OHIO HOUSING FINANCE AGENCY

FRANKLIN COUNTY

AS OF AUGUST 27, 2012
PERFORMANCE AUDIT

August 27, 2012

Ohio Housing Finance Agency
Attention: Executive Director
Mr. Douglas A. Garver
57 East Main Street
Columbus, Ohio 43215

Dear Mr. Garver:

Foxx & Company has completed a performance audit of the Ohio Housing Finance Agency. The audit was performed in accordance with our contract with the Ohio Auditor of State. The attached report presents the results of the audit and includes recommendations to help improve the Agency's management and administration of its housing programs in Ohio.

Our audit was conducted in accordance with the standards for performance audits as established in Chapters 6 and 7 of the 2011 revised *Government Audit Standards* prescribed by the Comptroller General of the United States. The audit included a review and report on program activities with a compliance element. Although the audit report comments on financial management aspects of the Agency management activities, we did not perform a financial audit, the purpose of which would be to render an opinion on the Agency's financial statements. As a result, we are not rendering an opinion on OHFA's financial statements.

We appreciate the opportunity to have conducted this audit. Should you have any questions, or if we can be of any further assistance, please call me at (513) 639-8843.

Sincerely,

Foxx & Company

Martin W. O'Neill
Partner

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Dave Yost • Auditor of State

Ohio Housing Finance Agency
57 East Main Street
Columbus, Ohio 43215

We have reviewed the performance audit report of the Ohio Housing Finance Agency, Franklin County, prepared by Foxx & Company, dated August 27, 2012. The Auditor of State did not perform procedures associated with the accompanying performance audit and results to help improve the Agency's management and administration of its housing programs in Ohio. As a result, we are not reporting on the Ohio Housing Finance Agency's performance audit results, and are not responsible for the findings within this report.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Housing Finance Agency is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

September 10, 2012

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Foxx & Company
Certified Public Accountants

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Appendices

Abbreviations:

LIHTC	Low Income Housing Tax Credit
OHFA	Ohio Housing Finance Agency
OMB	Office of Management and Budget
QAP	Qualified Allocation Plan

Executive Summary

The Ohio Housing Finance Agency (OHFA) facilitates the development and financing of low-to-moderate income housing for Ohio citizens. OHFA's programs serve first-time homebuyers, renters, senior citizens, and other populations with special needs. Formerly a division of the Ohio Department of Development, OHFA became an independent state agency on July 1, 2005 through Amended Substitute House Bill (HB) 431. OHFA is a self-supporting Agency that does not rely on funds from the State of Ohio budget. However, its payroll, which is wholly funded by the Agency, is a line item in the State budget.

Generally, OHFA did an efficient and effective job in managing its programs. OHFA's programs have extended mortgage assistance and housing opportunities to homeowners and multifamily housing project developers throughout the state. OHFA has also reached out to provide training and counseling which included counseling for homeowners, lenders, real estate agents, and training for property managers. Developers with whom we met during the audit complimented the OHFA officials for their professionalism and responsiveness to requests for information or assistance.

However, the audit identified improvements needed in the areas of (1) establishment of policies and procedures (2) consistency of program names and reporting timeframes; (3) compliance with federal time reporting requirements; (4) timeliness of Restoring Stability Program application processing; (5) preparation of annual plans and reports; and, (6) budgeting and expense accounting for programs. This audit report also includes several matters for management's consideration that, although not including recommendations, could offer additional opportunities for improvement.

The objectives of the performance audit were to evaluate OHFA's efficiency and effectiveness in serving the housing needs of the citizens of Ohio. The audit scope focused on OHFA's business processes, including its revenues and expenditures; and a determination of OHFA's optimized use of available resources and best practices. Although the audit report comments on financial management aspects of the Agency activities, we did not perform a financial audit, the purpose of which would be to render an opinion on the Agency's financial statements. Accordingly, we have not rendered an opinion on OHFA's financial statements. Appendix A provides additional details on the purpose, scope, and methodology for this audit.

Our 12 recommendations call for OHFA to initiate improvements which, if implemented, should strengthen program management, performance, and oversight. The identified Matters for Consideration could also improve the efficiency of OHFA management of the Low Income Housing Tax Credit Program. OHFA officials provided comments and concurred with our findings and recommendations. The Agency's comments are included in their entirety in Appendix B.

Background

The Ohio Housing Finance Agency (OHFA) provides housing assistance to the citizens of Ohio. This assistance is provided to low-to-moderate income first-time homebuyers, renters, senior citizens, and other populations with special needs. OHFA was a division of the Ohio Department of Development until July 1, 2005 when it became an independent organization. OHFA was created under the Ohio Amended Substitute House H.B. 431 signed by the governor. Chapter 175 of the Ohio Revised Code contains the information that created OHFA as a quasi-state agency. The legislation established OHFA as a corporate body performing essential government functions of the state but as a separate entity. OHFA holds its own moneys which are not deemed to be State funds or public moneys. No accounts or funds of OHFA are included in the Ohio Comprehensive Annual Financial Report or the State Single Audit Report. However, because OHFA has over $500,000 of federal expenditures in a single year, it has single audits performed as a separate entity from the State single audits.

OHFA helps low- to moderate-income Ohioans purchase homes and provides opportunities through financing quality and affordable rental housing. The Agency offers financial incentives for developers to increase the supply of affordable rental housing. In addition to the programs funded with OHFA funds, the Agency receives funding for eight federal programs, not counting the Restoring Stability Program. Although the U.S. Treasury provides the funds for OHFA's Restoring Stability Program, the U.S. Treasury has concluded that the Restoring Stability Program is not a federal assistance program. Treasury has stated that the program is not required to be included in OHFA's OMB Circular A-133 audits, but the Program must comply with the requirements of 2 CFR Part 225 (previously OMB Circular A-87). The program was not included in the scope of OHFA's single audits. As a result, OHFA does not consider the Restoring Stability Program to be a federal program and claims to have only eight federal programs. Because the Restoring Stability Program is funded with federal funds from the U.S. Treasury, and is required to comply with the requirements of 2 CFR Part 225, we consider the program to be a federal program. OHFA's programs are identified in Appendix C.

To provide housing assistance, OHFA works with developers, mortgage lenders, real estate professionals, and housing counseling officials. OHFA also helps property managers maintain safe affordable housing environments through its compliance programs.

The Ohio General Assembly upon passage of H.B. 153, Section 701.40 created the Ohio Housing Study Committee. Section 701.40 was later amended by H.B. 487 to extend the sunset of the Study Committee to December 31, 2012. The pertinent parts of this legislation are included in Appendix D. The legislation required the Committee to provide a report of its findings to the Governor, the Speaker of the House, and the President of the Senate on or before March 31, 2012.

The Study Committee issued an interim report on March 31, 2012. The report contained recommendations for improvement in three potential areas:

1. The first area involved the Qualified Allocation Plans (QAPs) issued by OHFA. The report concluded that the criteria used by OHFA for selecting tax credit projects has lacked consistency over the years. The recommendation was that further study is needed on the issue. The report stated that OHFA should not revert to a subjective scoring process for tax credit applications. Also, OHFA should gather additional information from stakeholders.

2. The second area involved the transparency and oversight of the QAP process. The report concluded that OHFA needs to be as transparent as possible to the community in which projects are being considered. The recommendation was that a study was needed on the issue involving community involvement in the process and OHFA's compliance with deadlines contained in the QAP.

3. The third area involved Ohio Revised Code Section 175. Section 175 established OHFA and subsequent changes to the Code have been small in nature. The recommendation was that additional analysis and discussion is needed, including a review of ORC 175 to ensure OHFA's overall efficiency, modernization, and organization.

The report concluded that because of time limitations the report was limited in scope and additional hearings by the Committee may be held in the future.

As the Study Committee proceeded to address its legislative tasks, the Auditor of State, by contract with Foxx & Company, as an independent public accounting firm, initiated the performance audit of OHFA. The scope of the performance audit did not address the Study Committee's objectives per se. In fact, Foxx & Company was not aware of the Study Committee until after the audit was started and the scope of the audit was approved. However, Foxx & Company did develop information relative to most of the objectives mandated for the Study Committee. We have prepared a Table in Appendix E that summarizes information from the performance audit that relates to the Study Committee's objectives.

