Audit of Community Housing Initiatives

The City has adopted an Affordable Housing Strategic Toolkit to promote housing affordability in Denton, but continued funding will be needed to fully implement the toolkit's strategies.

In addition, the City has established programs to assist low-income residents with accessing and maintaining housing, including minor home and rental repairs and homebuyer assistance; targeted outreach efforts could enhance program awareness. Applications for these programs are generally managed effectively; however, transitioning to the previously procured electronic application software would reduce the need for manual record-keeping and ensure documentation consistency.

Audit Team

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Audit at a Glance

Why we did this Audit:

During Calendar Years 2022 and 2023, the City authorized the expenditure of over $781,000, funded entirely by CBDG grant funds, to assist families with minor home repairs. Ensuring proper oversight of City initiatives and program funding ensures the City continues towards its affordable housing goals. This audit was included in the City's Fiscal Year 2023-24 Annual Audit Plan as approved by the City Council.

What we Recommend:

Recommendation 1
Continue coordinating with the City Manager's Office to fund Affordable Housing Strategic Toolkit initiatives.

Recommendations 2, 4, 5, & 7
Create guidance for monitoring and reporting on Affordable Housing Strategic Toolkit goal outcomes, Rental Repair Program assistance, Home Buyer Assistance Program loans, and drawdown requests.

Recommendation 3
Consider establishing post-award information-gathering tools to help further focus marketing efforts.

Recommendation 6
Ensure all application and project support documentation is centrally retained in the application management software.

What we Found:

This audit generally evaluated the City's community housing initiatives, including efforts to increase housing affordability and housing assistance program management and grant compliance. Audit findings are summarized below:

Strategic Toolkit Implementation. The City adopted an Affordable Housing Strategic Toolkit in 2022 and has begun taking steps to promote infill development, provide zoning relief, increase capacity, and preserve affordability. Significant bond funding is budgeted for Fiscal Years 2025, 2026, and 2027, however, current funding mechanisms are not sustainable in the long term.

Housing Assistance Program Management. The City has established housing assistance programs using federal funding that are intended to assist homeowners or property owners with essential repairs and help first-time home buyers with affordability. Only one of these programs received applications in 2023. Community Services regularly evaluates eligibility requirements to expand program opportunities. Increased program marketing efforts informed by applicant demographics and effectiveness measures could enhance awareness.

Grant Compliance. The application process for housing assistance programs appears to be generally accessible and eligibility requirements are clear. Adequate documentation of grant fund expenses is maintained and reported to ensure the City is appropriately reimbursed; expanded use of the already procured application management software could improve efficiency. Procedures for the two programs that have not received many applications need to be enhanced.

Audit report translations may be requested by emailing InternalAudit@CityofDenton.com.

Detailed Findings & Analysis

In general, safe, stable, and affordable housing promotes the long-term well-being and quality of life of a community's residents and helps to reduce demand for emergency intervention services, decreasing costs long-term. Across the United States communities have been working to improve people's access to quality housing through various federally funded assistance programs for decades. Community housing initiatives are generally aimed at increasing housing affordability, improving living conditions, and preventing loss of housing due to economic issues.

