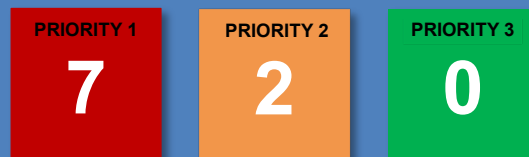


Report #2020-02

MULTI-PROJECT AFFORDABLE HOUSING LOTTERY AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

09.26.2019



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Acknowledgment

We would like to thank Community Development Department personnel for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Natalie Minami-Valdivia, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at ipa@glendaleca.gov

This report is also available online at <http://www.glendaleca.gov>

A. Overview

Key Outcomes

Based on an independent review of the Multi-Project Affordable Housing Lottery process, Internal Audit concluded that controls have been established to ensure that the applications meeting lottery criteria are appropriately categorized and included in the final lottery database. Internal Audit also verified that the final lottery numbers were assigned in numerical sequence without gaps or duplicates.

The Community Development Department (CDD) Housing Division’s lottery application process identified 993 (5.0%) duplicate applications out of 18,388 applications received. In addition to these duplicates, Internal Audit independently identified 182 (1.0%) more duplicate applications that were removed from the lottery. Next, Internal Audit identified 43 (0.2%) erroneously excluded applications that were that were added back to the lottery.

Furthermore, the CDD documented the methodology, key management decisions, and internal controls in their Lottery Application Processing Narrative to ensure applications were processed in an accurate, complete, and consistent manner. Internal Audit recommended necessary data corrections throughout the course of the audit and the development of a “next time” checklist to document controls and lessons learned in order to improve future lottery processes. The recommended controls included documenting the application and database quality control and review process, receiving and recording of mail applications, reconciling of database records, and documenting application revisions. The CDD staff completed these recommendations prior to the issuance of this report.

Impact Dashboard

This table summarizes the applicable value-added categories (total 19) for the nine recommendations based on their priority rankings and one innovation opportunity.

	Value Added Categories				Innovation Opportunities
	Risk Reduction	Compliance	Cost Saving	Efficiency	
Priority 1 7	7	2	0	7	1
Priority 2 2	2	0	0	1	0

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 1		
1.	Establish a procedure for a lottery application/marketing material quality control review. <i>Value added:</i> Risk Reduction , Compliance , Efficiency	Completed
2.	Establish a procedure for custody of mail applications. <i>Value added:</i> Risk Reduction , Efficiency	Completed
3.	Establish a procedure for the reconciliation between the Consolidated Lottery Application Database, Mail, and Online Application Databases. <i>Value added:</i> Risk Reduction , Efficiency	Completed
4.	Establish a procedure for documenting changes to the Application Database. <i>Value added:</i> Risk Reduction , Efficiency	Completed
5.	Establish a procedure to maintain lottery information, including the final application disposition, within a single database. <i>Value added:</i> Risk Reduction , Efficiency , Innovation	Completed
6.	Establish a procedure to improve the consistency of data entry and design controls to reduce duplicate application submissions. <i>Value added:</i> Risk Reduction , Efficiency	Completed
7.	Establish a quality control procedure to review the accuracy of the final disposition for each application. <i>Value added:</i> Risk Reduction , Compliance , Efficiency	Completed
Priority 2		
8.	Assign a number to each mail application and verify that it has been included within the Mail Application Database. <i>Value added:</i> Risk Reduction , Efficiency	Completed
9.	Review and verify exceptions noted and correct the Consolidated Lottery Application Database accordingly. <i>Value added:</i> Risk Reduction	Completed

C. Background

At the request of the CDD management, Internal Audit performed a real-time review of the Multi-Project Affordable Housing Lottery process. This lottery is for 31 available units located within the following five affordable housing projects:

Project Address	Very Low Income			Low Income	Total Per Project
	1 bedroom unit	2 bedroom unit	3 bedroom unit	3 bedroom unit	
3901-3915 San Fernando Rd.	9	3	-	-	12
507-525 W. Colorado St.	4	1	-	-	5
515 W. Broadway	5	2	1	-	8
518 Glenwood Rd.	-	-	-	1	1
1407 W. Glenoaks Blvd.	3	2	-	-	5
Total Per Unit Type	21	8	1	1	31

As these projects are nearing completion at about the same time, CDD management decided to hold a single lottery for the 31 available housing units. The single lottery was intended to make the process: 1) more consistent by applying the same methodology and 2) more efficient for projects with fewer units.

