

**A Report to the
Audit Committee**

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Audit of the Barnes Housing Trust Fund

May 12, 2022

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

May 12, 2022



Why We Did This Audit

The audit was performed because of the impact and importance of affordable housing in growing urban areas.

What We Recommend

- Management should continue efforts to implement the remaining recommendations from the June 2019 [Audit of the Barnes Fund](#).
- Internal policies and procedures should be developed for Barnes Fund staff to ensure consistency of operations and assist with training during times of employee turnover.

Audit of the Barnes Housing Trust Fund

BACKGROUND

The Barnes Housing Trust Fund was created in 2013 with the mission of promoting affordable housing opportunities throughout Nashville and Davidson County. The Barnes Fund awards grants to qualified entities and leverages private investment to help create affordable rental units, build affordable homes, and renovate existing structures to create rental units or assist homeowners with aging in place. Since inception, the Barnes Fund has awarded approximately \$70 million which has been used to leverage approximately \$522 million in private dollars for the creation of affordable housing within Metropolitan Nashville.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Grants from the Barnes Fund are awarded to eligible housing developers.
- Grants are monitored to ensure compliance with grant agreements.
- Recommendations from the June 2019 [Audit of the Barnes Fund](#) have been implemented.

The scope of this audit includes the Barnes Fund activity during the period of July 1, 2019, to October 31, 2021.

WHAT WE FOUND

The Housing Trust Fund Commission has developed systematic written policies for the awarding, monitoring, and reporting requirements of Barnes Fund related grant awards. The Commission and Barnes Fund staff are knowledgeable and are attempting to achieve the operational goals of the program. Grants are being distributed from the Barnes Fund to eligible nonprofit organizations. Controls are in place to ensure compliance with grant agreements and ensure funding is used towards the goal of creating affordable housing opportunities. The Barnes Funds staff has addressed many of the risks identified in the June 2019 Audit of the Barnes Fund.

However, internal job procedures for the various employee roles that support Barnes Fund activities are not documented. Two of the eight recommendations from the 2019 [Audit of the Barnes Fund](#) have not been fully implemented.

GOVERNANCE

The Metropolitan Housing Trust Fund Commission provides governance over the Barnes Fund operations. The Metropolitan Housing Trust Fund Commission is composed of seven members, five appointed by the mayor, one appointed by the vice mayor, and one appointed by the Metropolitan Development and Housing Agency’s Board of Commissioners.

Metropolitan Nashville Code of Laws § 2.149.030 delineates the purpose of the Metropolitan Housing Trust Fund Commission as follows:

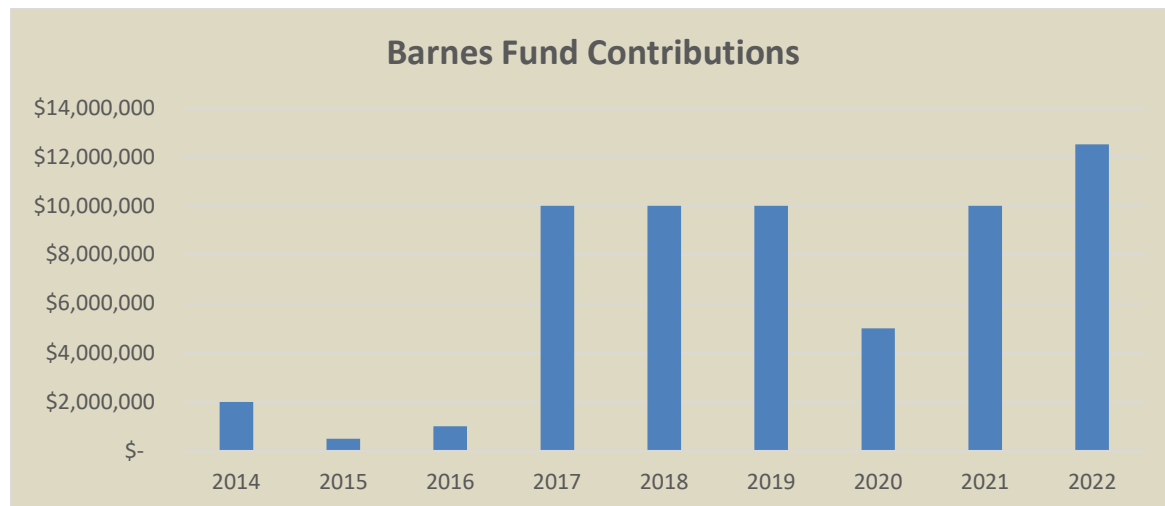
- To promote the study and development of good quality affordable housing.
- To support education about and creation and development of good quality affordable housing, both rental and ownership.
- To help create rental housing, housing for the disabled, and long-term affordable homeownership opportunities for citizens of Davidson County.
- To oversee the management and operation of the Barnes Fund for Affordable Housing.