While housing affordability has always been an issue in communities, economic factors exacerbated during the early years of the COVID-19 Pandemic have generally reduced housing affordability. For instance, rental costs have been steadily increasing, while families' incomes have remained stagnant since 2019 as reported by the Center on Budget and Policy Priorities in Image 1.
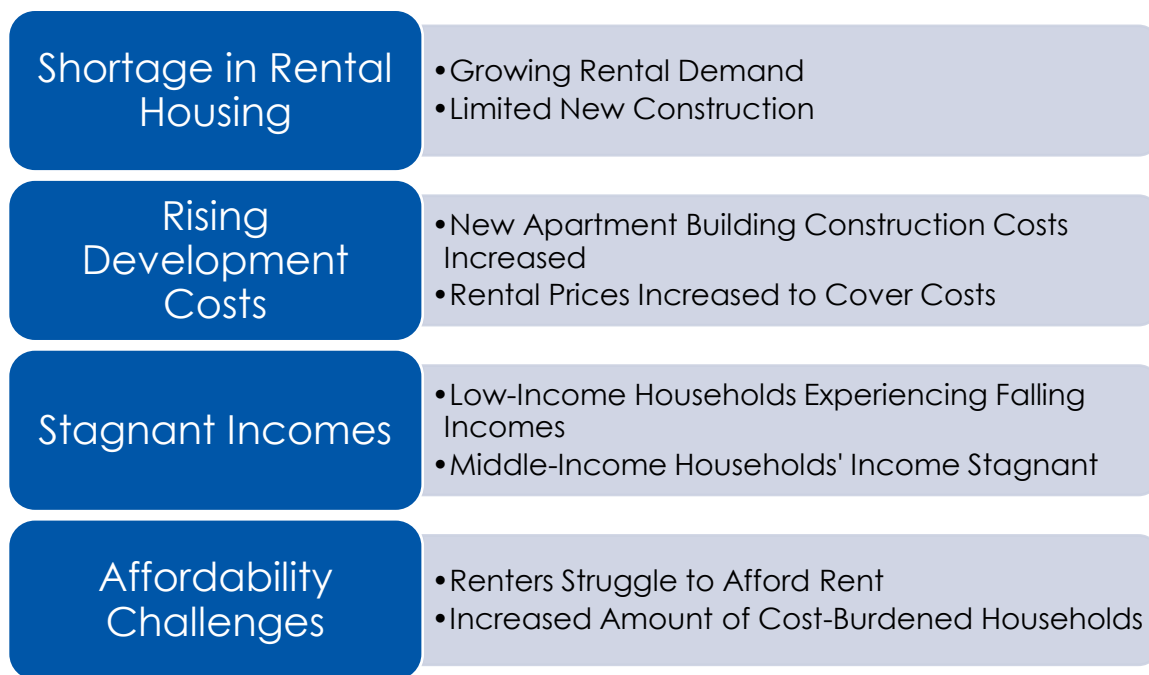
Image 1: CBPP Income & Rent Gap
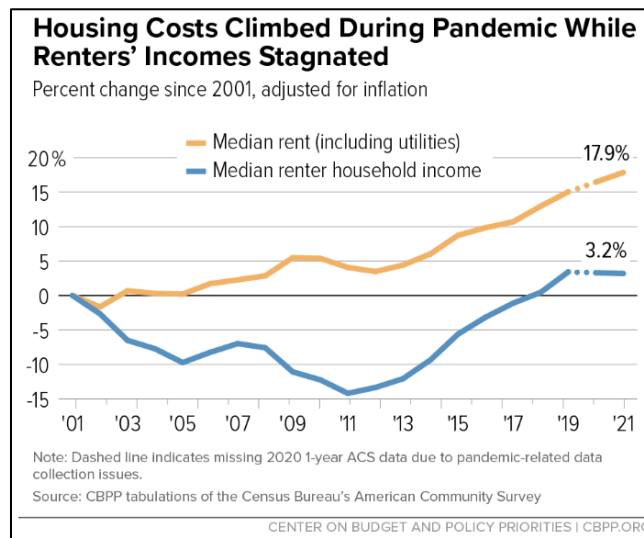
This audit generally evaluated the City of Denton's community housing initiatives, including efforts to increase housing affordability and housing assistance program management and grant compliance.

Affordable Housing Strategic Toolkit Established; Recent Funding Should Support Goal Completion

The National Multifamily Housing Council established The Housing Affordability Toolkit to describe the relationship between costs and rents and illustrate how state and local policies impact housing affordability, to support engagement with local housing stakeholders. According to the study, the combination of a shortage in rental housing, rising development costs, stagnant incomes, and economic disparities are driving the growing housing affordability crisis affecting U.S. cities as outlined in Figure 1.

Figure 1: National Housing Affordability Trends

Shortage in Rental Housing	• Growing Rental Demand • Limited New Construction
Rising Development Costs	• New Apartment Building Construction Costs Increased • Rental Prices Increased to Cover Costs
Stagnant Incomes	• Low-Income Households Experiencing Falling Incomes • Middle-Income Households' Income Stagnant
Affordability Challenges	• Renters Struggle to Afford Rent • Increased Amount of Cost-Burdened Households

To assist with mitigating these housing barriers, State and local governments have the policy and regulatory authority to improve housing affordability in their communities. Best practices suggest the most effective policies are designed to address individual local market conditions, which can be addressed by developing a local Housing Affordability Policy Toolkit.

