffing Levels and Classification	\$950,757
Law Books in Digital Form	\$7,710
Organizational Structure	
Span of Control Expansions	\$10,760,000
Fully Constitute or Dissolve UCAC	\$34,000
SNAP	
Technology Updates – Data Brokering and E-Communication	\$4,224,000
Shared Services Model for Document Imaging Contracts	1,444,560
Medicaid Provider	
Certification and Enrollment Process Consolidation	\$427,310
Provider Fraud Mitigation	\$29,750,000
Total Cost Savings from Performance Audit Recommendations:	\$47,598,337

In addition to recommendations with financial implications, the audit also identified management recommendations that do not include financial implications. These recommendations are likely to provide improvement to overall operations and

otherwise serve management purposes, including in some cases the subsequent identification of cost savings and improvements in efficiency and effectiveness. These areas include:

- UCRC case logging by time
- UCRC spending order of funding
- SNAP performance metric tracking at the county level
- Medicaid comprehensive tracking of outstanding debt
- Workforce performance measurement
- Workforce strategic training
- Workforce financial data standardization and analysis
- Workforce data quality

Current Biennium State Agency Performance Audits

Ohio Department of Natural Resources (ODNR)

After analyzing multiple state agencies, ODNR was the first agency this biennium chosen to receive a performance audit based on a combination of the department's vast infrastructure, variety of business-type functions, and budget size. A formal letter of engagement was signed by the Auditor of State and the director of the Department of Natural Resources on September 4, 2013. This letter of engagement served as the formal starting point to the ongoing engagement which was welcomed by the director as an "opportunity to work alongside the Auditor's office to identify areas where ODNR can utilize Ohio tax dollars more efficiently."

As with all performance audits, the initial phase of work performed was to identify a formal scope. This scope deliverable was the product of a collaborative partnership involving OPT's objective, data-driven analytical expertise; ODNR executives' strategic view of the department; and the technical expertise of key personnel. The formal scope was delivered to ODNR executives on February 12, 2014 and encompasses the following items:

- Capital Planning and Budgeting
- Parks and Recreation Operations
- Seasonal Workforce Strategies
- Wildlife Revenue Enhancement

- Fleet Management
- Fish Hatchery Operations

Each scope item was developed with a focus on the opportunity to provide value through improved economy, efficiency, and effectiveness to ODNR management and operations as well as Ohio citizens and stakeholders.

A Look to the Future

As previously noted, the Ohio Department of Natural Resources is the first of the four required state agency performance audits to be conducted this biennium. The remaining agencies will be selected with input from citizens and stakeholders coupled with data-driven considerations. In accordance with ORC § 117.46, the auditor will make the selection in consultation with the governor and legislative leadership. This selection approach will result in performance audit engagements that have a high potential for value while protecting the interests of Ohio taxpayers. The audits will continue to employ a data-driven approach centered around Lean Six Sigma tools and techniques to develop recommendations that provide detailed steps toward improving performance, generating real change within the organization, and offering clear benefits for the ultimate customer: the taxpayer. The March 2015 Annual Report will include a final implementation status for ODJFS, ODOT, and ODE, as well as relevant agency updates for the current biennium.

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Appendix:

**Ohio Housing Finance Agency
Final Implementation Report**

2012 Performance Audit – Implementation Status Report - Update



STATUS	
COMPLETED	Policies and Procedures for Program Operations and Administration (p. 2)
COMPLETED	Program Names and Reporting Time Periods (p. 3)
COMPLETED	Personnel Time Charges (p. 4)
COMPLETED	Timeliness of Mortgage Assistance Application Process (p. 5-6)
COMPLETED	Annual Reports and Annual Plans (p. 7-8)
COMPLETED	Budgeting and Expense Accounting for Programs (p. 9-10)
ADDRESSED*	<p data-bbox="854 1184 881 1587">Matters for Consideration (p. 11-16)</p> <ul data-bbox="894 793 1060 1493" style="list-style-type: none"> <li data-bbox="894 793 922 1493">• Low Income Housing Tax Credit (LIHTC) Application Process <li data-bbox="927 1100 954 1493">• Qualified Allocation Plan (QAP) <li data-bbox="959 1293 987 1493">• Underwriting <li data-bbox="992 1220 1019 1493">• Developer Relations <li data-bbox="1024 1136 1052 1493">• Fees Charged to Developers
	* <i>These matters will be reviewed on a continuing basis.</i>
COMPLETED	Additional Outcomes – Agency Initiatives (p. 17)

Implementation Requirements

117.462 Implementation of recommendations.

(A) A state agency shall implement the recommendations of a performance audit conducted pursuant to section 117.46 of the Revised Code. If an agency does not commence implementation of such recommendations within three months after the end of the comment period for the audit, the agency shall do both of the following:

(1) File a report explaining why the agency has not commenced implementation of the recommendations with the governor, auditor of state, speaker and minority leader of the House of Representatives, and president and minority leader of the senate;

(2) Provide testimony explaining why the agency has not commenced implementation of the recommendations to the House of Representatives and senate committees dealing primarily with the programs and activities of the agency.