Foxx & Company recommends that the results of this audit be made part of the Ohio Housing Study Committee record. We believe the audit will be of assistance to the Committee as it continues to fulfill its legislative obligation. Going forward, if the Study Committee determines that additional analysis is required Foxx & Company is certainly willing to provide assistance when requested.

Results of Audit

The Ohio Housing Finance Agency (OHFA) manages multiple programs designed to assist Ohio citizens with their housing needs. The Agency's Fiscal Year 2011 annual report states that OHFA monitors more than 1,000 multifamily properties throughout Ohio each year. According to OHFA officials, since its creation OHFA has made affordable mortgage loans to more than 138,000 Ohio citizens and facilitated the creation of more than 87,400 affordable rental units.

Generally, OHFA did an efficient and effective job in managing its programs. OHFA is a self-supporting Agency that does not rely on funds from the State of Ohio budget. While its personnel costs are included in the State budget, all such costs are funded in advance using OHFA revenues. OHFA's outreach program appears to be extensive. Developers with whom we met complimented the OHFA officials for their professionalism and responsiveness to requests for information or assistance.

However, some improvements are needed in the establishment of policies and procedures; consistency in program names; timeframes reporting; compliance with federal time reporting requirements; timeliness of Restoring Stability Program application processing; preparation of annual plans and reports; and, budgeting and accounting for programs. This audit report also includes several matters for management's consideration that, although not including recommendations, would offer additional opportunities for improvement.

Policies and Procedures for Program Operations and Administration

Written policies and procedures for OHFA's operations and program administration existed for some activities but not for others. The policies and procedures that existed were not maintained in a consolidated manual. Some were incorporated into individual program documentation, some were in other documents (e.g., OHFA's Disaster Response Plan), and some were maintained by individual staff members for their own use. OHFA had not prepared consolidated manuals, with standard operating procedures, for the Agency. In instances where procedure manuals did not exist, OHFA did not have a basis for determining if staff members were uniformly and consistently performing. In addition, instances where procedure manuals did not exist, OHFA's efficiency and effectiveness was at risk without standard operating procedures.

The Ohio Revised Code (ORC) 175.04 (D) states that: "The agency shall develop policies and guidelines for the administration of its programs…." Established policies and procedures are key to the overall administration of programs and activities. Developing and implementing policies and procedures provide operational consistency. Well-documented policies and procedures make it possible for issues and concerns to be addressed with uniformity. Policies and procedures provide guidelines for the daily operations. Proficiency is obtained because staff members perform tasks the same way on each occasion. Documented policies and procedures also facilitate cross-training of staff members, training of newly hired employees, and succession planning.

OHFA officials agreed that there were some instances where procedure manuals for internal OHFA operations did not exist. The officials acknowledged that there have been discussions about the need for the consolidation of documented policies and procedures. The focus of OHFA's policies and procedures has been on the technical aspects of its operations. The need for a consolidated manual of OHFA policies and procedures for the administration of its programs has not been a focus of its operations. Even though OHFA officials acknowledged that there is a need for operations and program administration policies and procedures, OHFA's priorities have not included the development of consolidated Agency-wide manuals that include standard operating procedures.

Conclusions:

Standard operating procedures for the operation and administration of its programs are needed to ensure that the actions by staff members are performed uniformly and consistently in accordance with applicable Agency policies. OHFA's efficiency and effectiveness in cross-training staff members, training newly hired employees, and succession planning was also at risk without standard operating procedures.

Recommendation:

We recommend that the Executive Director, Ohio Housing Finance Agency:

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.

Management Comments and Auditor's Analysis:

OHFA concurred with recommendation 1, and commented that OHFA will takes steps to ensure that this is done without creating an inflexible and bureaucratic work environment. OHFA will streamline Agency operations through the consolidation and development of applicable policies and procedures to ensure that programs are administered consistently and uniformly. Electronic manuals will be developed to aid in the training of new and existing employees, succession planning 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.

Program Names and Reporting Time Periods

OHFA used more than one name for the same program for many of its programs. OHFA also did not utilize a consistent reporting period across all its programs. Some programs were referred to by several names. The various names were used interchangeably in reports, documents and discussions. OHFA also used different time periods when preparing reports on the Agency's activities without always identifying the time period being reported. Some reports used the State's fiscal year (July 1 to June 30) while others used the traditional calendar year. As a result, the multiple names utilized for programs and the different reporting periods made comparisons of achievements and evaluations of effectiveness difficult.

OHFA administers a large number of housing-related programs. We attempted to identify OHFA's programs and determine the volume of activity within each program early in the audit. This information was basic to our objective of evaluating the effectiveness of OHFA in managing its programs. We found immediately that constructing an official list of programs was difficult because (1) some programs were referred to by Agency officials by different names, (2) some programs had programs within programs,(3) different time periods were used to report activities and achievements, and (4) the OHFA accounting system did not record costs by program. (This issue will be discussed under the finding entitled *Personnel Time Charges*)

After several discussions, the OHFA officials agreed to develop a list of the programs administered by OHFA for the audit staff. The list provided identified 19 separate programs administered for housing related activities in addition to three other initiatives. The list also included the funding sources, revenues, and expenses for FYs 2010 and 2011. OHFA's cost allocation system for the two years was used by the Finance Office to align the revenues and expenses. Schedules of expenditures for fiscal years 2010 and 2011 are included in Appendix C. The schedules prepared by OHFA were not audited as part of the performance audit. Accordingly, Foxx & Company was neither required to review, nor express an opinion on, the expenditures included in OHFA's schedules.

An example of the use of multiple names and programs within programs is OHFA's identification of single family homeowner programs. OHFA's initial identification of single family homeowner programs included nine programs. One of the nine was the First Time Homebuyer Program. This Program contained seven other programs, including one (i.e., Grants for Grads) that was available to home owners as a separate program outside of the First Time Homebuyer Program's cluster of programs. The First Time Homebuyer program was also referred to as the Standard Program and the Mortgage Revenue Bond Program. When we discussed the nine single family programs with Agency officials, we discovered that the First Time Homebuyer Program title was also used as an "umbrella" title for eight of the nine programs identified as single family homeowner programs.

The single family program that was not one of the programs included in the First Time Homebuyer umbrella title was the Restoring Stability Program. The Restoring Stability program was also called the Hardest Hit Fund. Interestingly, in testimony before the

Ohio Housing Study Committee on March 19, 2012, one of the Executive Director's slides that discussed Ohio's housing needs included two bullets for this program. One bullet referred to the program as the Restoring Stability Program and the other bullet called it the Hardest Hit Fund.

OHFA officials indicated that there are specific reasons for why programs are referred to by multiple names. For instance, the name Hardest Hit Fund is used because it refers to the program's funding source and because this is the name that the U.S. Department of Treasury uses. OHFA, however, titled its statewide program the Restoring Stability Program. Regardless, the Agency should take steps to ensure that program names are consistently used in all Agency publications, reports and professional documents.

An example of the complications when different time periods are used in reporting was our attempt to compare the Agency's annual plans with its annual reports. OHFA was required by Ohio Revised Code Chapter 175.04 to adopt annual plans to address the State's housing needs. The Revised Code also required OHFA to prepare an annual report of its programs describing how the programs have met the State's housing needs. Comparisons of the Agency's plans and activities should therefore be made on an annual basis. However, the annual plans were calendar year based and the annual reports were fiscal year based. Consequently, a comparison could not be made. As discussed with OHFA officials, specific calendars are required by law or rule for the administration of some of its programs. OHFA officials agreed, however, that for reporting purposes a consistent reporting period will be used.

For example, we had difficulty in determining the agency's accomplishments in educating real estate agents about OHFA's programs. Real estate agents are key partners to OHFA because they can influence homeowner mortgage financing options. We compared three documents that reported the number of agents trained in 2010 and 2011.

The table below shows the numbers reported as trained in each of the three documents.

Homeownership Directorate Report		**Report to OHFA's Board**		**Excerpts from 2012 Annual Plan**	
2010	**2011**	**2010**	**2011**	**2010**	**2011**
462	644	--	644	789	419

Discussions with OHFA officials revealed that the differences were because the Annual Plan was calendar year based whereas the other two reports were fiscal year based. The different bases for preparing the reports were not identified on the reports.