Paper applications were available at five locations within the City and for the first time, CDD made an online application available to applicants. The lottery application period began on October 30, 2018 and ended at midnight on November 27, 2018. During this period, the City received 18,388 applications with 5,638 submitted on paper and 12,750 submitted online. The final application dispositions were as follows:

Final Disposition Letter Category	Applications		
	Paper	Online	Total
Not Preferred	1,866	8,303	10,169
Rejected Duplicate	342	833	1,175
Incomplete*	1	0	1
Under Income	723	735	1,458
Over Income	146	165	311
Preferred	2,560	2,714	5,274
Total Per Application Type	5,638	12,750	18,388

* Information for one application could not be verified and was left with an "Incomplete" final disposition.

Due to the overwhelming response, the applications to be entered into the lottery were limited to those applicants that met the criteria of: 1) living in Glendale AND 2) working in Glendale, and/or having a household member over 62 years of age, and/or having a disabled household member AND 3) meeting State dictated income limits. Based upon these criteria, 5,274 eligible applications were identified to be entered into the lottery. From the 5,274 applications, 300 lottery numbers will be drawn to be put on a list for

these 31 units. CDD staff will verify eligibility of all selected applicants prior to awarding these units.

Next, CDD will notify the eligible applicants of their lottery numbers and the date of the lottery draw via email or post office mail. The applicants that did not meet the eligibility criteria will also receive final disposition letters that state the reason(s) their applications were rejected and will be given two weeks to appeal the decision. Internal Audit will review the final lottery numbers after the appeal process for any additions and observe the actual lottery draw process.

D. Objective, Scope and Methodology

The objective of the Multi-Project Affordable Housing Lottery Audit was to provide reasonable assurance that adequate controls are in place to ensure that the applications meeting lottery criteria are appropriately categorized and included in the final lottery database.

The scope of this audit covered all affordable housing lottery applications received during the open application period of October 30, 2018 to November 27, 2018 for the 31 units in the five affordable housing projects.

In order to accomplish the audit objective, Internal Audit performed the following:

- Conducted a walk-through of CDD's lottery application receipt, recording, and eligibility review processes.
- Interviewed Management Services and Information Services Departments' staff regarding the online application process.
- Obtained and reviewed the Affordable Housing Lottery Application form and the State of California Department of Housing and Community Development 2018 and 2019 State Income Limits for Los Angeles County.
- Performed detailed testwork on a sample of applications from the Mail Application, Online Application, and Consolidated Lottery Application Databases.
- Confirmed that all identified errors were corrected by CDD staff.
- Utilized audit analytics software to independently validate the final application dispositions including the applications meeting the lottery criteria.
- Verified that the final lottery numbers were assigned in numerical sequence without gaps or duplicates.

As a result of the audit procedures performed, nine observations were identified and are detailed in the Observations, Recommendations & Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Lottery Marketing/Application		
Priority 1	<p>A review of the paper and online applications identified the following:</p> <ul style="list-style-type: none"> a. Errors within the paper application form included an insufficient number of fields to list all occupants; incorrect and/or missing “maximum annual income”, “approximate monthly rate” and “minimum income requirement” for the “low income” unit category; incorrect number of available units by bedroom type; unverifiable “Minimum Income Requirements”; and typographical errors. b. The application disclaimer specifying “a maximum of one application per household” does not clearly reflect the intent and practice of one household member being included within one application. c. The online application did not adequately separate data fields, provide consistency in responses through format (text/number) restrictions or drop-down menus, or incorporate data validation controls. 	<p>CDD management create a checklist to include the following controls for future projects:</p> <ul style="list-style-type: none"> a. A quality control process to review application format, rental rates, income requirements, and number of available units by bedroom type. Supporting documentation should be maintained for all application related information and calculations. b. Clarify that each household member may only be included within one application. c. Improve online application data consistency and completeness by restricting response formats, incorporating drop-down menus, and including data validation controls. Conduct user testing to ensure online application data output is adequate for staff processing purposes. 	<p>Agrees and has created a checklist to be used in future Affordable Housing Lottery processes.</p>