(B) Comments submitted to the agency under section 117.461 of the Revised Code shall be attached to the report required by division (A)(1) of this section.

(C) If an agency does not fully implement an audit recommendation within one year after the end of the comment period for the audit, the agency shall file a report with the governor, auditor, speaker and minority leader of the house of representatives, and president and minority leader of the senate justifying why the recommendation has not or will not be implemented.

Added by 129th General Assembly File No. 11, SB 4, § 1, eff. 4/5/2011.

Key Implementation Dates

- Audit Report issued on September 20, 2012
- Comment period – September 21, 2012 through October 5, 2012
- Three months after the end of the comment period – January 5, 2013
- One year after the end of the comment period – October 5, 2013

Policies and Procedures for Program Operations and Administration - COMPLETE		
<i>Auditor's Recommendation</i>	<i>OHFA's Response</i>	<i>Auditor Analysis</i>
1. Develop a consolidated policies and procedures manual for the operation and administration of OHFA's programs and activities that include Standard Operating Procedures describing what the Agency and its Offices do and the roles and responsibilities of its employees.	OHFA leadership will work closely with its staff to consolidate existing policies and procedures into functional electronic manuals to aid in the training of new and existing employees, developing succession plans and ongoing performance management efforts. These manuals will be updated as needed. Additionally, OHFA will continue its efforts to clearly define the roles and responsibilities of its employees.	If properly implemented, the corrective actions proposed by OHFA should resolve the condition identified in the audit. The recommendation is also considered resolved, but will remain open until the electronic manuals are developed and policies and procedures are established to ensure that the manuals are updated, as appropriate, in the future.
Implementation Schedule		
<i>Action</i>		<i>Completion Date</i>
✓ 1. Consolidate and catalogue all existing policies and procedures (standard operating procedures).		November 16, 2012
✓ 2. Save existing policies and procedures (standard operating procedures) on OHFA Shared Drive.		December 31, 2012
✓ 3. Work with offices to develop comprehensive list of standard operating procedures performed by critical positions – to include description of office and employee roles and responsibilities.		November 16, 2012
✓ 4. Identify any new policies and procedures (standard operating procedures) that need established.		December 15, 2012
✓ 5. Work with offices to develop first draft of any new policies and procedures (standard operating procedures).		January 31, 2012
✓ 6. Finalize all new policies and procedures (standard operating procedures).		February 28, 2013
✓ 7. Post all new policies and procedures (standard operating procedures) to OHFA Shared Drive.		March 15, 2013

Projected Cost Savings / Cost Avoidance: N/A

The development of consolidated policies and procedures for the operation and administration of programs is expected to contribute to process improvements and correlate with high performance. This will allow OHFA to avoid costs associated with inefficiencies related to inconsistencies, errors, redundancies and reduced proficiency and will lead to a reduction in the time it takes employees to complete an activity. This improved productivity will aid in ongoing efforts to manage staffing levels and further limit payroll expenses.

Program Names and Reporting Time Periods - COMPLETE			
Auditor's Recommendation	OHFA's Response	Auditor Analysis	
2.	<p>Review all public documents and ensure that consistent names are used to identify OHFA's programs.</p>	<p>OHFA will develop and take steps to ensure that program names are consistently used in all Agency publications, reports and professional documents relevant to the intended audience. All documents intended for public distribution will be reviewed for consistency by the Agency's Office of Communications and Marketing prior to circulation.</p>	<p>If properly implemented, the corrective actions proposed by OHFA should resolve the condition identified in the audit. Because the proposed actions have been approved by OHFA's Board and initiated by OHFA, the recommendations are also considered resolved and closed.</p>
3.	<p>Develop policies and procedures to ensure that the time periods used in future reports are identified and consistently used.</p>	<p>OHFA has initiated actions that will require all reports and data analyses to be completed on a State fiscal year basis whenever possible. As approved by its Board on June 20, 2012, effective July 1, 2012, each Annual Plan will be based on the State fiscal year (July 1 through June 30) and will align with the respective Annual Report. Additionally, all program reports intended for public distribution shall be reviewed for consistency by the Agency's Office of Communications and Marketing and its Office of Affordable Housing Research and Strategic Planning prior to circulation.</p>	
Implementation Schedule			
Action		Completion Date	
✓ 1.	Discuss the development of Annual Plan and Annual Report guidelines with internal working group	December 21, 2012	
✓ 2.	Develop a document review policy to promote consistency and accuracy.	January 15, 2013	
✓ 3.	Complete a comprehensive review of all public documents to ensure that consistent names are used to identify OHFA programs.	February 1, 2013	
✓ 4.	Develop first draft Annual Plan and Annual Report guidelines	February 1, 2013	

Projected Cost Savings / Cost Avoidance: N/A

This recommendation is a management implication that will improve operational efficiency. Direct financial savings are not quantified.