What We Found

- The City of Denton adopted its Affordable Housing Strategic Toolkit in February 2022, which addresses the residential market demands and housing needs for the City.
  - o The Toolkit outlines five strategies with accompanying activities that should help foster the development of various housing options for

Denton households over the next decade including: (1) infill development, (2) zoning relief and variances, (3) increase capacity and resources, (4) preservation of affordability, and (5) increase access to information to account for national housing affordability trends as summarized in Figure 2.

Figure 2: Comparison of Denton Housing Strategies to Affordability Trends

Affordability Issue	Denton Housing Strategy
Rental Housing Shortage	(1) Infill Development
Rising Development Costs	(2) Zoning Relief & Variances (3) Increase Capacity & Resources (5) Increase Access to Information
Income Stagnation	None
Affordability Challenges	(4) Preservation of Affordability

- o The first three years of Toolkit implementation involve initiating action items, with full implementation anticipated within ten years.

- Community Services has established an effective process to track and report on Affordable Housing Strategic Toolkit progress and developed a plan to begin measuring the efficiency of goal outcomes, although this has not yet been formally implemented.

    - o As part of the ongoing toolkit tasks, $200,000 in one-time American Rescue Plan Capacity Building Grants have been awarded to housing nonprofits working on affordable housing projects, with future proposals to award additional grants specific to affordable housing developers. The Landlord Rental Maintenance Grant has been established to provide funding to landlords to rehabilitate properties into affordable rental units though no funds have been awarded to date.[1] Further, Community Services has developed an interactive tool for City use to identify vacant sites that may be available for repurposing. Additionally, Community Services coordinated with seven City departments and conducted two work sessions with the Planning and Zoning Commission to provide staff training on implementing new zoning relief programs.

    - o Community Services has also been in the process of creating a public engagement plan to enhance awareness of the City's affordable housing goals, creating developer incentives in exchange for residential development affordability, amending the Denton Development Code to allow small home communities in coordination

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[1] According to staff, Community Services has received applications for this program; however, eligibility requirements potentially hindered grant awards. Community Services has since made adjustments to program requirements to make the program more accessible.

with the Planning Department, and evaluating options to acquire vacant lots and underutilized buildings for affordable housing development.

o   Major tasks scheduled for introduction over five years include creating an affordable housing overlay district, establishing a low-income homeownership program in coordination with Denton Housing Authority, and developing a landlord and tenant eviction prevention program and education campaign. Additionally, the City has plans to develop a homeownership program and down payment assistance program for City employees as part of these initiatives; however, these tasks are dependent on funding and continuous development of community partnerships to allow for low- to moderate-income homeownership.

o   The City has established a Dashboard to publicly track the status of Affordable Housing Strategic Toolkit efforts. Additionally, the City established a Discuss Denton webpage to allow members of the public to review, remain updated, and provide feedback on affordable housing efforts on the community discussion boards.

o   Affordable housing toolkit best practices recommend establishing measurement tools to track and monitor the efficiency of goal outcomes to ensure a system of continuous quality improvement and allow organizations to evaluate and enhance efforts as needed. Outcome measurement tools can include periodically collecting community data and resident feedback through assessments and surveys and using this information to prioritize resident goals and inform internal decision-making.

- Funding has been budgeted towards toolkit strategies and tasks; diversification of funding sources will allow for increased sustainability.

o   Community Services is allocated to receive $5 million from the 2023 Bond Program Fund for fiscal year 2025 to assist with affordable housing initiatives, with an additional $5 million anticipated to be received annually for Fiscal Years 2026 and 2027.

Why It Matters

The City has expanded its commitment to affordable housing by adopting the Affordable Housing Strategic Toolkit, building on Community Services' previous work to address housing needs through the Consolidated Plan. Efforts to effectively work to develop and implement the targeted activities within the Toolkit have been slowed due to the lack of funding. While recent voter-approved 2023 bond funding allocations should alleviate this immediate issue,

bond funding is not a sustainable mechanism as it relies on voter approval and additional debt issuance. With established mechanisms in place to track and report on toolkit goal outcomes through the City's public dashboard, resident goals are prioritized and inform internal decision-making, including allowing for adjustments to enhance efficiency.

Recommendations:

1. Continue coordinating with the City Manager's Office to identify additional, sustainable funding opportunities to continue implementing Affordable Housing Strategic Toolkit initiatives in the long term.