Ref	Observation	Recommendation	Management Response
2.	Custody of Mail Applications		
Priority 1	<p>Based upon a walkthrough of the mail application receipt and recording process, Internal Audit noted the following:</p> <ul style="list-style-type: none"> a. There are no procedures in place to track the receipt and custody of mail applications. b. The postmarked envelopes were not maintained. c. Unopened applications that did not meet the postmark criteria were not returned to sender, nor were the applicants notified of the same. d. There is no process in place to ensure that all applications received were entered into the Mail Application Database. 	<p>CDD management create a checklist to include the following controls for future projects:</p> <ul style="list-style-type: none"> a. Mail should be retrieved, counted, assigned a numerically sequenced number, and scanned by an individual independent of the process of recording the applications within the Mail Application Database. b. Postmarked envelopes should be maintained with the original applications. c. Applications received after the deadline should immediately be returned to sender or unopened applications postmarked after the deadline should be processed and a letter should be sent to notify the applicants. d. The total number of mail applications received should be reconciled to the total number entered into the Mail Application Database. 	<p>Agrees and has created a checklist to be used in future Affordable Housing Lottery processes.</p> <p>For the current lottery, CDD management has updated its Lottery Application Processing Narrative to indicate that all applications postmarked after the deadline were maintained by CDD and recorded within a separate listing for tracking and inquiry purposes.</p>

Ref	Observation	Recommendation	Management Response
3.	Consolidation of Mail and Online Application Databases		
Priority 1	<p>A reconciliation of the Consolidated Lottery Application Database record count to the individual Mail Application Database record count and Online Application data export record count, identified the following errors:</p> <ul style="list-style-type: none"> a. Seven mail application records erroneously appear twice within the Consolidated Lottery Application Database. b. Five online application records erroneously appear twice within the Consolidated Lottery Application Database. c. Four online application records initiated prior to the November 27, 2018 midnight deadline, but submitted after the deadline were excluded from the Consolidated Lottery Application Database. 	<p>CDD management create a checklist to include the following controls for future projects:</p> <ul style="list-style-type: none"> a. Reconcile the Consolidated Lottery Application Database record count to the individual Mail Application Database record count and Online Application data export record count and resolve any discrepancies. b. Either design the online application to notify the applicant that their application was not submitted prior to the deadline, accept the online applications initiated prior to but submitted after the deadline, or notify applicants that they missed the deadline and are ineligible for the lottery. 	<p>Agrees and has performed the following:</p> <ul style="list-style-type: none"> a. Reconciled and resolved the discrepancies noted. b. Created a checklist to be used in future Affordable Housing Lottery processes.

Ref	Observation	Recommendation	Management Response
4. Application Revision Controls			
Priority 1	<p>Internal Audit compared the Consolidated Lottery Application Database to the Mail Application Database and Online Application Database and noted the changes made to the Consolidated Lottery Application Database were not properly supported in terms of who (staff or applicant) initiated the change and the reasons for doing so.</p>	<p>CDD management create a checklist to include the following controls for future projects:</p> <ul style="list-style-type: none"> a. Establish procedures for documenting any revisions made to the database. For example, requiring all applicant update requests to be formally submitted via email or in writing and initialed and dated by the CDD staff member that completed the revision. b. Document procedure or instruction for any computed fields performed by CDD staff (i.e. conversion of monthly income to annual income). c. Document assumptions made (i.e. income fields left blank were entered as zero). 	<p>Agrees and has created a checklist to be used in future Affordable Housing Lottery processes.</p> <p>For the current lottery, as there was no process in place to document database changes requested by applicants or initiated by staff, a management decision was made to keep the information included within the Consolidated Lottery Application Database for this lottery and document their decision within the Lottery Application Processing Narrative.</p>

Ref	Observation	Recommendation	Management Response
5. Final Application Disposition Reconciliation			
Priority 1	<p>According to CDD staff, each of the applications within the Consolidated Lottery Application Database should also be included within one of the five separated final disposition sheets labeled (“Pre-Qualified”, “Incomplete”, “Under Income”, “Over Income”, or “Duplicate”). Based upon a reconciliation of the sheets, Internal Audit noted the following:</p> <ul style="list-style-type: none"> a. The number of applications listed within the “Complete Affordable Housing Lot” sheet did not agree to the total of the five separate final disposition sheets. b. There was no record maintained to identify the applications that had been reviewed and classified into one of the five final disposition sheets. 	<p>CDD management perform the following:</p> <ul style="list-style-type: none"> a. Restructure the Consolidated Lottery Application Database sheet to include a column for the final disposition and use a pivot table function to separate the final dispositions into separate sheets, if necessary. b. Create a checklist to establish a procedure to document all lottery application information within a single database. 	<p>Agrees and has performed the following:</p> <ul style="list-style-type: none"> a. Requested and received assistance from the Innovation Team to restructure its Consolidated Lottery Application Database to include the final disposition for each application. b. Created a “next time” checklist that includes maintaining a single lottery application database when possible.