Personnel Time Charges - COMPLETE		
Auditor's Recommendation	OHFA's Response	Auditor Analysis
4. Review the documentation supporting the salary and wage costs claimed for each federal program to date and have each individual working on the programs prepare the required certifications for the applicable pay periods.	OHFA began the retroactive time and effort certification process for the Restoring Stability Program and National Foreclosure Mitigation Counseling (NFMC) Program in July 2012. Time and Effort certifications for the remainder of all federally funded programs, where salaries were claimed, will be compiled and kept on file with the Agency.	If properly implemented, the corrective actions proposed by OHFA should resolve the condition identified in the audit. The recommendations are also considered resolved, but will remain open until (1) the retroactive time and effort certification process is completed for all federal programs and the process has been verified by the Auditor of State to ensure that the \$2,898,276 of salary charges to federal programs have been adequately supported, (2) the modification of the process for supporting federal claims for salary and wage costs and (3) the enhancements to the payroll timekeeping system are completed.
5. Establish policies and procedures to ensure that all salary costs claimed in the future for federal programs are in accordance with the requirements of 2 CFR Part 225.	The Agency began modifying the current payroll timekeeping system in July 2012 to allow for bi-weekly time entry by employees working on multiple federally funded programs. The new enhancements are scheduled to be completed in the next 90 days. Once the modified payroll timekeeping system is functional, policies and procedures will be developed to train staff on the proper usage of the enhanced system.	
Implementation Schedule		
Action		
✓	1. Review and prepare certifications to be kept on file with the agency.	Completion Date October 31, 2012
✓	2. Establish policies and procedures.	December 21, 2012

Projected Cost Savings / Cost Avoidance: \$188,441

The implementation of an upgraded timekeeping system has allowed OHFA to identify hours worked by employees (by federal program) in order to claim reimbursable salaries. Preliminary data (from November 2012 thru February 2013) indicates that the Agency may be able to seek reimbursement for as much as \$58,448 in FY 2013 and \$129,993 in FY 2014 attributable to the salaries of employees who work on multiple federal programs.

Additional Updates

(12/6/13) The implementation of the upgraded OHFA timekeeping system in December 2012 has allowed OHFA to identify hours worked by employees by federal program which has enabled OHFA to document and claim reimbursable salaries. Since the implementation of the timekeeping system, OHFA identified \$79,851 of reimbursable salaries in FY 2013. This is a \$21,403 increase over the FY 2013 projected cost savings amount (\$58,448) estimated by OHFA in the Auditor of State's Ohio Performance Team's 2013 Annual Report. Currently for July 2013 through October 2013, OHFA has identified \$59,244 of FY 2014 reimbursable salaries, as a result of implementing the timekeeping system. When annualizing this amount through fiscal year end, the total projected reimbursable salaries amount for FY 2014 is \$177,732. This represents a \$47,739, or 37% increase, in FY 2014 over the projected cost savings amount (\$129,993) estimated in the Auditor of State's Ohio Performance Team's 2013 Annual Report.

Timeliness of Mortgage Assistance Application Process - COMPLETE		
	Auditor's Recommendation	Auditor Analysis
6.	<p>Review OHFA's process for providing Restoring Stability assistance to individuals and identify steps that can be taken to reduce the timeline including consultations with states that have reported significantly lower processing time, limiting the time homeowners have to provide documentation to OHFA.</p> <p>Modify the current Restoring Stability tracking system to include identification of the stages in the process that should be attributed to OHFA compared to the time caused by homeowner or counselor delays.</p>	<p>If properly implemented, the corrective actions proposed by OHFA should resolve the condition identified in the audit. The recommendations are also considered resolved, but will remain open until (1) the transformed process recommendations are implemented, and (2) the software enhancements to the Agency's tracking process are completed.</p>
7.	<p>OHFA will continue to work with other state housing finance agencies receiving Hardest Hit Funds (HHF) to identify best practices that result in operational efficiencies that lead to more homeowner's receiving assistance. OHFA currently participates in the weekly HHF national call, All-States calls and attends HHF Summits hosted by the U.S. Department of Treasury to share best practices.</p> <p>OHFA has already taken steps to research workable strategies for streamlining the process. Starting July 30, 2012, OHFA staff participated in a week-long Kaizen event that brought together key people who work within the process and utilized the principles of Lean, Kaizen and Six Sigma.</p> <p>OHFA has authorized a statement of work with its software vendor to implement system enhancements which will allow OHFA to track the Agency, counselor, and homeowner processing times separately. OHFA believes that recommendation 7 will be resolved by implementing the software enhancement in Counselor Direct.</p>	<p>OHFA has already taken steps to research workable strategies for streamlining the process. Starting July 30, 2012, OHFA staff participated in a week-long Kaizen event that brought together key people who work within the process and utilized the principles of Lean, Kaizen and Six Sigma.</p> <p>OHFA has authorized a statement of work with its software vendor to implement system enhancements which will allow OHFA to track the Agency, counselor, and homeowner processing times separately. OHFA believes that recommendation 7 will be resolved by implementing the software enhancement in Counselor Direct.</p>