   Community Services Comments: *Agree.*

2. Establish a process to measure, track, and periodically report on Affordable Housing Strategic Toolkit goal outcomes. Outcome goals include increasing the production of actual housing units.

   Community Services Comments: *Agree. In 2023, Community Services, in collaboration with Strategic Services, launched the Affordable Housing Strategic Toolkit Public Dashboard to enhance transparency and tracking of affordable housing goals. Starting with Fiscal Year 2024-25, staff will also publish an annual report detailing key outcomes, including:*

   1. *Housing Unit Production: Tracking the number of units produced versus planned targets.*
   2. *AMI Targeting: Documenting unit production by Area Median Income (AMI) levels.*
   3. *Funding Impact (ROI): Analyzing the return on investment from funding allocations and their impact on unit production.*
   4. *Project Efficiency: Benchmarking project timelines and costs to optimize future projects.*
   5. *Program Evaluation: Gathering resident feedback to assess program effectiveness.*

   These measures will enable data-driven decisions to support strategic outcomes and program adjustments as projects are completed.

City Housing Programs Goals are Being Met; Expanded Outreach Efforts May Increase Community Access

The U.S. Department of Housing and Urban Development, or HUD, awards municipalities funding on a formula basis to develop viable urban communities by providing decent housing and a suitable living environment, for people with low- and moderate-incomes through its Community Development Block Grant,

or CDBG, program. Similarly, HUD annually awards formula-based grants to communities through the HOME Investments Partnership Program to support building, buying, and rehabilitating affordable housing for low-income households.

HUD awards grant funds on a multi-year basis and unexpended funds from the prior program year are incorporated into the next year's funding amount. HUD ensures programs are executed timely by measuring the rate of fund expenditure on an annual basis, requiring grantees to maintain a grant balance no greater than 1.5 times its remaining annual grant line of credit 60 days prior to the end of the program year.[2]

What We Found

- Using CDBG and HOME grants received from HUD, the City of Denton has established three City-managed housing assistance programs as described in Figure 3. These programs, including their eligibility requirements, are generally consistent with other Texas municipalities and align with HUD requirements.

Figure 3: Denton Housing Assistance Programs

Minor Repair Program
- Assist homeowners with essential repairs and accessibility modifications.

Rental Repair Program
- Assist property owners with essential repairs, structural accessibility modifications, and major system reparis.

Homebuyer Assistance Program
- Assist first-time home buyers with closing costs, down payments, and principle reduction.

- Each offered program is based on fund availability and applicant information to ensure eligibility per HUD requirements. All activities are reported to HUD with a summary of completed activities and

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[2] This calculation is also referred to as a drawdown ratio.

expenditures; performance goal progress and outcomes as established by the City's consolidated plan; and planned actions to continue addressing City goals.

  o The City of Denton's program requirements are consistent with the requirements other Texas cities based on a review of available information online.[3] Similar to these other cities, the City of Denton has program guidelines and applications available online to the public. Further, the City has established a pre-screening process for applicants to verify whether their property address is within City limits, prior to completing an application and being denied due to location ineligibility.

- Based on a survey of awarded and denied program applicants, respondents generally indicated the Minor Repair Program was effective when assistance was provided.[4]

  o Specifically, over 90 percent of awarded applicants responded that the Minor Repair Program assisted with their immediate housing needs, and over 93 percent of awarded applicants, and all denied respondents stated they would apply for the program in the future or recommend it to others.

- During calendar year 2023, the rental repair program and homebuyer assistance programs did not receive any eligible applications, although inquiries were made by potential applicants regarding program eligibility and requirements according to staff. Community Services has taken steps to update eligibility requirements to expand assistance opportunities based on received inquiries.

  o According to Community Services, the Rental Repair Program guidelines and funding were approved by City Council in February 2023, marketing began in May 2023, and a webinar targeted to lenders, realtors and property owners was held May 2023. Additionally, Community Services holds public informational events, and has developed on-demand informational materials for prospective realtors and lenders that are available on the City's website. Property eligibility requirements in place requiring the property be recently purchased appeared to prevent interested parties from participating. This requirement was removed during 2024 and three applications were received as a result according to staff.