Until January 2022, the management of the Barnes Fund functioned within the Mayor’s Office. Subsequently, the Affordable Housing Manager within the Housing Division of the Planning Department now oversees the day-to-day operations of the Barnes Fund and reports to the Director of the Housing Division.

BACKGROUND

A contribution is made into the Barnes Fund each fiscal year. An allocation is recommended in the Mayor’s budget and approved by the Metropolitan Council. The history of budget allocations into the Barnes Fund can be seen in Exhibit 1 below.

Exhibit 1 – Barnes Fund Contributions by Fiscal Year



Source: Oracle E-Business Suites R-12

Note: Original allocation for 2020 was \$10 million, but \$5 million was impounded during a budget revision

Private donations are also accepted for the Barnes Fund. A \$250,000 donation was made to the Barnes Fund by the Regions Foundation in fiscal year 2021.

The Housing Trust Fund Commission determines funding priorities prior to each round of funding. Barnes funding related projects can be described in three broad categories: (1) rental units, (2) homebuyer units, and (3) rehabilitation projects. Grant awards are typically made from the Barnes Fund twice a year in the fall and spring. The application process follows a request for proposals application model. Project proposals must be affordable to households with incomes at or below 60 percent of the area median income for rental developments and at or below 80 percent of the family size adjusted area median income for homebuyer and homeowner rehabilitation proposals.

Submitted applications are initially reviewed and scored by an external review committee with the highest scores presented to the Housing Trust Fund Commission for review and approval. The grant awards then go through the Affordable Housing Committee and Budget and Finance Committee before being voted on by the Metropolitan Nashville Council. The grant contract is effective when legislation is signed by the Mayor.

Grants are distributed from the Barnes Fund on a reimbursement basis. A construction grant draw schedule is included in the grant contract that lists the percentage of the award to be distributed at each phase of the project.

The grantee submits a draw request form to the Affordable Housing Manager for review. A third-party vendor, Capital Project Solutions, Inc., will perform an inspection of the work to verify completion. Once verified, the Finance Department will process the payment to the grantee. A summary of the specific grant awards and distributions made during the scope period are presented below.

Exhibit 2 – Audit Period Barnes Fund Grant Awards and Distributions

Funding Round	Nonprofit Organization	Award Amount	Distributed	Award Remaining
Fall 2019	Westminster Home Connection	\$ 50,000	\$ 35,442	\$ 14,558
Fall 2019	Affordable Housing Resources	108,000	37,500	70,500
Fall 2019	Be A Helping Hand	143,345	47,781	95,564
Fall 2019	Living Development Concepts, Inc.	229,000	229,000	-
Fall 2019	Woodbine Community Organization, Inc.	1,195,000	1,125,000	70,000
Fall 2019	Habitat for Humanity	1,270,500	1,259,167	11,333
Fall 2019	Our Place Nashville	2,000,000	-	2,000,000
Fall 2019	New Level CDC	2,000,000	1,647,400	352,600
Spring 2021	Be A Helping Hand	249,000	62,680	186,321
Spring 2021	Mending Hearts, Inc.	374,398	46,800	327,598
Spring 2021	Affordable Housing Resources	784,300	173,938	610,363
Spring 2021	Habitat for Humanity	1,999,580	-	1,999,580
Spring 2021	Samaritan Recovery Community	2,000,000	-	2,000,000
Spring 2021	Urban Housing Solutions	2,000,000	-	2,000,000
Spring 2021	Woodbine Community Organization, Inc.	2,000,000	-	2,000,000
	Total	\$ 16,403,123	\$ 4,664,706	\$ 11,738,417