Implementation Schedule		
	Action	Completion Date
✓	1. Hold a Kaizen event to redesign the Restoring Stability intake and approval process.	August 3, 2012
✓	2. Develop and implement a Statement of Work (SOW) with Counselor Direct including review tabs that will separately track homeowner / counselor update time and underwriter review time (start date 7/10/12, rollout 10/31/12, full implementation by 11/30/12).	November 30, 2012
✓	3. Consult with others state HFAs that have reported shorter processing times and/or reduced documentation requirements (start date 8/20/12).	October 26, 2012
✓	4. Revise Program Term Sheets to allow for increased program participation and reduced documentation (start date 9/4/12, submit to Treasury by 11/9/12).	January 1, 2013
✓	5. Revise Intake Process by adding pre-screening prior to registration, updating homeowner online registration and fully staffing an OHFA Welcome Center.	February 1, 2013
✓	6. Rebrand Restoring Stability to Save the Dream Ohio and increase outreach.	February 1, 2013
✓	7. Revise the Scope of Work for Counseling Agencies (RFP issued 10/5/12, responses due 11/16/12, and selection and contracts issued by 1/31/13).	March 1, 2013

Projected Cost Savings / Cost Avoidance: N/A

Although these savings will not result in additional available funds for OHFA, they will result in more federal funds allocated toward program operations instead of program administration.

Additional Updates

(12/6/13) In order to increase the effectiveness of the program, OHFA created an internal "Welcome Center" to perform services that were outsourced to counseling agencies. OHFA reduced the fee paid for services rendered from \$1000 to \$850 per unit, resulting in a per unit cost savings of \$150. After subtracting out the fixed cost of two additional employees, OHFA realized an average savings of \$77,766 per month or \$622,182 since April 2013.

Annual Reports and Annual Plans - COMPLETE

	Auditor's Recommendation	OHFA's Response	Auditor Analysis
8.	Annual plans addressing the State's housing needs are prepared on an annual basis as required in the Ohio Revised Code.	In early 2012, OHFA modified the annual planning process to ensure OHFA met the expectations outlined in the ORC. The annual planning process is now led by OHFA's Office of Affordable Housing Research and Strategic Planning to assist Agency staff through the planning process and will work with Agency staff to ensure all other planning efforts are aligned with the Annual Plan. Additionally, this office will coordinate the engagement among the OHFA Annual Plan Committee, Annual Plan Advisory Board, subject matter experts, and interested parties.	If properly implemented, the corrective actions proposed by OHFA should resolve the condition identified in the audit. OHFA's actions in response to the recommendations will continue in future years. However, the assignment of the lead responsibility to the Office of Affordable Housing Research and Strategic Planning, and the Agency's commitment concerning future annual plans and reports, are sufficient to resolved and close the recommendations.
9.	Annual reports issued by OHFA are appropriately linked to the Agency's approved plans for the Agency's reporting year.	OHFA's Office of Affordable Housing Research and Strategic Planning is developing an annual report that will align with each annual plan. OHFA will ensure that all future reports describe how agency programs have met the State's housing needs and reflect the Agency's performance against the goals outlined in its Annual Plan.	
10.	An annual hearing is conducted in compliance with the Ohio Revised Code requirement.	Beginning in State fiscal year 2013, OHFA will hold this meeting annually to provide an opportunity to its interested parties to comment. This hearing will be held at a time during the preparation and planning of the Agency's Annual Plan to allow for current feedback to be considered and integrated into the plan.	

Implementation Schedule		
Action	Completion Date	
✓ 1. State Fiscal Year 2013 Annual Plan adopted by OHFA's Board.	August 15, 2012	
✓ 2. State Fiscal Year 2014 Annual Planning process begins with Data & Policy Update.	November 2, 2012	
✓ 3. State Fiscal Year 2014 Annual Planning Work Session 1.	November 7, 2012	
✓ 4. Annual Plan Committee meets to approve State Fiscal Year 2014 Annual Plan Advisory Board recommendations.	December 12, 2012	
✓ 5. State Fiscal Year 2014 Annual Planning Work Session 2.	December 12, 2012	
✓ 6. State Fiscal Year 2014 Annual Planning Work Session 3.	January 15, 2013	
✓ 7. State Fiscal Year 2014 Annual Planning Work Session 4.	February 5, 2013	
✓ 8. State Fiscal Year 2014 Annual Planning Work Session 5.	March 5, 2013	
✓ 9. Draft of State Fiscal Year 2014 Annual Plan to be distributed to Annual Plan Committee and Annual Plan Advisory Board for comment.	April 17-23, 2013	
✓ 10. Tentative date for Annual Plan Advisory Board Meeting.	April 17, 2013	
✓ 11. State Fiscal Year 2014 Annual Public Hearing.	May 15, 2013	
✓ 12. Final draft of State Fiscal Year 2014 Annual Plan presented to OHFA's Board for approval.	June 19, 2013	
✓ 1. State Fiscal Year 2012 Annual Report released to public.	September 28, 2012	
✓ 2. First Quarter Performance Review.	November 14, 2012	
✓ 3. Second Quarter Performance Review.	January 29, 2013	
✓ 4. Third Quarter Performance Review.	April 30, 2013	
✓ 5. Fourth Quarter Performance Review.	July 30, 2013	
✓ 6. State Fiscal Year 2013 Annual Report to be released to public.	September 30, 2013	
✓ 1. State Fiscal Year 2012 Annual Public Hearing.	August 8, 2012	
✓ 2. State Fiscal Year 2013 Annual Public Hearing.	May 15, 2013	