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[3] These Texas cities include: Carrolton, Dallas, San Antonio, College Station, and Austin.
[4] Internal Audit administered an optional anonymous feedback survey to awarded and denied applicants of the Minor Repair Program available via email and over-the-phone as part of this review.

- o Further, according to Community Services, there has been a lack of affordable housing units in good condition for sale in the City of Denton. The City performed a market study in 2023 to determine a more accurate value using more recent sales price data to assist in the lack of applicants. The study determined a maximum allowable sales price per HUD regulations of $375,250; however, according to staff, the number of homes in good condition under the maximum is limited as the City's median sales price is about $450,000.

- As of the end of program year 2023, the City surpassed its three-year goal for federally funded affordable housing assistance. Almost 70 percent of assistance occurred through the three City-managed assistance programs.
    - o The City's Affordable Housing goals as established in the 2020-2022 Consolidated Plan included assisting 123 households over three years through affordable housing assistance programs. After program year 2022/23, Community Services reported assisting 176 households as shown in Table 1.

Table 1: Affordable Housing Household Assistance[5]

Program	PY 2020/21	PY 2021/22	PY 2022/23
City Managed			
Minor Repair Program	29	39	43
Rental Repair Program	NA	NA	
Homebuyer Assistance Program	3	1	
Home Improvement Program[6]	2	7	2
City Funded			
Denton County Habitat for Humanity	1		
Denton Affordable Housing Corp.	8		11
Fairoaks Inc. Rental Housing Project	30	NA	NA
Total Households Assisted:	**73**	**47**	**56**

- On average, the City spent about 60 percent of awarded funds on Consolidated Plan priorities over the past two program years, of which approximately 32 percent of CDBG and 93 percent of HOME funds were expended on affordable housing initiatives as summarized in Table 2.[7]

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[5] The audit scope of reviewed affordable housing program applications was January 1, 2022 – December 31, 2023, and included the housing assistance programs outlined in Figure 3.
[6]According to Community Services staff, the Home Improvement Program required large amounts of funding for a minimal quantity of projects and determined funding could be utilized more effectively for other programs. This program concluded as of fiscal year 2024.
[7] Other priorities include projects such as a Temporary Shelter Hotel Voucher Program, City's Kids Summer Camp, and park facility improvements.

**Table 2**: HUD Funding & Expenditure Summary[8]

Priority	PY 2021/22		PY 2022/23	
	CBDG	**HOME**	**CBDG**	**HOME**
Total Awarded:	**$2,227,259**	**$1,430,905**	**$1,851,719**	**$1,247,938**
Affordable Housing	$357,790	$803,334	$492,062	$561,492
Homeless Assistance & Prevention	$62,856	-	$49,920	-
Public Service	$89,999	-	$88,859	-
Public Facilities & Infrastructure Imp.	$586,009	-	$548,795	-
Planning & Administration	$207,223	$62,247	$185,902	$43,092
Total Expended:	**$1,303,877**	**$865,581**	**$1,365,538**	**$604,584**

- o The City complied with HUD grant fund timeliness requirements by maintaining a drawdown ratio of 1.39 for program year 2021/22 and 1.23 for program year 2022/23.

- Marketing efforts to promote community housing initiatives are in place, but no formal process currently exists to measure the effectiveness of these efforts.

  - o Community Services has an email mailing list available on their main grant webpage for individuals to sign up to be notified of available funding opportunities; public hearing and comment periods; and other important updates related to community needs and initiatives. Also, Community Services sends email communication to realtors and lenders about Homebuyer Assistance Program and Rental Repair Program updates.

  - o Housing program information is also shared in other ways: brochures handed out by Code Enforcement Officers to interested households; materials shared with local housing non-profit agencies such as Habitat for Humanity, Hearts for Homes, etc.; and advertisements on the Denton TV station. Further, Marketing and Communications assists with developing social media posts about current and upcoming community housing initiatives.

  - o Program satisfaction surveys provided to applicants do not request information on how they became aware of the program in which they participated. Gathering this information could help Community Services further focus marketing efforts.

  - o Based on Audit's survey of awarded and denied applicants, most heard about the program from a friend or family member or an external community organization, making it difficult to pinpoint the initial source of awareness.

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[8] Awarded amounts include unexpended funds from the previous program year(s).