OHFA officials acknowledged the problems caused by different names for programs and using different time periods. The officials said they have initiated actions to require all reports and data analyses to be State fiscal year based whenever possible. Beginning with the 2013 Annual Plan each plan moving forward will be based on the State fiscal year and will align with the respective Annual Report. As approved by its Board, OHFA will use the State’s fiscal year period of July 1 to June 30. According to OHFA officials, the names of the programs and time periods for progress reporting had developed over time based on interactions with the OHFA Board, the State Legislature, and federal agencies.

Conclusions:

Using different names for programs and without consistency in reporting, evaluations of the effectiveness of OHFA in managing programs cannot be completed. Comparisons of activities and accomplishments made without knowledge that different time periods were used in preparing the reports can result in erroneous and misleading conclusions. This situation can also result in people outside the Agency having great difficulty trying to understand the programs or provide oversight of the agency.

Recommendations:

We recommend that the Executive Director, Ohio Housing Finance Agency:

2. Review all public documents and ensure that consistent names are used to identify OHFA’s programs, and

3. Develop policies and procedures to ensure that the time periods used in future reports are identified and consistently used.

Management Comments and Auditor’s Analysis:

OHFA concurred with recommendations 2 and 3. 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.

OHFA also said that actions have been initiated 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 prior to circulation.

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.

Personnel Time Charges

OHFA's employee time reporting system did not identify hours worked by program or activity. The system only consisted of time and attendance records which recorded hours the employee worked. It did not include time and effort reports or equivalent documentation identifying what programs or activities to which individual's time was charged. As a result, OHFA's time reporting system for federally funded programs was not in compliance with 2 CFR Part 225 (previously OMB Circular A-87). Accordingly, all costs claimed for hours worked on federal programs were not supported by documentation in accordance with federal requirements. For the Restoring Stability Program, OHFA's largest federally funded program, the claimed costs for salaries through December 31, 2011 totaled about $2.0 million from the inception of the program. The salary costs claimed by OHFA for the other federal programs through December 31, 2011 totaled $941,785.

Title 2 Code of Federal Regulations (CFR) Part 225, Appendix B, Section 8 Compensation for Personal Services, Paragraph h. *Support of Salaries and wages* includes the following principles and standards for determining costs for Federal awards.

- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation

- Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by **periodic certifications** that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared **at least semi-annually** and will be signed by the employee or supervisory official having first knowledge of the work performed by the employee.

Section 175.02 (A) of the Ohio Revised Code also requires OHFA to allocate all state and federal funds in accordance with applicable state and federal laws.

We used the Restoring Stability Program to test if OHFA's time reporting policies and procedures were in compliance with federal requirements. Funds from the U.S. Treasury support the Restoring Stability Program. The OHFA/Treasury Participation Agreement for the program states that all administrative expenses paid shall be accounted for and are subject to 2 CFR Part 225. According to the U.S. Treasury, because of the way the program is structured, the Restoring Stability Program is not required to be audited in compliance with OMB Circular A-133 (Single Audit). However, because it is funded by a federal agency, it is required to comply with the provisions of 2 CFR Part 225.

OHFA also receives funds from the federal government for eight other programs. These eight programs are also required to comply with 2 CFR Part 225. In addition to the salary claims for the Restoring Stability Program, salaries are also claimed for the HOME

Investment Partnership Program, Foreclosure Mitigation Counseling Program, and Community Development Block Grant/Entitlement Grants. According to OHFA officials salaries were not claimed for the other federal programs. The following table summarizes OHFA's federal salary claims during the period July 1, 2009 through December 31, 2011.

Program	Salary Claims
Restoring Stability Program*	$1,956,491
HOME Investment Partnership Program	$660,366
Foreclosure Mitigation Counseling Program	$129,772
Neighborhood Stabilization Program (NSP)	$151,647
	$2,898,276

*OHFA's Restoring Stability Program started on September 27, 2010

OHFA uses the State of Ohio's timekeeping system, which does not show the programs or activities upon which the staff members worked. Furthermore, periodic certifications for employees working solely on a federal program can be used to comply with the federal requirement. OHFA's system did not include the required certifications. OHFA documents all actual hours worked. However, certifications that accompanied admin draws include hours worked and supervisory sign-off, but did not include required employee certifications. Because the reporting system used for the Restoring Stability Program, is also used for OHFA's other federal programs, OHFA's claims of $2,898,276 for federal program salaries are considered noncompliant costs with respect to 2 CFR Part 225. The Single Audits, conducted in accordance with OMB Circular A-133, for the last two fiscal years did not report or question these costs.

The design of the Agency's time reporting system was the underlying cause of the noncompliance with the federal requirements. With respect to the Restoring Stability Program, OHFA officials said that staff members assigned to this program were hired to work exclusively on that program. The officials believed that this met the federal requirement. The officials were not aware that periodic certifications were required to be in compliance with federal requirements if an employee worked solely on one federal program.

Conclusions:

OHFA's time reporting system was not in compliance with the federal requirements for salaries claimed on federal programs. As a result, OHFA's claims of $2,898,276 for the period July 1, 2009 through December 31, 2011 are considered noncompliant costs in accordance with 2 CFR Part 225. In addition, all claims for federal program salaries subsequent to December 31, 2011 would also be noncompliant until the Agency's time reporting system is modified to comply with the federal requirements.

Recommendations:

We recommend that the Executive Director, Ohio Housing Finance Agency:

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, and

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.

Management Comments and Auditor's Analysis:

OHFA concurred with recommendations 4 and 5, and commented that the process followed prior to the audit for supporting salary and wage costs claimed for federally funded programs will be modified. The proposed modification action was initiated in July 2012.

In regard to Recommendation 4, OHFA stated that it had started the retroactive time and effort certification process for the restoring Stability program and National Foreclosure Mitigation Counseling 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. OHFA also commented that actions were initiated in July 2012 to modify the current payroll timekeeping system 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.

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.

Timeliness of Mortgage Assistance Application Process

Improvements were needed to the homeowner application process for mortgage assistance under the Restoring Stability Program. The purpose of this federally funded Program is to assist homeowners with financial hardships who have been unable to qualify for existing loan modification and foreclosure prevention programs. However, Ohio's process for approving applications for assistance could be improved. With a more efficient process, homeowners experiencing hardship could receive financial assistance in a timelier manner. In addition, at the current award rate OHFA may not be able to fully use all the federal funds awarded by the U.S. Department of Treasury.

In 2010, the U.S. Department of the Treasury awarded $7.6 billion to 18 states and the District of Columbia through the Housing Finance Agency Innovation Fund for Hardest-Hit Housing Markets. The purpose of the Program was to develop and implement innovative measures to help families hit hardest by the foreclosure crisis. The Ohio Housing Finance Agency (OHFA) Restoring Stability Program received $570.4 million from the U.S. Treasury's hardest-hit fund. The use of the funds will expire on December 31, 2017. Ohio's $570.4 million was the third highest amount awarded to the 18 states receiving Hardest Hit funds, with California and Florida receiving $1.98 billion and $1.06 billion respectively.

Ohio's program is statewide and it concentrates on unemployed and underemployed home owners who are at risk of mortgage default or foreclosure due to a temporary or permanent reduction in income. Ohio has been recognized by U.S. Treasury as one of the leading states with respect to best practices and homeowners served. The Treasury's December 31, 2011 report on the status of the use of the hardest-fit funds by the 18 states showed that Ohio ranked:

- Third for the total number of homeowners assisted at 3,924,
- Third in cumulative assistance provided to homeowners at $34.17 million, and
- First in the application approval rate for all states that assisted more than 1,500 homeowners.

However, the Treasury's December 31, 2011 report also showed that Ohio's Median Length of Time from "Initial Request to Assistance Granted" was 160 days. This processing time is important because qualified homeowners who initially registered for mortgage assistance were already at risk of mortgage default or foreclosure. According to OHFA officials, homeowner delays after registration account for a significant portion of the processing time. The processing time is also important because the time it takes to fund the assistance has a significant impact on Ohio's ability to provide assistance to homeowners within the program's seven year life. Ohio's award of $570 million averages over $81.4 million dollars of assistance per year for the seven year program. Through December 31, 2011 (the end of the first year), OHFA had awarded about $34 million of the $570.4 million provided to Ohio. As a result, Ohio will have to award an average of over $89 million per year over the remaining six years. According to a U.S. Treasury official contacted during the audit, Treasury recognizes that the states have different tracking processes. However, the official stated that, because this is only a seven year program, Treasury is concerned about processing times across the country compared to the needs of homeowners experiencing financial hardships with their mortgages.