Projected Cost Savings / Cost Avoidance: \$20,000

OHFA projects that it will achieve a reduction in approximately 380 total staff hours (approximate value up to \$20,000) during the planning cycle in FY 2014. The hours saved within the Office of Affordable Housing Research and Strategic Planning will be reinvested into strategic efforts to advance the mission of the Agency and improve productivity.

Budgeting and Expense Accounting for Programs - COMPLETE

Budgeting and Expense Accounting for Programs - COMPLETE	
Auditor's Recommendation	OHFA's Response
11. Modify the Agency's financial management systems to include individual program budgets and the recording of expenses by program in a timely manner.	The Agency is concerned, however, that its current timekeeping system (Ohio Administrative Knowledge System) does not allow it to fully implement this recommendation Agency-wide. To allow for timely tracking of its payroll expense by program, OHFA will need to develop a second timekeeping system. Implementation of this system would require a significant change in the process by which staff account for their hours worked. However, OHFA will consult with other entities (e.g. other State of Ohio departments and agencies, housing finance agencies, government entities, professional organizations) in order to identify effective systems that may allow OHFA to record payroll expense by program in a timely manner.
12. Develop and implement policies and procedures to ensure that program managers have budget and expenditure information by program during the year when decisions are being made.	OHFA's comments did not discuss actions to improve its financial management systems to include individual program budgets and the timely recording of expenses by program. The comments also did not commit to the development and implementation of policies and procedures to ensure that program managers have budget and expenditure information by program during the year when decisions are being made. Although it is encouraging that OHFA will consult with other entities in order to identify effective systems for timely recording payroll expense by program, OHFA comments did not include specific actions that would be taken in response to the recommendations. Accordingly, the condition and recommendations remain unresolved and open pending the identification and implementation of specific actions by OHFA.

Implementation Schedule

Action	Action Completion Date
✓ 1. Consult with other Housing Finance Agencies (HFAs)	October 12, 2012
✓ 2. Modify existing timesheets	November 13, 2012
✓ 3. Agency-wide training for timesheet use and time input	November 19 – 27, 2012
✓ 4. Determine coding for all allocation factors	January 18, 2013
✓ 5. Create GEMS program revenue and expense allocation reports for financial activity through November 30, 2012	June 28, 2013
✓ 6. Test and verify results in #5.	July 12, 2013
✓ 7. Develop and implement policies and procedures to provide timely program information to managers	July 31, 2013

Projected Cost Savings / Cost Avoidance: N/A

This recommendation is a management implication that will improve operational efficiency. Direct financial savings are not quantified.

Additional Updates

(12/6/13) In response to performance audit recommendations 11 and 12, OHFA modified its financial management practices to include budget reports by office and the recording of expenses by program on a more timely basis and by creating a formal policy and procedures to ensure this is completed. Although no direct financial savings have been quantified as a result of the aforementioned modifications, OHFA has realized operational efficiencies since making the changes. Agency leadership now has access to more timely financial information relating to program specific performance. The dissemination of financial information by program now takes place on a quarterly basis versus on a retroactive, fiscal year-end distribution schedule. Reviewing fees charged for each program for reasonability and appropriateness on a more frequent basis is an example of how the modification in reporting is being utilized by the agency. The modified reporting has also brought greater attention to the financial performance of each program and has created improved agency-wide and Board member awareness on how day-to-day operational decisions impact the financial viability of the agency as a whole.

Matters for Consideration - **ADDRESSED**

Auditor's Comments: The audit identified several matters that we believe OHFA management should consider as opportunities to improve its management of the Low Income Housing Tax Credit Program (LIHTC). The areas for improvement involve 1) OHFA's LIHTC application process, (2) QAP (Qualified Allocation Plans) annual revisions, (3) underwriting activities subsequent to the approval of an application, (4) relationships with developers, and (5) fees charged to developers. These five opportunities for improvement in OHFA's program management were identified during our visits to developers.