- Demographic information on housing assistance program recipients is collected but is not clearly used to inform assistance marketing efforts.
    - o Area Median Income, or AMI, limits are established by HUD annually based on family size and are available online. Based on the City's year-end beneficiary reports for program years 2022 and 2023, households with low and very-low incomes have received program assistance at slightly higher rates than expected as shown in Figure 4.

Figure 4: Income Demographics of Individuals Assisted

■ PY 21/22 Applicants   ■ PY 22/23 Applicants   ▨ Households Under AMI
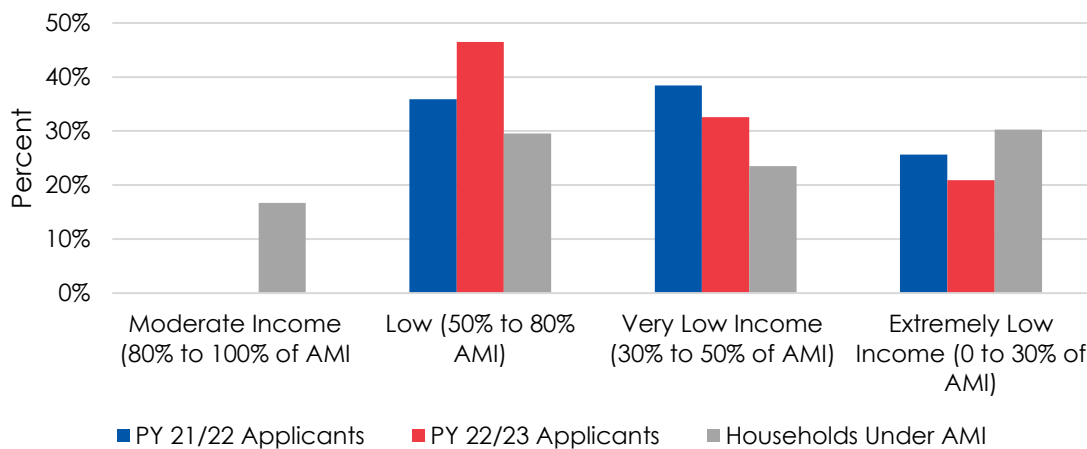
- o Applicants report demographic information as part of the application process where they disclose their age, race, ethnicity, and household income.[9] Based on the City's year-end beneficiary reports for program years 2022 and 2023, Black households appear to receive assistance more frequently than expected when compared to the percentage of all households under the AMI that are Black as shown in Figure 5.

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[9] The paper application previously considered race and ethnicity as an optional disclosure; however, Community Services has updated this information as a requirement and no applicant refused to disclose this information in the past.

Figure 5: Program Recipient Race & Ethnicity Benchmark Comparison
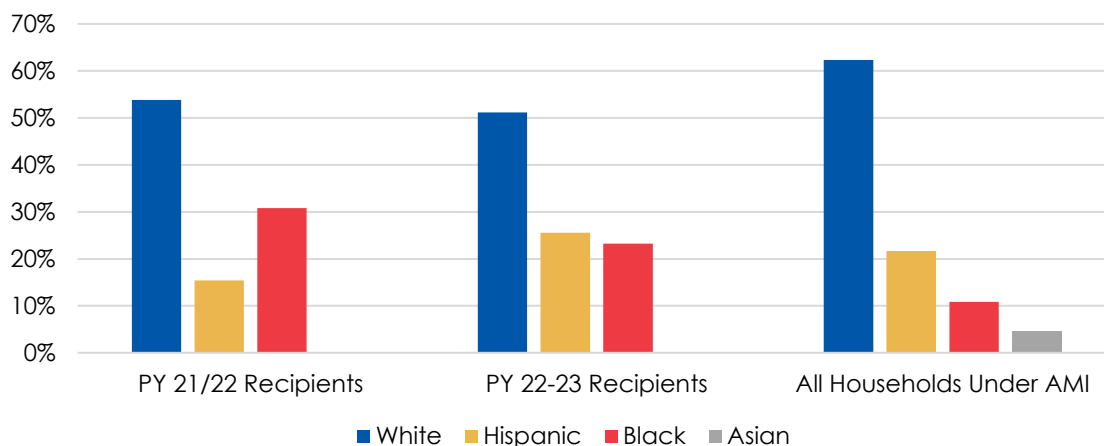
o   The Consolidated Plan identifies racial or ethnic groups that appear to be facing increased need by comparing the percentage of each group experiencing severe housing problems to the whole income level.[10] Table 3 summarizes this analysis from the City's 2023-2027 Consolidated Plan for Housing and Community Development. While severe housing issue rates alone do not necessarily explain the differences between benchmark and actual recipient demographics, the data suggests specific opportunities for more targeted outreach. For example, although Asian households with very low income appear to have greater need, they are underrepresented among assistance recipients, potentially indicating a need for more focused engagement strategies to reach underrepresented communities.