Ohio's 160 day median was 16th out of the 18 States and the District of Columbia receiving federal funds. The range of days was from 35 to 192 for the 18 states. We attempted to get information on the states with lower processing times by contacting California (35), Michigan (68) and North Carolina (107). We selected Michigan and

North Carolina because these two states were identified by OHFA as having very similar programs to OHFA's programs. We selected California because California had the lowest Median Time (35 days). In addition, California's capacity of awards through the 4th quarter ($38.6 million) was also close to Ohio's ($34.2 million). It was also interesting that California had twice as many applicants as Ohio. California had 17,936 applicants and Ohio had 8,694. California and Michigan returned our calls. North Carolina did not.

The demographics of each state's population and economic condition make it difficult to compare one state with another. Officials from California and Michigan, as well as Ohio, cautioned that all states are different and it would be difficult to attempt one-on-one comparisons. However, we noted two differences that appear significant to the median days for application approval in California and Michigan versus median number of days in Ohio. Both California and Michigan drop applicants from their tracking system if the homeowner does not return documents to the state within a specified number of days. Michigan also places time limits (48 hours) for its analysts to complete reviews of the application. California places a time limit (20-25 days) for the homeowner to respond to document requests.

Ohio's philosophy is to not drop an applicant from tracking because of an incomplete application package. Ohio's homeowners are not given specific numbers of days for the return of documents to their housing counselor in order to submit a complete file to OHFA. Although not given specific time limits for resolution, OHFA officials said that housing counselors regularly contact registrants by telephone to follow-up on required documentation. If a registrant is declared ineligible, or does not submit the required documentation, housing counseling agencies offer financial/housing counseling opportunities to the homeowner. In addition, OHFA officials said there is a 30 day underwriting decision time limit on OHFA staff.

OHFA's Restoring Stability Team Leader emphasized that the 160 day median includes the time homeowners take to respond to housing counseling agencies requests for additional documentation or for the full execution of previous submitted documentation prior to submission of the file to OHFA. The Team Leader said that some homeowners change their mind and housing counselors find out that this has happened through the follow-up telephone calls. OHFA officials said that the State's Restoring Stability tracking system does not include tracking of OHFA time versus homeowner/housing counselor time. Without this information, determinations cannot be made as to the specific causes of the delays.

Conclusions:

Because homeowners who qualify for mortgage assistance under the Restoring Stability program are already experiencing financial hardship at the time they apply for assistance, reducing the time from homeowner registration to funding from the 160 day median is paramount. OHFA's increased processing time may also significantly impact the State's ability to provide assistance to homeowners within the program's seven year life. In fact, at the December 2011 award rate, OHFA may not utilize all of the funds awarded by the U.S. Treasury before the program's expiration date of December 31, 2017.

We acknowledge that it is difficult to compare state-to-state processes. However, we believe that the wide range of median times reported to the U.S. Treasury indicates that some states are either more efficient or reporting on different milestones than others. A detailed analysis of Ohio's process with the intent of reducing the time from homeowner registration to the issuance of funding would be beneficial, especially since the federal funding expires on December 31, 2017. To the extent possible, this analysis should include comparisons with other states. We also believe that the State's Restoring Stability Program tracking process should be modified to include the stages in the process that should be attributed to OHFA compared to homeowner or counselor delays.

Recommendations:

We recommend that the Executive Director, Ohio Housing Finance Agency:

6. 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 home owners have to provide documentation to OHFA, and

7. 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.

Management Comments and Auditor's Analysis:

OHFA concurred with recommendations 6 and 7. OHFA commented that it 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 homeowners receiving assistance. OHFA participates in the weekly HHF national call, All-States calls, and HHF Summits hosted by the U.S. Department of Treasury to share best practices.

OHFA acknowledged that processing time can be improved and said that 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. They analyzed the current situation in detail, and designed a transformed process that is far simpler, faster, better, and expected to be less costly. The event was coordinated and facilitated by LeanOhio staff from the Ohio Department of Administrative Services. By implementing the recommendations from this event, the expected reduction in time from application to funding would be 88 percent.

OHFA has also 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 enhancements.

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.

Annual Reports and Annual Plans

Annual reports did not discuss the Agency's progress in achieving the goals and objectives included in approved annual plans. However, these reports did provide information regarding the Agency's activities to address the state's housing needs. OHFA is required by the Ohio Revised Code to develop annual plans that addressed the State's housing needs. OHFA was also required by ORC to conduct public hearings on the administration of its programs. OHFA did not follow ORC 175.04(D) by conducting the required public hearings for interested parties regarding agency policies and procedures. Also, because the plans and reports were not linked, the recipients of the annual reports could not evaluate the Agency's effectiveness in achieving the goals and objectives in OHFA's approved plans.

The Ohio Revised Code Chapter 175.04 (1) states that OHFA shall adopt an annual plan to address the State's housing needs. There should be an annual plan committee which should select an advisory board to provide input for the annual plan. Section 175.04 (G) states that the agency shall prepare an annual report of its programs describing how the programs have met the State's housing needs. The agency shall submit the report to the governor, the speaker of the House of Representatives, and the president of the senate within three months after the end of the reporting year. Chapter 175.04 (D) also requires OHFA to conduct at least one public hearing each year to obtain input from any interested party regarding the administration of OHFA's programs. A quorum of the agency is to be present when the hearings are held.

Following OHFA establishment as an independent entity in 2005, OHFA developed annual plans that focused on OHFA operations. OHFA issued annual plans for calendar years 2006 and 2007. A plan was not issued in 2008. 2010, or 2011. In 2009, OHFA issued an annual plan that discussed Ohio's statewide housing needs. Because of the collaboration needed to identify the State's housing needs, OHFA representatives stated that it took a great deal of time to prepare the first annual plan that addressed the statewide needs in 2009.

Although OHFA has issued annual reports, we noted that the reports were not linked to the goals and objectives included in the respective annual plans. We also noted that the annual reports were developed on a fiscal year basis whereas the annual plans were on a calendar year basis. OHFA did not issue an annual report for 2007. The following table contains information on the annual plans and reports:

Annual Plan (Calendar Year Basis)	Annual Reports (Fiscal Year Basis)	Linked to Annual Plans
2006	2006	No
2007	2007 no report prepared	No
2008 no plan prepared	2008	No
2009	2009	No
2010 no plan prepared	2010	No
2011 no plan prepared	2011	No
2012	2012	Year Ongoing

An OHFA official acknowledged that OHFA's annual reports were not linked to the annual plans. The official stated that, in the future, OHFA's annual reports will be linked to the annual plans and be prepared on a fiscal year basis, consistent with the basis for the annual reports. The official said that OHFA's various internal progress reports will also be linked to the annual plans.

With respect to the requirement that annual public hearings be conducted to discuss policies and guidelines, we could not find any evidence that a single comprehensive public hearing had been held. Public hearings were held regularly for specific policies and procedures including the Qualified Allocation Plan (QAP) and the Annual Plan. OHFA officials told us that the meetings held with groups of developers, lenders, realtors, and other individuals involved in its programs were sufficient to fulfill the requirement for annual public hearings. However, we believe this audience would not be considered interested parties.

Conclusions:

OHFA issued annual plans, however, they varied in the amount of narrative provided that described the State's housing needs. It was not until the issuance of the plan that was approved in February 2009 that the Agency provided comprehensive narrative within the plan regarding the state's housing needs. Two years later, in September 2011, the Agency's plan for calendar year 2012 was approved. Although annual reports were issued in each year except 2007, the reports did not address the goals and objectives included in the Agency's approved plans. OHFA acknowledged this situation and stated that the required linkage between the plans and the reports will be accomplished in the future.

We also do not believe that the intent of the Ohio Revised Code requirement for public hearings regarding Agency programs at least once each year, with a quorum of the Agency present, is being achieved with the types of meetings referred to by the OHFA officials. The meetings and hearings referred to by the OHFA officials would not be considered as satisfying the statutory requirement of meeting with interested parties.