The Low Income Housing Tax Credit Program is the largest program administered by OHFA. The program began in 1987 and has provided housing assistance across the State of Ohio. In February 2012 the OHFA Executive Director stated that over 1,300 projects and 87,000 units have been financed with tax credits. Developers, with whom we met during the audit, were often complimentary regarding their contacts with OHFA and OHFA's management of the LIHTC program. However, improvements could be made to the following areas:

1. Application Process
2. Qualified Allocation Plan (QAP)
3. Underwriting
4. Developer Relations
5. Fees Charged to Developers

Auditor's Conclusion: We believe the opportunities discussed above have potential for improving the efficiency of the LIHTC application process and QAP annual revision process, as well as OHFA's underwriting activities, developer relationships, and fees charged to developers. An evaluation of the cost benefit and efficiency of these potential opportunities could result in OHFA taking action to improve the processes, reduce costs, improve communications, and shorten the time between application approval and when developers can begin project completion without risking the loss of previously reserved tax credits.

Additional Updates

(12/6/13) Staff evaluated the matters for consideration and took steps this fiscal year to address comments raised in the report. The performance audit did not include specific recommendations on these matters. All of these items will be reviewed on a regular basis as part of OHFA's efforts to continually improve.

Low Income Housing Tax Credit (LIHTC) Application Process	
Auditor's Comments	OHFA's Response
<p>The current application process has been used for several years. The process involves developers filing out an automated spreadsheet and submitting it to OHFA. Documents such as a housing market study must also be filed with the applications. The applications are prepared off-line, sent in a compact disk to OHFA, and reviewed by OHFA staff. Developers interviewed stated that the application process is both cumbersome and expensive. One developer stated that the process used by the State of Iowa was much less cumbersome than the process used by OHFA. We spoke with the Iowa official responsible for the process. The Iowa official stated that the State previously used a process where applicants submitted spreadsheets completed offline. The official said that Iowa's current online application process is much easier for both the applicants and the State. According to the Iowa official, electronic filing works well for the applicant and facilitates the State's review of the application.</p>	<p>Over the last several years OHFA has taken several steps to simplify its Affordable Housing Financing Application. Additionally, staff has worked with the development community to test applications before they are released to the public. OHFA will continue to improve the application and work with the development community to create improvements to the process.</p> <p>OHFA is currently working with a software developer to upgrade its multifamily data collection system. As part of this effort, the developer is designing an online application. This process has included identifying best practices of other state housing finance agencies. OHFA proposes that a schedule and plan for the design and implementation of the online application will be created.</p>
Evaluation and Review Schedule	
Action	Action Completion Date
✓ 1. Online prototype installed for internal use	May 15, 2013
✓ 2. Online prototype available for full internal testing	May 15, 2013
3. Online application available for partner testing	January, 2014
4. Training for external partners	July 1, 2014
5. Online application open for final 2014 application submissions	July 1, 2014

Qualified Allocation Plan (QAP)	
Auditor's Comments	OHFA's Response
<p>Each year OHFA is required under Treasury regulations IRS Code Section 42 (B) to prepare a QAP for the LIHTC program. The QAP sets forth the requirements for the LIHTC program and the application process. The QAP also includes the State's allocation of tax credits by housing needs. The preparation of the QAP is an extensive process involving input from developers and others regarding their views for the QAP. Each year, OHFA does a complete review and revision of the last year's QAP. OHFA's revision process involves reviewing the QAP from the prior year and then drafting a new QAP. Other states use a process where a major modification of the QAP is done only once every two years. In addition, OHFA's QAP application assessment process has changed from year to year. Prior to 2010, the assessment process was primarily quantitative based. During the application review process, points were awarded for individual aspects of projects such as the projected cost per unit. For 2010 and 2011, the QAP assessment process was primarily qualitative based. The projects were ranked based upon the judgment of the OHFA reviewer.</p>	<p>Over the last several years the QAP has included several revisions. OHFA will work with the development community and its Board to further explore limiting significant QAP modifications to occur every other year.</p>
Evaluation and Review Schedule	
Action	Action Completion Date
✓ 1. Partner forums on 2014 QAP	May 28 and 29, 2013
✓ 2. Draft of 2014 QAP published to website	July 17, 2013
✓ 3. Comment period	July 17 – August 17
✓ 4. QAP presented to Multifamily Committee	July 17, 2013
✓ 5. Revisions from feedback and final 2014 QAP presented to Board	August, 21 2013