Table 3: Severe Housing Problem Analysis by Race & Ethnicity and Income Level[11]

Income Level	2023 Consolidated Plan				
	White	Hispanic	Black	Asian	All
Extremely Low	81%	81%	83%	57%	79%
Very Low	42%	28%	39%	49%	38%
Low	11%	16%	3%	14%	11%
Moderate	4%	9%	0%	0%	5%
All Incomes:	35%	38%	43%	45%	37%

[10] Severe housing issues include: (1) lacks complete kitchen facilities, (2) lacks complete plumbing facilities, (3) more than 1.5 person per room, and (4) cost burden over 50 percent.
[11] The race and ethnic groups highlighted appear to experience housing problems significantly more frequently than other groups at that income level. Per the Consolidated Plan, if at least 10 percent more of a group's households experience housing problems than the income level average it is considered a significant difference.

Why It Matters

The City's Consolidated Plan was developed by analyzing housing and community data to identify priorities, strategies, and actions necessary for the City to address housing and community needs, including establishing assistance goals. Monitoring and periodically reporting on the progress of these goals helps identify areas where programs need to be adjusted, enhance transparency in City operations, and assist with assuring the community that the City is focused on addressing affordable housing priorities. Similarly, achieving household assistance goals adds value to City programs and furthers public assurance efforts.

The City has established assistance programs that align with Federal regulations and industry standards. The City requires a pre-screening questionnaire for interested applicants that provides an initial location verification to determine eligibility before requiring the completion of an application Monitoring and reporting on grant fund expenditures allows the City to ensure compliance with grant requirements and track spending towards Consolidated Plan priorities. Further, adequate fund management allows the City to identify opportunities to expend awarded multi-year funding towards additional affordable housing goals.

Customer feedback surveys allow applicants to comment on all aspects of their application and repair process, even if denied. This feedback could then be used to identify potential issues throughout the process and make improvements as needed. Specifically, inquiring where applicants heard about a housing program may allow the department to track key marketing efforts and adjust focus and resources toward more effective methods. Similarly, regular analysis of recipient demographic information may help the City develop outreach plans for communities with greater needs that may not be participating at expected rates.

Recommendation:

3. Consider establishing a more detailed customer feedback survey process for awarded and denied applicants and incorporate recipient demographic data to help inform targeted outreach programs. Include an inquiry to identify where the applicant heard about the program and use this information to focus outreach activities.

    Community Services Comments: *Agree. Staff currently collects and evaluates demographic data for all program participants, allowing for insight into customer demographics and service reach. To enhance outreach effectiveness, staff will add a question to the application process asking*

applicants how they learned about the program. This information will be used to refine and target future outreach efforts.

Grant Funds Are Managed Appropriately; Enhanced Procedures Would Ensure Application & Documentation Consistency

To fund these housing assistance programs, the City must submit quarterly draw requests to HUD detailing grant expenditures, justification, and all applicable supporting documentation to receive reimbursement for grant expenses. To receive these reimbursements, the City must be able to prove it complied with grant requirements—most notably participant eligibility. To be eligible for assistance, program applicants must meet all requirements, such as household income and location limitations, property ownership requirements, and assistance-type qualifications.[12] To ensure these requirements are met, HUD requires applicants to submit certain documentation such as a photo ID, social security card, paycheck stubs, and bank statements to support reported income amounts.

Grant management best practices suggest organizations document grant policies and procedures to maintain proper internal controls of grant funds. Specifically, best practices suggest procedures detail the processes for:

➢ Administering grant awards;
➢ Disbursing grant funds;
➢ Processing grant drawdowns; and
➢ Reconciling internal records with grant reporting.

All expenses submitted for reimbursement must be appropriately supported to ensure they align with grant requirements. Further, automating the process with a grant management system can assist with standardizing the grant administration workflow, increasing organization and efficiency, and decreasing the risks of data security and loss.