Recommendations:

We recommend that the Executive Director, Ohio Housing Finance Agency develop and implement policies and procedures to ensure that:

8. Annual plans addressing the State's housing needs are prepared on an annual basis as required in the Ohio Revised Code,

9. Annual reports issued by OHFA are appropriately linked to the Agency's approved plans for the Agency's reporting year, and

10. An annual public hearing is conducted in compliance with the Ohio Revised Code requirement.

Management Comments and Auditor's Analysis:

OHFA concurred with recommendations 8 through 10. OHFA commented that in early 2012, OHFA modified the annual planning process to ensure OHFA met the expectations outlined in the Ohio Revised Code. The annual planning process is now led by OHFA's Office of Affordable Housing Research and Strategic Planning. This Office will assist Agency staff through the planning process and will work to ensure that all other planning efforts are aligned with the Annual Plan. The Office of Affordable Housing Research and Strategic Planning will also coordinate the engagement among the OHFA Annual Plan Committee, Annual Plan Advisory Board, subject matter experts, and interested parties.

OHFA acknowledges the Agency has not directly linked its annual plans and annual reports. 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.

OHFA also acknowledged it has not held a stand-alone public hearing to discuss the Agency's administration of all its programs. 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 of the Agency's Annual Plan to allow for current feedback to be considered and integrated into the plan.

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 resolve and close the recommendations.

Budgeting and Expense Accounting for Programs

OHFA did not budget or account for expenses by program. OHFA's budget was compiled by office rather than by individual program. In addition, individual program expenses were allocated retroactively by OHFA at year-end based upon an allocation system created by OHFA. As a result, during the year, when expenditure related decisions were being made for individual programs, the program managers did not have budget and expenditure information by program readily available for considerations in their decision process.

The federal government and the State of Ohio have adopted laws to control expenditures using budgets and appropriations. These requirements extend to individual program budgeting and management. The requirements to comply with OMB Circular A-133 and 2 CFR Part 225 are examples of individual program-related federal requirements. Another example of the requirements for individual program budgeting and expense accounting are contained in Ohio Revised Code Section 174 relating to the Ohio Housing Trust Fund.

- ORC 174.02 addresses the Low and Moderate Income Housing trust fund which is administered by the Ohio Department of Development.

- ORC 174.05 requires OHFA to report annually to the State Legislature on the activities of the Agency under Sections 174.02 and 174.03.

- ORC 174.02 mentions certain percentage of the current year's appropriation authority that should be used on programs such as grants to community development corporations, emergency shelter housing grants programs, amounts to the department of aging, administration, grants and loans to nonprofit organizations, grants and loans for activities that provide housing and housing assistance to families and individuals in rural areas and small cities, etc.

- ORC 174.03 discusses loan programs to provide housing and housing assistance for specifically targeted low and moderate income families and individuals are to be developed.

- ORC 174.03 (E) states that not less than seventy-five percent of the money granted and loaned under this program in any fiscal year shall be for activities that provide affordable housing and housing assistance to families and individuals whose incomes are equal to or less than fifty percent of the median income for the county in which they live.

- ORC 174.02(B) states that after the second quarter of the year, monies not used

> on certain programs should be reallocated by the Director. The many stipulations in the ORC sections based on percentages would require some form of budget to actual accounting by program in order to ensure compliance.

In addition, the Auditor of State believes budgeting, properly used, provides the most important monitoring control a government has. The budget is an instrument of public policy.

OHFA's General Fund Budget was compiled by office (e.g., Finance, Home Ownership, Program Compliance, etc.) with input from the office directors. According to OHFA officials, certain input provided by the directors is by Agency program (e.g., Housing Investment Fund, Program Contribution, the Tax Credit Exchange program, Loan Loss Reserve, Individual Development Accounts, and Training and Technical Assistance), and by program support functions related to general and administrative expenses. The officials said that OHFA's operating expenses are budgeted in the aggregate for the Agency.

OHFA's accounting system accounts for expenses as Operating Expenditures, which includes Capital Expenditures, and Programmatic Expenses. The Programs included in the Programmatic Expenses category did not include all of the programs being managed by the Agency's program offices. Although some of the programs included in the Programmatic Expenses category could be identified as programs being managed by the program offices (e.g., Grants for Grads), others could not. The use of different names for the same programs (see finding: *Program Names and Reporting Time Periods*) also affected the identification of which programs are included in the accounting system's Programmatic Expenses.

OHFA allocated expenses to the Agency's programs using a cost allocation system developed internally. At the end of each year, the system required OHFA staff to provide percentage estimates of the time spent on each program during the previous year. The percentages received from the staff were reviewed by each Office Director and the Finance Office for reasonableness and were used to allocate expenses (salaries and other expenses) retroactively to the programs. Because OHFA's electronic time sheets did not show the programs or activities upon which the staff members worked (see finding: *Personnel Time Changes*) the resulting allocations may not reflect the actual costs incurred during the year for the individual programs.

OHFA officials said that wherever possible, the Agency budgets and accounts for program expenses such as environmental review contract costs for the Housing Development Assistance Program properties for each program office. Operating expenses, such as payroll and lease expenses, are currently not readily identifiable by program; and accordingly, are not budgeted or accounted for by program.

Conclusions:

Program managers did not have access to budget or expenditure information by program during the year when making decisions concerning their individual programs. The lack of program budgets and retroactive allocations of expenditures resulted in the program managers making decisions without the benefit of program budget and cumulative expenditure information needed to evaluate the cost-benefit impact of their decisions.

Recommendations:

We recommend that the Executive Director, Ohio Housing Finance Agency:

11. Modify the Agency's financial management systems to include individual program budgets and the recording of expenses by program in a timely manner, and

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.

Management Comments and Auditor's Analysis:

OHFA concurred with recommendations 11 and 12. OHFA commented that it currently prepares an annual cost allocation study that assigns actual revenues and expenses by program. This study combined with the expertise provided by the Agency's professional team (e.g. financial advisor, investment advisor, investment bankers) has been used by OHFA management in the evaluation of each program's financial condition and long-term viability. OHFA recognizes the importance of evaluating the cost-benefit impact of key management decisions and will continue to develop strategies to provide OHFA leaders with necessary financial data. It is important that OHFA develop a financial management system that is both consistent with budgeting practices of the State of Ohio and provides managers with necessary information to make informed decisions. It is important that these key management decisions take into consideration both costs and impacts on the Agency's mission.

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.

OHFA's comments on this finding discussed the Agency's use of its cost allocation system to identify program costs as well as the difficulties of developing a timekeeping system that fully implements the recommendations agency-wide. As discussed in the finding, OHFA's cost allocation system includes estimates of costs by program, is not available until the end of each year, and does not always report costs using the names of the programs being managed by the program managers. As a result, this allocation system does not provide program manager with cost information in a timely manner, i.e., when decisions are being made during the year. Additionally, because OHFA's electronic time sheets did not show the programs or activities upon which the staff members worked, the annual allocations may not reflect the actual costs incurred during the year for the individual programs.

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.

Matters for Consideration:

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:

Application Process: 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.

Qualified Allocation Plan (QAP): 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.

Underwriting: 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.

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.

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.

The developers also stated that the delay in receiving the awards was due to OHFA's 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.

Developer Relations: 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. The comments concerned opportunities to improve communications.

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.

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 Housing Authorities (PHA). The PHA officials suggested that OHFA should consider having a Public Housing Official on its board.

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.

Fees Charged to Developers: 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.

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.

Conclusions:

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.

Management Comments:

OHFA commented on each of the Matters for Consideration included in the draft report. The comments received are included in Appendix B. The Agency supported the opportunities discussed in the draft report as having potential for improving the efficiency of its management of the LIHTC program. A synopsis of the Agency's responses to each of the Matters for Consideration is provided below:

> **Application Process:** OHFA will take steps to simplify its application process and proposed that a schedule and plan for the design and implementation of an online application will be created.
>
> **Qualified Allocation Plan:** OHFA will work with the development community and its Board to explore limiting significant QAP modifications to occur every other year.
>
> **Underwriting:** OHFA's current process complies with the requirements of Section 42 of the Internal Revenue Code. 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. OHFA's 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.

Developer Relations: 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 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. OHFA will provide all review sheets 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.

Fees Charged to Developers: 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 QAP.