Underwriting	
<p>Auditor's Comments</p> <p>OHFA's underwriting of developers applications following application approval has generated concerns from developers regarding the time taken to perform the underwriting. Underwriting involves reviewing the applications to determine if the estimated project costs are reasonable and the application information is accurate.</p> <p>If OHFA's underwriting determines that project costs are too high or other factors are not appropriately supported, OHFA may reduce the amount of the tax credit awards. For 2011, 33 applicants received awards and 4 projects had tax credits reduced. The range of tax credits reduced was from 1.2 percent to 3.5 percent. For 2010, 27 applicants received awards and no projects had tax credits reduced. Developers that received awards pay a reservation fee to OHFA based on a percentage of the award. For developers that had tax credits reduced OHFA did not refund part of the reservation fee based on the reduced tax credit.</p> <p>Notification of LIHTC awards for 2011 were made in March 2011. The official awards of the tax credits did not occur until December 2011. Developers who start a project prior to the award of the tax credits are accepting a risk that the underwriting will not result in a change in the number of tax credits awarded. To avoid this risk the construction should not begin until underwriting is completed. A developer told us that receiving the award in December is not an efficient time because it is difficult to do construction work in the winter.</p> <p>The developers also stated that the delay in receiving the awards was due to OHFA hiring contractors to do the underwriting. The developers said that OHFA contracted with two individuals to perform underwriting. Before the contractors were hired the developers told us that the underwriting was done in a more efficient manner by OHFA staff. The contractors reviewed developer applications for projects that were approved for 2010 and 2011. An OHFA official stated that the contractors were hired when the Agency became a direct investor when it used federal American Recovery and Reinvestment Act (ARRA) funds in 2008 and 2009. As a result, underwriting became critical and the Agency needed additional expertise. Additionally, underwriting contractors assisted the Agency in its responsibilities under Section 42 of the IRC that requires that OHFA underwrite and allocate only the necessary amount of credits into a project.</p>	<p>OHFA's Response</p> <p>Section 42 of the IRC requires that OHFA underwrite and allocate only the necessary amount of credits to a project. The IRS further requires that the housing credit agency underwrite a project at three points in time: at application, at allocation, and at completion. OHFA has developed a process that complies with federal rules. As a result, underwriting is important in allocating (LIHTC) and other OHFA resources.</p> <p>Underwriting relies on the timeliness and responsiveness of both OHFA staff and their development partners. The underwriting consultants helped save over \$37 million in ARRA resources over a two year period. OHFA works diligently to complete the necessary underwriting of projects which may have several changes to the physical structure or financing during the development process, in a timely manner. For 2012 projects, OHFA is using a prioritized project schedule developed with those partners receiving awards of LIHTC, which allows OHFA to schedule the underwriting of projects that are closer to construction.</p> <p>In 2011, OHFA's underwriting standards were revised and developed in accordance with the National Council of State Housing Agencies (NCSHA) best practices and reflect what the Housing Finance Agency community deems effective and necessary. OHFA underwriting has become more efficient and streamlined since the publication of the 2012 QAP. OHFA will continue to evaluate its process on a regular basis to ensure that decisions are made quickly but at the same time allow OHFA to effectively allocate scarce public resources.</p>

Evaluation and Review Schedule	
Action	Action Completion Date
✓ 1. Partner forums on 2014 QAP	May 28 and 29, 2013
✓ 2. Draft of 2014 QAP published to website	July 17, 2013
✓ 3. Comment period	July 17 – August 17, 2013
✓ 4. QAP presented to Multifamily Committee	July 17, 2013
✓ 5. Revisions from feedback and final 2014 QAP presented to Board	August 21, 2013

Developer Relations	
Auditor's Comments	OHFA's Response
<p>One of the six focus areas for the audit was the assessment of OHFA's relations with multifamily project developers. The audit team met with profit and nonprofit developers, including Public Housing Authorities officials from across the State. The team met with 15 developers and 12 Public Housing Authorities' officials. The officials were very positive about their relationship with OHFA. They described OHFA as a business-run organization as compared to a stereotypical state agency. The officials said there were no problems in getting access to OHFA officials either in person or by telephone when they have questions or matters to discuss. They described OHFA officials as sincere and professional. Nevertheless, the officials offered some constructive comments concerning OHFA's Low Income Housing Tax Credit program (LIHTC). The comments concerned opportunities to improve communications.</p> <p>Developers said that OHFA could benefit if OHFA had a better understanding of the "world that developers live in." They said that no current OHFA employees have developer experience. This was later confirmed by OHFA's Executive Director. The developers perceived that there is a lack of understanding by OHFA of what developers do.</p> <p>A similar comment was made by Public Housing Officials. Public Housing officials said that OHFA did not fully understand the role of Public Housing Authorities in Ohio. If OHFA had a better understanding they would realize the extensive housing assistance that is provided by Public</p>	<p>OHFA values its relationships with the development community and stakeholders. While OHFA has only a few staff members that have been developers or public housing officials, all staff members have the necessary housing finance experience and relevant education.</p> <p>In July 2012, OHFA hired a Manager of Programs and Policy. This person will interact with developers and other partners within the LIHTC program and will aid in the OHFA's ongoing commitment to improve developer relations. This person is working with other Agency staff to create a strategic relationship management plan that addresses ways in which OHFA can improve and further develop their relations with the development community, public housing authorities, and other relevant stakeholders.</p> <p>OHFA has made a commitment to have all review sheets provided to the development community at the time that plans and guidelines are published. OHFA will continue its practice of developing program guidance in a transparent manner. Feedback from interested parties is taken into consideration and often helps to shape final guidelines and plans.</p>