Source: Housing Division Staff

Compliance monitoring activities vary based on the type of Barnes Fund project. Homes completed with Barnes Fund grants must be sold to income qualified individuals during an affordability period. The period was changed from 20 years to 30 years during the audit period. To ensure this provision, a deed restriction is filed with the Register of Deeds. The deed restriction limits potential homeowners to an area median income of 80 percent or under according to U.S. Department of Housing and Urban Development metrics for the year in which the unit is sold.

Rental units constructed with grants from the Barnes Fund must be leased to eligible tenants with an area median income of 60 percent or under. A provision in the grant contract requires the annual certification of tenant incomes to ensure compliance with the provision. Projects with this provision have not been completed, so the procedure for tracking the annual certifications within the Housing Division is being finalized.

A cost recapture agreement is filed with the Register of Deeds for homes renovated with grants. The agreement ensures funds will return to the nonprofit if homes are sold within a specified time after the completion of the renovation. The agreement prevents homes from being sold shortly after the completed renovation.

The Housing Trust Fund Commission approved a Contract Breach Policy that includes grantee penalties for contract breach infractions. Based on the number of infractions the grantee could be required to return the grant award to Barnes Fund and be barred from applying for grants from the Barnes Fund for up to five years.

OBJECTIVES AND CONCLUSIONS

1. *Are grants from the Barnes Fund awarded to eligible housing developers?*

Yes. A sample of 4 out of the 15 grants awarded during the audit period were reviewed. Grants are being awarded on a competitive basis to eligible nonprofit organizations. A review of all payments from the Barnes Fund was conducted. Distributions from the fund went to approved awards to nonprofit organizations or vendors who were supporting the mission of the Barnes Fund. Grant application policy and procedures are clearly communicated to applicants in a Grant Policy during each round of funding. However, specific internal procedures should be developed for the role of Affordable Housing Manager and other potential Barnes Fund employees to ensure consistency in operations and assist with training after employee turnover. (See Observation A.)

2. *Are grants monitored to ensure compliance with grant agreements?*

Yes. Monitoring provisions are included in grant contracts with nonprofits. Completed homes must be sold to eligible buyers meeting income requirements and rental units must be leased to eligible tenants meeting income requirements for a 30-year affordability period. Annual certification of tenant incomes will be required to be reported to the Housing Division for rental units.

A sample of seven completed homes and eight completed renovations were reviewed, and all properties had deed restrictions or cost recapture agreements filed with the Register of Deeds. Home sale information was reviewed for 145 completed projects during the audit period to ensure homes were within an affordable range and that homes were not “flipped” shortly after a renovation or home sale. No discrepancies were noted.

A review was conducted of the 20 meetings held by the Housing Trust Fund Commission. The Commission was made up of competent individuals actively monitoring and being informed about the operations of the Barnes Fund by Housing Division staff.

3. *Were recommendations from the June 2019 Audit of the Barnes Fund implemented?*

Generally, yes. Out of the eight recommendations in the previous audit, six recommendations were implemented as of the date of the report. The remaining two recommendations were partially implemented. (See Observation B.)

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives to sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision-making and governance of the organization. See **Appendix B** for a description of the observation *Assessed Risk Rating*.