The purpose of the audit was to evaluate the effectiveness of OHFA in serving its clients and the taxpayers of Ohio in the most efficient and effective manner possible. The audit included evaluations of OHFA's business processes, including its revenues and expenditures, for ensuring that it optimizes the use of available resources and best practices.

The audit focused on the following areas of risk and interest set forth in the Auditor of State's Scope of Work:

1. Program Effectiveness,
2. Annual Plans,
3. Developer Relationships,
4. Single Family Homebuyer Program,
5. Agency Operations, and
6. Public Policy Alignment

The audit included evaluations of OHFA's:

1. Oversight and accountability of its single and multi-family housing programs
2. Planning and Budgeting
3. Financial Management
4. Facilities Management
5. Human Resources Management

As in any performance audit, interviews and document analysis lead the audit team down paths that were important to meeting the objective of the audit. Auditor judgment, combined with knowledge of OHFA and it programs, determined which paths to follow and how far. Information and documentation used in the audit were primarily obtained from OHFA officials. In addition, the audit team met with selected developers, lenders, and local public housing authority officials. A focus group meeting was held in conjunction with the April 2012 Ohio Housing Authorities Conference. Attendees from housing authority organizations participated in this focus group meeting. During the audit, the team also monitored the activities of the Ohio Housing Study Committee and attended hearings held by the Committee.

Discussions were also held with a federal official from the U.S. Department of Treasury. The team attempted, but was unsuccessful, in contacting officials from the Department of Housing and Urban Development. The team also contacted Housing Finance Agency officials in California and Michigan to discuss the experiences of these states with processing applications for assistance from the Restoring Stability Program. We also contacted officials in Iowa to discuss the application process for the Low Income Housing Tax Credit program.

We conducted the audit between January 2012 and June 2012, in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (2011 Revision). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Although this audit included a review of OHFA's operating expenses, we did not perform a financial audit of those expenditures. This was a performance audit as defined by Chapter 2 of the *Standards*, and included a review and report of program activities with a compliance element. Foxx & Company was not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, Foxx & Company was neither required to review, nor express an opinion on, the costs claimed for the programs included in the scope of the audit. Had Foxx & Company been required to perform additional procedures, or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to their attention that would have been reported. This report relates only to the programs specified and does not extend to any of OHFA's financial statements.

Appendix B
Management Comments on the Draft Report

OHIO **HOUSING** FINANCE AGENCY

John R. Kasich Governor of Ohio | **Douglas A. Garver** Executive Director

57 East Main Street | Columbus OH 43215

August 8, 2012

Foxx & Company
Attention: Martin W. O'Neill
700 Goodall Complex
324 West Ninth Street
Cincinnati, OH 45202

Dear Mr. O'Neill:

The Ohio Housing Finance Agency (OHFA) would like to thank you for your team's efforts during the course of this performance audit and for providing us with specific recommendations for improvement. Pursuant to Section 117.462 of the Ohio Revised Code, OHFA intends to implement the recommendations of this performance audit. The feedback contained in this report shall serve to enhance our consistent and ongoing efforts to strengthen the operations of the Agency and the services we provide to our customers as we strive to "*Open the doors to an affordable place to call home*."

Please accept this letter as our response to the draft report discussed during our exit conference on July 30, 2012 with Mr. Bill Moore and Mr. John Wanska.

Respectfully submitted,

Doug Garver

Douglas A. Garver
Executive Director

OHIO HOUSING FINANCE AGENCY

Item 1: Establishment of Policies and Procedures

Recommendation #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 Response:

OHFA concurs with this recommendation.

Consistent with Governor Kasich's Common Sense Initiative, OHFA will takes steps to ensure that this is done without creating an inflexible and bureaucratic work environment that results in onerous and burdensome red tape, rules and regulations imposed on our customers. OHFA will continue to streamline Agency operations through the consolidation and development of applicable policies and procedures to ensure that programs are administered consistently and uniformly.

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, succession planning 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.

Item 2: Consistency of Program Names and Reporting Timeframes

Recommendation #2:

Review all public documents and ensure that consistent names are used to identify OHFA's programs.

OHFA Response:

OHFA concurs with this recommendation.

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.

Recommendation #3:

Develop policies and procedures to ensure that the time periods used in future reports are identified and consistently used.

OHFA Response:

OHFA concurs with this recommendation.

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 prior to circulation.

OHIO HOUSING FINANCE AGENCY

Item 3: Compliance with Federal Time Reporting Requirements

Recommendation #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 Response:

OHFA concurs with this recommendation.

Prior to the performance audit, the Agency followed a process to support salary and wage costs claimed for federally funded programs and to provide the necessary documentation to support the required certifications. Based on this recommendation, however, this process will be modified.

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.

Recommendation #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.

OHFA Response:

OHFA concurs with this recommendation.

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.

Item 4: Timeliness of Restoring Stability Program Application Processing

Recommendation #6:

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.

Recommendation #7:

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.

OHFA Response:

OHFA concurs with recommendations 6 and 7.

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 homeowners 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.

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OHFA is a national leader within the HHF program in terms of homeowners assisted; however, the Agency acknowledges that processing time can be improved. 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. They analyzed the current situation in detail, and designed a transformed process that is far simpler, faster, better, and expected to be less costly. The event was coordinated and facilitated by LeanOhio staff from the Ohio Department of Administrative Services (DAS). By implementing the recommendations from this event, the Agency will work to reduce process steps for Restoring Stability applicants from 127 to 63 (50 percent), cut decision points from 32 to 10 (69 percent) and reduce handoffs from 29 to 18 (38 percent). The expected reduction in time from application to funding would be 88 percent.

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 enhancements.

Item 5: Preparation of Annual Plans and Reports

Recommendation #8:

Annual plans addressing the State's housing needs are prepared on an annual basis as required in the Ohio Revised Code (ORC).

OHFA Response:

OHFA concurs with this recommendation.

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 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.

Recommendation #9:

Annual reports issued by OHFA are appropriately linked to the Agency's approved plans for the Agency's reporting year.

OHFA Response:

OHFA concurs with this recommendation.

OHFA acknowledges the Agency has not directly specified a linkage between each annual plan and annual report. 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.

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Recommendation #10:

An annual hearing is conducted in compliance with the Ohio Revised Code requirement.

OHFA Response:

OHFA concurs with this recommendation.

OHFA values input from the public and strives to receive feedback on all matters of the Agency. OHFA conducts public hearings for the Low Income Housing Tax Credit (LIHTC) program to review the Qualified Allocation Plan (QAP) and its Annual Plan prior to its review and approval by the OHFA Board. OHFA acknowledges it has not held a stand-alone public hearing to discuss the Agency's administration of all its programs. 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 of the Agency's Annual Plan to allow for current feedback to be considered and integrated into the plan.

Item 6: Budgeting and Expense Accounting for Programs

Recommendation #11:

Modify the Agency's financial management systems to include individual program budgets and the recording of expenses by program in a timely manner.

Recommendation #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 Response:

OHFA concurs with recommendations 11 and 12.

The Agency currently prepares an annual cost allocation study that assigns actual revenues and expenses by program. This study combined with the expertise provided by the Agency's professional team (e.g. financial advisor, investment advisor, investment bankers) has been used by OHFA management in the evaluation of each program's financial condition and long-term viability.

OHFA recognizes the importance of evaluating the cost-benefit impact of key management decisions and will continue to develop strategies to provide OHFA leaders with necessary financial data. It is important that OHFA develop a financial management system that is both consistent with budgeting practices of the State of Ohio and provides managers with necessary information to make informed decisions. It is important that these key management decisions take into consideration both costs and impacts on the Agency's mission. It is OHFA's statutory obligation to serve housing needs in instances that it determines necessary as a public purpose, which may result in the Agency administering programs that must be subsidized by revenues generated from other OHFA programs.

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.

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Matters for Consideration:

The audit identified several matters that we believe OHFA management should consider as opportunities to improve its management of the LIHTC program. 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:

Application Process:

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.

OHFA Response:

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.

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.

Qualified Allocation Plan (QAP):

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.

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OHFA Response:

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.

Underwriting:

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.

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.

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.

The developers also stated that the delay in receiving the awards was due to OHFA's 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.

OHFA Response:

Section 42 of the Internal Revenue Code (IRC) requires that OHFA underwrite and allocate only the necessary amount of credits to a project. The Internal Revenue Service (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.