<p>Housing Authorities (PHA). The PHA officials suggested that OHFA should consider having a Public Housing Official on its board.</p> <p>Another comment involved the OHFA request for applications for the 2012 LIHTC program. The developers said that OHFA sent out a notification of that year's scoring process after the developers had submitted their applications. Applications for housing tax credits were due on November 17, 2011, and the memorandum that described the scoring process was issued February 3, 2012.</p>		
Evaluation and Review Schedule		
	Action	Action Completion Date
✓	1. Draft Strategic Relationship Management plan available for review	November 16, 2012
✓	2. Revisions and comments collected from OHFA staff	November 30, 2012
✓	3. Final Draft available	December 14, 2012
✓	4. All strategies in the plan implemented	May 1, 2013

Fees Charged to Developers	
Auditor's Comments	OHFA's Response
<p>Developers that apply for LIHTC projects are charged an application fee by OHFA. If tax credits are awarded, a reservation fee and a compliance monitoring fee are charged. An application fee of \$2,000 is charged for the first application a developer files in a year. If the developer files applications for additional projects, \$3,000 is charged for the second application, \$4,000 for the third application, \$5,000 for the fourth application and \$6,000 for the fifth and additional applications. When the developers are awarded tax credits for a project they must pay OHFA a fee totaling 6 percent of the tax credit dollar amount and a one-time compliance monitoring fee of \$900 per unit of the multi-family property.</p> <p>According to OHFA, the compliance monitoring fee is the only fee that is based on a financial cost analysis. In 2012 the fee was verified by a compliance monitoring fee cost study. The fee was not charged until the late 1990's and the initial fee was \$75 per unit. Based on a finance report the fee was raised to \$500 per unit and then to \$900. The application fee, on the other hand, was initially \$500 and over time rose to \$2,000. The reservation fee was initially 4 percent and then increased to the current 6 percent level. For the application and reservation fees an OHFA official stated that the fees are based on historical levels with increases over the years. However, no cost documentation was provided to us that supported the application or the reservation fees. Though the agency has provided an assessment of the tax credit application and reservation fees on an aggregate basis, no formal cost study has been conducted on each fee. Without having separate cost studies of each fee it is unknown whether the individual fees are covering the costs related to the application and reservation processes.</p>	<p>The Agency will perform a thorough review and analysis of all fees that are charged. Using the available data and various tools (e.g. Cost Allocation Study, Audited Financial Statements, NCSHA Fact Book), the Agency will analyze the fees to determine whether the fees cover all program costs. The LIHTC Application and Reservation fees will be evaluated before the release of the 2014 Qualified Allocation Plan.</p>

Evaluation and Review Schedule		
	Action	Action Completion Date
✓	1. Compile and analyze results of Agency Cost Allocation Study (CAS) for FY2012	November 30, 2012
✓	2. Verify CAS for reasonableness	December 7, 2012
✓	3. Start modeling of each fee based on workflow as explained by program directors	December 21, 2012
✓	4. Input data into models for fee analysis	January 11, 2013
✓	5. Compare fee analysis results with other HFA's through available data in the NCSHA Factbook	January 16, 2013
✓	6. Review results with Chief Financial Officer (CFO) and Assistant CFO	January 18, 2013
✓	7. Review results with Director of Planning, Preservation and Development and Director of Program Compliance	January 23, 2013
✓	8. Present results to Executive Director for review and consideration.	January 30, 2013

Additional Outcomes – Agency Initiatives

- The activities and efforts of the performance audit contributed to internal discussions specific to efficiency and effectiveness which led to ongoing reviews regarding the necessity of various area functions and operations. For example, Agency leadership reviewed duties performed by the Multi-Family Bond Accounting (MFBA) unit and determined that it performed services that were no longer needed.
- The Agency also enhanced its internal review process, in accordance with its Workforce Plan, to more thoroughly evaluate the need for positions as they became vacant due to voluntary (e.g., retirements, resignations, etc.) and involuntary separation. 6 Auditor of State of Ohio - Ohio Performance Team - Annual Report 2013

Projected Cost Savings / Cost Avoidance: \$1,448,741

Through the strategic elimination of the MFBA unit and by not backfilling other specific positions, the Agency expects to realize a total savings of \$570,213 in FY 2013 and \$878,528 in FY 2014. These actions will continue to allow the Agency to reallocate payroll savings to other areas experiencing a deficiency in the delivery of services due to a lack of personnel. Additionally, cost avoidance such as this has allowed the Agency to enhance its programming and services without seeking an increase in its payroll appropriations.

Additional Updates

(12/6/13) Through the strategic elimination of the Multifamily Bond Accounting (MFBA) unit, the Agency realized payroll savings of approximately \$433,670 in FY 2013 and expects to capture a similar amount of payroll savings in FY 2014. The elimination of the MFBA unit allowed the Agency to reallocate resources to other areas of the organization which resulted in improvements in the delivery of services.