Ref	Observation	Recommendation	Management Response
6. Duplicate Applications			
Priority 1	<p>Internal Audit independently identified 274 duplicate applications by using audit analytics software. Based on the “final disposition” category, 182 of the 274 duplicates would have incorrectly been included in the lottery. The remaining 92 identified duplicates did not meet the income requirements and were already excluded from the lottery.</p>	<p>CDD management perform the following:</p> <ul style="list-style-type: none"> a. Review each of the exceptions noted and correct the Consolidated Lottery Application Database accordingly. b. Establish controls to improve data entry consistency and reduce the submission of duplicate applications in the future. 	<p>Agreed and has performed the following:</p> <ul style="list-style-type: none"> a. Verified the exceptions noted and made the necessary corrections. b. Included controls, such as restricting response formats, incorporating drop-down menus, and including data input validation controls for online applications in order to improve data entry consistency and reduce duplicate application submissions in the “next time” checklist.

Ref	Observation	Recommendation	Management Response
7. Final Application Disposition			
Priority 1	<p>Internal Audit performed final disposition testwork on the Consolidated Lottery Application Database and noted the following:</p> <ul style="list-style-type: none"> a. 6 applications were misclassified as not meeting the income requirement due to formula error. b. 29 applications categorized as "Incomplete" contained an unconventional number format or income range. c. 6 applications were incorrectly categorized as duplicates based upon duplicate addresses, but contained different household members. d. 237 applications had an occupant count that did not match the number of occupant names provided. 20 of these applications had an incorrect final disposition. 	<p>CDD management perform the following:</p> <ul style="list-style-type: none"> a. Verify and correct erroneous income requirement formula. b. Review and correct the identified applications with "Income" fields that contain an unconventional number format or income range. c. Verify and correct the 6 applications incorrectly categorized as duplicates. d. Verify and correct the 20 applications with the occupant counts that would affect the final disposition. <p>In addition, use standardized formulas when possible to determine the final disposition for each application. Establish a lottery database quality control review process that includes reviewing the consistency of database formulas and applications with "Incomplete" final dispositions.</p>	<p>Agreed and performed the following:</p> <ul style="list-style-type: none"> a. Verified and corrected the fields that had an erroneous income requirement formula. b. Reviewed and updated the 28 applications with "Incomplete" final dispositions. Information for one application could not be verified and was left with an "Incomplete" final disposition. c. Verified and corrected the 6 applications incorrectly categorized as duplicates. d. Verified and corrected the final disposition of the 20 applications. <p>A "next time" checklist was created to include utilizing standardized formulas to evaluate lottery applications, employing a quality control process to review the consistency of database formulas, and conducting a review of applications with "Incomplete" final dispositions.</p>

Ref	Observation	Recommendation	Management Response
8. Mail Application Database Completeness Testwork			
Priority 2	<p>Internal Audit randomly selected a statistical sample of 184 mail application files to trace and agree to the Mail Application Database to test for completeness of the database and noted the following:</p> <ul style="list-style-type: none"> a. Two applications received could not be located within the Mail Application Database. b. One application had one occupant name erroneously split into two occupant fields. As this particular applicant did not meet the minimum income threshold, this error did not have any effect on eligibility. However, this type of error could have resulted in the improper inclusion/exclusion of an applicant from the lottery process. <p>In addition, Internal Audit reviewed the accuracy of the sampled records and did not note any input errors that affected the final disposition.</p>	<p>CDD perform the following:</p> <ul style="list-style-type: none"> a. Enter the missing applications identified by Internal Audit into the Mail Application Database. b. Correct the identified household information error. c. Assign a number to each of the mail applications and ensure that each is included within the Mail Application Database. 	<p>Agreed and performed the following:</p> <ul style="list-style-type: none"> a. Entered the missing applications. b. Corrected the identified household information error. c. Numbered each mail application and verified that each was included within the Mail Application Database. Based upon this manual review, CDD staff identified 7 applications included within the Mail Application Database that did not have a corresponding mail application to support the entry. Conversely, 28 mail applications identified as erroneously being excluded from the Mail Application Database were added.

Ref	Observation	Recommendation	Management Response
9.	Mail Application Database Existence Testwork		
Priority 2	<p>Internal Audit randomly selected a statistical sample of 184 applications from the Mail Application Database to trace and agree to the mail application hard copy files to test for existence and noted that two applications included within the database did not have a mail application to support the entry.</p> <p>Internal Audit also reviewed the accuracy of the sampled records and noted two applications had incomes within the database that did not match the mail application, which would adversely affect the final disposition.</p>	<p>CDD staff review each of the exceptions noted and correct the database accordingly.</p>	<p>Agreed and management has verified the exceptions noted and made the necessary corrections.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **90 days** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **180 days** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **270 days** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** tag indicates the assistance and consulting services that may be provided by the Innovation and Performance Team.