Observation A – Barnes Fund Operational Policies and Procedures

Specific internal job procedures are lacking and should be developed and documented for the employee roles supporting the Barnes Fund. Specifically, the role of Affordable Housing Manager is critical to the success of the Barnes Fund and includes critical areas such as non-profit outreach, facilitation of the application collection and review process, donation reviews, Barnes Fund distribution documentation review and monitoring, grant compliance monitoring, and Housing Trust Fund Commission support. Job procedures will continue to be important as funding into the Barnes Fund expands and more employee roles are needed to support the fund. The Housing Division is currently seeking funding for more employee support for the fund. Specific policies have been adopted for areas such as grant extensions, contract breaches, documentation retention, and donations. However, internal procedures would help ensure the consistency of operations, policy compliance, and assistance with new employee training.

Criteria:

COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Assessed Risk Rating:

Medium

Recommendations for management of the Barnes Fund to:

Develop procedures that reflect current operations of the Housing Division staff. Ensure policies and procedures are reviewed and revised annually.

Observation B – Previous Audit Recommendations

All eight accepted recommendations from the June 2019 Audit of the Barnes Fund were previously reported by management as implemented. However, based on follow-up audit procedures, six recommendations were fully implemented, and two recommendations were partially implemented.

Recommendation B.1 was to ensure conflict of interest forms are signed by all parties involved in the application and award process. The Barnes Fund staff ensures conflict of interest forms are signed by the members of the Housing Trust Fund Commission and the external review committee members. All but one of the conflict of interest forms signed by the external review committee members were obtained and reviewed. One member of the external review committee was a member of the Housing Trust Fund Commission. The minutes for the Housing Trust Fund Commission meeting on January 28, 2020, showed that the members signed conflict of interest forms. However, those forms were unable to be located for review.

Recommendation F.1 was to develop and implement a document retention policy for grant applications, commission reviews of grant applications, and program monitoring documentation. A formal retention policy was approved by the Housing Trust Fund Commission during the audit on January 25, 2022.

Documents related to the Barnes Fund will be maintained for at least three years following the termination of deed restriction on the associated property. All requested documentation related to grant application awards, distributions, and monitoring was maintained and reviewed. However, conflict of interest statements for the Housing Trust Fund Commission were not able to be located for review.

Criteria:

COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

Medium

Recommendation for management of the Barnes Fund to:

Complete the implementation of recommendations from the June 2019 Audit of the Barnes Fund.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Barnes Fund office.
- Reviewed and analyzed documentation for compliance with grant guidelines and Barnes Fund Office policies.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

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Elizabeth Andrews, CFE, Staff Auditor

Jessica Henderson, Staff Auditor

Bill Walker, CPA, CIA, CFE, Audit Manager

Lauren Riley, CPA, CIA, CFE, ACDA, CMFO, Metropolitan Auditor

APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

	Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Risk</i>	<i>Recommendations for the management of the Barnes Housing Trust Fund to:</i>		
M	Develop procedures that reflect current operations of the Housing Division staff. Ensure policies and procedures are reviewed and revised annually.	Accept. Staff will develop Standard Operating Procedures to ensure the successful operation of the Barnes Fund. SOPs will include critical areas such as non-profit outreach, facilitation of the application collection and review process, donation reviews, Barnes Fund distribution documentation review and monitoring, and Housing Trust Fund Commission support. SOPs will be reviewed annually, prior to the end of the fiscal year, and updated as necessary.	June 30, 2022
M	Complete the implementation of recommendations from June 2019 <u>Audit of the Barnes Fund</u> .	Accept. As noted in the report, six of the eight recommendations from the previous audit were implemented prior the commencement of the audit. During the review, a retention policy was established, thereby implementing a 7 th recommendation. The outstanding item relates to maintaining conflict of interest forms. In one instance, tested by the auditors, forms were not available. New SOPs will include provisions for maintaining conflict of interest in hard copy and electronically.	June 30, 2022

APPENDIX B – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Observations identified during the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
HIGH	Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
MEDIUM	Moderate financial impact \$25,000 to \$10,000	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
LOW/ Emerging Issues	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems	Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			