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.

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.

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Developer Relations:

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.

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.

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 Housing Authorities (PHA). The PHA officials suggested that OHFA should consider having a Public Housing Official on its board.

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.

OHFA Response:

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.

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 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.

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.

Fees Charged to Developers:

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.

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

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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.

OHFA Response:

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 QAP.

Conclusions:

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.

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Schedule of Program Expenses
Fiscal Year Ending June 30, 2010

(The schedules showing the program expenses for Fiscal Years 2010 and 2011 were prepared by OHFA and are the responsibility of OHFA. The schedules were not audited as part of the performance audit. Accordingly, Foxx & Company does not express an opinion on the accuracy of the expenditures included in OHFA's schedules.)

Program Name	FY 2010 Expenses		
	OHFA	Federal (1)	Total
First Time Home Buyer Program	$19,243,271	$0	$19,243,271
Mortgage Credit Certificate Program	$163,913	$0	$163,913
Restoring Stability Program (1)	$204,734	$0	$204,734
National Foreclosure Mitigation Counseling	$1,211,242	$3,109,628	$4,320,870
HUD Comprehensive Housing Counseling Grant Program	$0	$162,412	$162,412
Ohio Home Rescue Loan Program	$291,545	$0	$291,545
Historic Preservation Program	$15,132	$0	$15,132
Low Income Housing Tax Credit Program	$2,811,137	$0	$2,811,137
Multifamily Bond Program	$820,594	$0	$820,594
Housing Development Assistance Program (2)	$20,919,239	$2,777,726	$23,696,965
Housing Investment Fund	$479,012	$0	$479,012
Community Housing Development Corporation	$231,057	$0	$231,057
Tax Credit Assistance Program	$635,306	$10,550,665	$11,185,971
Tax Credit Exchange Program	$22,613,106	$0	$22,613,106
Neighborhood Stabilization Program	$222,413	$0	$222,413
Housing Development Loan Program	$486,440	$0	$486,440
Housing Assistance Payments	$207,267	$3,820,993	$4,028,260
Financial Adjustment Factor Program	$42,686	$940,885	$983,571
Money Follows the Person Rebalancing Demonstration	$0	$19,070	$19,070
Other Initiatives (3)	$305,515	$0	$305,515
Totals	$70,903,609	$21,381,379	$92,284,988

1. Total federal expenditures do not tie to OHFA's Schedule of Expenditures of Federal Awards (SEFA) provided in the Federal Single Audit due to the exclusion of $753,079 of administrative fee payments made to the General Fund. These payments are accounted for in the OHFA column and were removed to prevent double-counting. (Housing Assistance Payments $181,424, Housing Development Assistance Program - HOME $415,000 and Foreclosure Mitigation Counseling $156,655.)

   The Restoring Stability Program, although not considered a federal program, receives reimbursements for expenses incurred to administer the program. Through June 30, 2011, the cumulative amount drawn from the federal account for this program totaled $0. The entire $204,734 of operating expense for the program was covered by OHFA.

2. Federal portion of Housing Development Assistance Program (HDAP) includes Home Investment Partnership Program (HOME)

3. Other Initiatives include the Down Payment Assistance Payment (DAP) program, Individual Development Account (IDA) program, Returning Home Ohio, Resolution Trust Corporation program, Home Again Program, Training and Technical Assistance program and the Ohio Preservation Loan Fund.

Schedule of Program Expenses
Fiscal Year Ending June 30, 2011

(The schedules showing the program expenses for Fiscal Years 2010 and 2011 were prepared by OHFA and are the responsibility of OHFA. The schedules were not audited as part of the performance audit. Accordingly, Foxx & Company does not express an opinion on the accuracy of the expenditures included in OHFA's schedules.)

Program Name	FY 2011 Expenses		
	OHFA	Federal (1)	Total
First Time Home Buyer Program	$18,907,602	$0	$18,907,602
Mortgage Credit Certificate Program	$165,740	$0	$165,740
Restoring Stability Program (1)	$636,637	$2,854,592	$3,491,229
National Foreclosure Mitigation Counseling	$756,911	$2,036,657	$2,793,568
HUD Comprehensive Housing Counseling Grant Program	$212,887	$136,881	$349,768
Ohio Home Rescue Loan Program	$214,797	$0	$214,797
Historic Preservation Program	$15,069	$0	$15,069
Low Income Housing Tax Credit Program	$2,632,593	$0	$2,632,593
Multifamily Bond Program	$759,631	$0	$759,631
Housing Development Assistance Program (2)	$17,223,183	$14,038,363	$31,261,546
Housing Investment Fund	$1,768,490	$0	$1,768,490
Community Housing Development Corporation	$146,452	$0	$146,452
Tax Credit Assistance Program	$471,440	$68,702,690	$69,174,130
Tax Credit Exchange Program	$71,516,522	$0	$71,516,522
Neighborhood Stabilization Program	$218,493	$9,415,818	$9,634,311
Housing Development Loan Program	$415,062	$0	$415,062
Housing Assistance Payments	$211,303	$1,425,686	$1,636,989
Financial Adjustment Factor Program	$67,953	$2,666,671	$2,734,624
Money Follows the Person Rebalancing Demonstration	$0	$84,680	$84,680
Other Initiatives (3)	$333,132	$0	$333,132
Totals	$116,673,897	$101,362,038	$218,035,935

1. Total federal expenditures do not tie to OHFA's Schedule of Expenditures of Federal Awards (SEFA) provided in the Federal Single Audit due to the exclusion of $886,685 of administrative fee payments made to the General Fund. These payments are accounted for in the OHFA column and were removed to prevent double-counting. (*Housing Assistance Payments $81,730, Housing Development Assistance Program - HOME $423,090, Foreclosure Mitigation Counseling $202,715 and Neighborhood Stabilization Program (NSP) $179,150*). The *Restoring Stability Program*, although not considered a federal program, receives reimbursements for expenses incurred to administer the program. Through June 30, 2011, the cumulative amount drawn from the federal account for this program totaled $2,854,592. Of this total, $958,699 was charged for direct salary. The remaining $636,637 of operating expense was covered by OHFA.
2. Federal portion of Housing Development Assistance Program (HDAP) includes Home Investment Partnership Program (HOME).
3. Other Initiatives include the Down payment Assistance Payment (DAP) program, Individual Development Account (IDA) program, Returning Home Ohio, Resolution Trust Corporation program, Home Again Program, Training and Technical Assistance program, Ohio Preservation Loan Fund, Ohio Habitat Investment Partnership and Housing Counseling Program

.
The Ohio Housing Study Committee was created by the Ohio General Assembly upon passage of House Bill (H.B.) 153, Section 701.40, as subsequently amended in H.B. 487. This legislation provides, in pertinent part:

> **Sec. 701.40.** (A) There is hereby created the Ohio Housing Study Committee with the purpose of formulating a comprehensive review of the policies and results of the Ohio Housing Finance Agency, its programs and its working relationships to ensure that all Agency programs are evaluated by an objective process to ensure all Ohioans receive optimal and measurable benefits afforded to them through the authority of the Agency.
>
> (B) The Committee shall do all of the following:
>
> (1) Perform a comprehensive review of Chapter 175. of the Revised Code to determine the relevance of the chapter and determine whether it should be formally reviewed or amended by the General Assembly, up to and including appropriate legislative oversight and accountability;
>
> (2) Review the Agency's relationships to ensure an equitable and level playing field regarding its single- and multi-family housing programs;
>
> (3) Review the Agency's policy leadership and the measurable economic impact and other effects of its programs;
>
> (4) Review the Agency's Qualified Allocation Plan development process and underlying policies to understand whether objective and measurable results are achieved to fulfill clearly articulated public policy goals;
>
> (5) Create a quantitative report measuring the economic benefits of the Agency's single- and multi-family programming over the last ten years;
>
> (6) Evaluate the possible efficiencies of combining existing Ohio Department of Development housing-related programming with those of the Agency.
>
> The Chairperson of the Committee may include other relevant areas of study as necessary.
>
> (C) The Committee shall commence on ~~the effective date of this act~~ September 29, 2011, and shall provide a report expressing its findings and financial, policy, or legislative recommendations to the Governor, the Speaker of the House of Representatives, and the President of the Senate on or before March 31, 2012. The Committee shall cease to exist on December 31, 2012.

(D) The Committee shall be comprised of the Auditor of State, or the Auditor's designee, the Director of Commerce, or the Director's designee, the Director of Development, or the Director's designee, and four members of the General Assembly. Two members shall be appointed by the Speaker of the House of Representatives and two members shall be appointed by the President of the Senate.

The Governor, Speaker of the House of Representatives, and the President of the Senate shall determine the chairperson of the Committee.

(E) The Committee shall meet on a reasonable basis at the discretion of the chairperson.

(F) All reasonable expenses incurred by the Committee in carrying out its responsibilities shall be paid by Ohio Housing Finance Agency funds. In addition to reasonable expenses, the Committee shall have the discretion to allocate Agency funds to contract with the Auditor of State for services rendered in relation to the Committee carrying out its responsibilities, including financial- and performance-based audits and other services. The Auditor of State may contract with an independent auditor.

The Committee may also contract with other independent entities for services rendered in relation to the Committee carrying out its responsibilities. Expenditures to pay for the services of the Auditor of State, independent auditor, or other services shall not exceed two hundred thousand dollars.

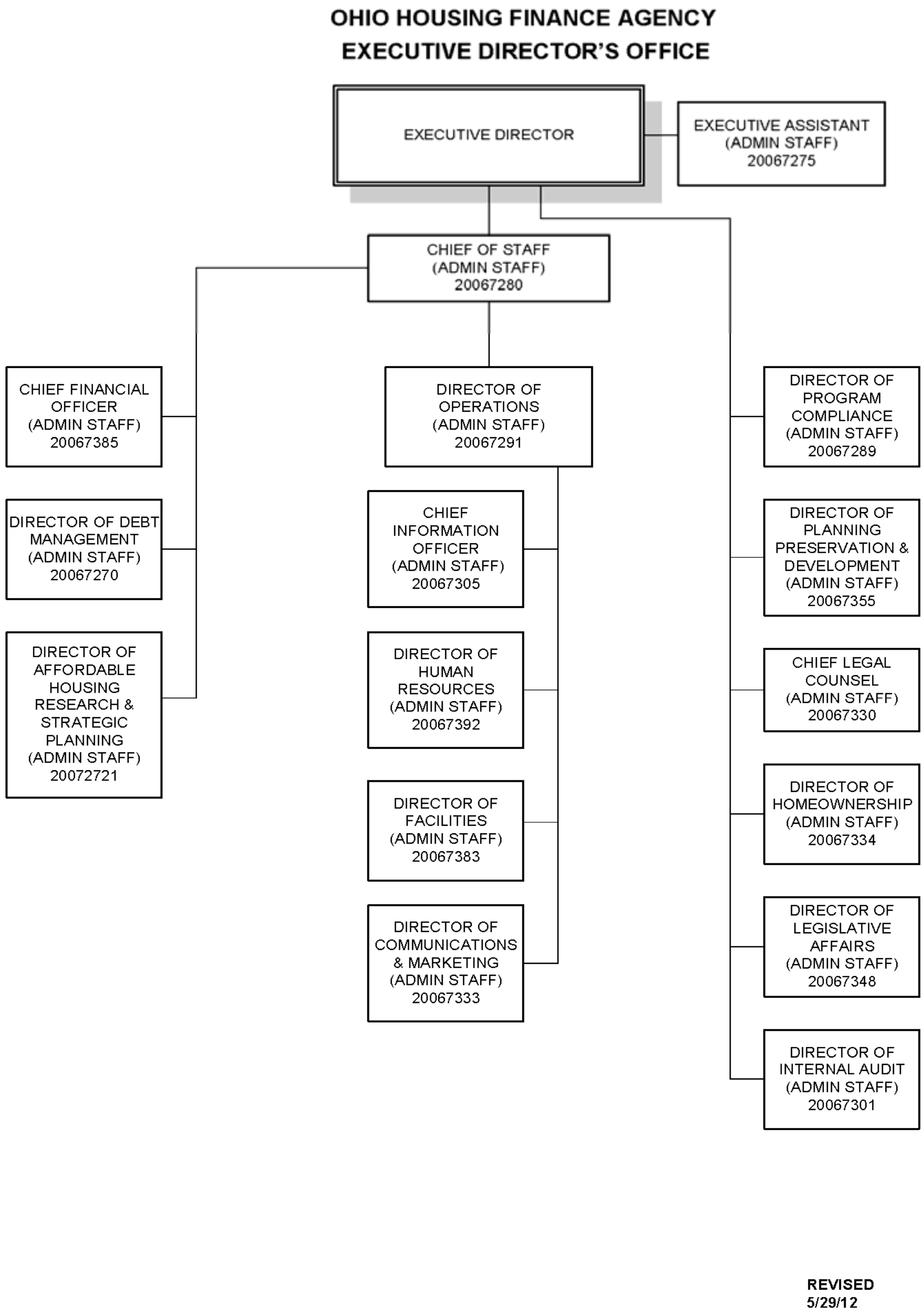
No entity contracting with the Committee for services rendered shall have a financial or vested interest in the Ohio Housing Finance Agency, its affiliates, or its nonprofit partners.

The six areas of study included in H.B. 153, Section 701.40, for the Study Committee and the related information from the performance audit are displayed in the following table.

Committee's Areas of Study	Information from the Performance Audit
(1) Perform a comprehensive review of Chapter 175. 40 of the Revised Code to determine the relevance of the chapter and determine whether it should be formally reviewed or amended by the General Assembly, up to and including appropriate legislative oversight and accountability.	A comprehensive review of Ohio Revised Code Chapter 175.40 was not within the scope of the performance audit. However, Chapter 175 was reviewed during the audit to determine the general requirements for OHFA to provide housing assistance. The Revised Code was also reviewed to determine specific requirements for OHFA to perform such as preparing annual plans. The audit did not address whether the Revised Code should be formally reviewed or amended by the General Assembly.
(2) Review the Agency's relationships to ensure an equitable and level playing field regarding its single- and multi-family housing programs.	To address the Agency's relationships, developers were interviewed to obtain their views regarding their relationship with OHFA. The developers were also asked to identify areas that they believed OHFA could improve its operations. Suggested improvements were obtained from the developers and are included in the Matter for Consideration section of the report. The developers were often complimentary of OHFA concerning their working relationships.
(3) Review the Agency's policy leadership and the measurable economic impact and other effects of its programs.	OHFA's program managers were interviewed and documentation was obtained to determine how they administered the programs such as the Low Income Housing Tax Credit program. OHFA officials were also asked how they determined the impact of their programs on the universe of people that could potentially benefit from OHFA programs. The official in charge of OHFA's research office was also interviewed to determine what research had been performed to determine the impact of OHFA's programs. Although the information obtained did not provide a basis for measuring economic impact or other effects of OHFA's programs, the audit did find a need for policies and procedures and consistency in the identification of specific programs. The recommendations from this analysis are detailed in the Results of the Audit.

(4) Review the Agency's Qualified Allocation Plan development process and underlying policies to understand whether objective and measurable results are achieved to fulfill clearly articulated public policy goals.	The Qualified Allocation Plans for 2010 and 2011 were reviewed to determine the underlying policies and processes involved in developing the plans and assessing applications for low income housing tax credits. The U.S. Treasury, Internal Revenue Service, requirements were also reviewed. Although we did not identify any non-compliance with policies or requirements, the audit did identify an opportunity for efficiency in the QAP annual process. This opportunity is being reported in the Matters for Consideration section of the report.
(5) Create a quantitative report measuring the economic benefits of the Agency's single- and multi-family programming over the last ten years.	The audit did not address the economic benefits of Agency's single- and multi-family programming over the last ten years. Consequently, a quantitative report measuring the economic benefits for the period of time was not created.
(6) Evaluate the possible efficiencies of combining existing Ohio Department of Development housing-related programming with those of the Agency.	The audit did not address combining housing programs administered by the Ohio Department of Development with OHFA. The scope of the audit did not include reviews of any Department of Development programs. Therefore, Foxx & Company cannot offer an opinion on the feasibility of combining the programs.

Appendix F
Ohio Housing Finance Agency Organization Chart



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Dave Yost · Auditor of State

OHIO HOUSING FINANCE AGENCY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 20, 2012

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