In addition, the City is required to submit a Consolidated Annual Performance & Evaluation Report at the end of each program year. This report provides HUD with information:

➢ Assess Denton's ability to carry out the CDBG and HOME grants in compliance with all applicable rules and regulations;
➢ Compile its Annual Report to Congress; and

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[12] Housing income limits are established by the U.S. Department of Housing and Urban Development (HUD).

➢ Describe how the City is meeting its three-year Consolidated Plan strategies that is also available to residents.

What We Found

- The City's Community Services Department is responsible for managing and awarding housing program assistance. The Department has generally established an accessible and effective process to evaluate Minor Repair Program applications. Other programs' effectiveness could not be evaluated without submitted applications. Expanding the use of the purchased housing grant management software system to include additional programs could improve efficiency.

    o All program-specific requirements are publicly available on Community Services' webpages, and applications can be submitted physically to the department or online in English, Spanish, or French.[13]

    o Community Services has established guidelines describing eligibility requirements and available funding options for the Minor Repair Program, Rental Repair Program, and Homebuyer Assistance Program in English and Spanish. Detailed procedures have also been established to ensure awarded Minor Repair Program funds are adequately tracked and monitored; however, similar procedures have not been implemented for the Rental Repair and Homebuyer Assistance Programs, since few applications for these programs have been received.

    o Based on a review of the sample of 40 awarded Minor Repair Program applications and 10 denied applications, all appeared complete, including necessary homeowner identification, income, and asset documentation, to prove program eligibility. All denials appeared to be justified based on the homeowner's provided information except one. Records show the assistance was denied due to the home being in a floodplain, but there was no supporting documentation showing employee review and justification.

    o In 2019, the City obtained a software system to manage the administration and disbursement of grant funds for housing programs; however, not all reviewed supporting documentation was available within the Department's application software and, instead, had to be provided via email after the review was complete. According to staff, Community Services has established an internal database to track the status of each application in coordination with the software system.

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[13] The City's grant management software allows users to select their preferred language on the registration and sign-in pages.

They are currently in the process of transitioning all application and project documents to the 2019 software system.

- Based on a survey of awarded and denied program applicants, the Minor Repair Program application process appeared to be generally clear and accessible.

  o Specifically, almost 97 percent of awarded applicants, and 75 percent of denied applicants responded the application process was easy to understand and the City was clear on documentation and information requirements. Awarded applicant survey responses are summarized in Figure 6.

Figure 6: Awarded Program Applicant Survey Responses
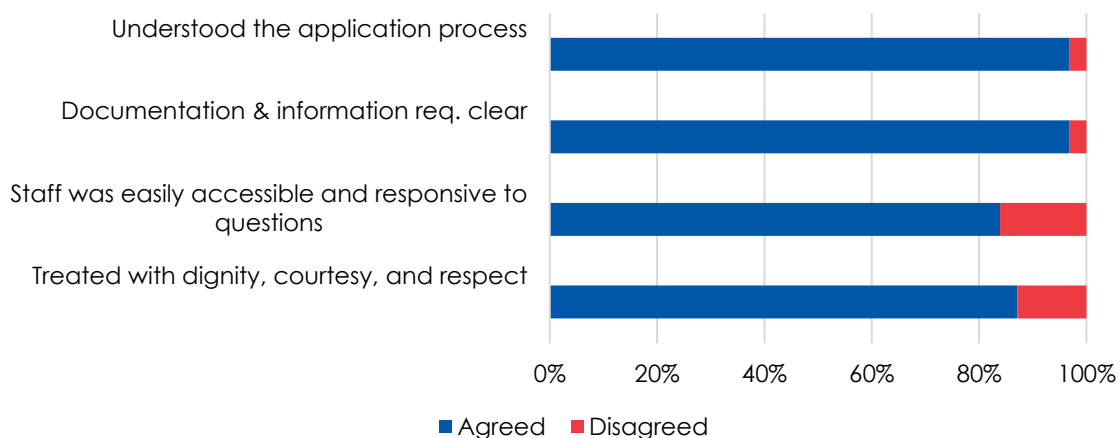
  o Further, 75 percent of denied applicants indicated the City communicated the reason for denial.

- Minor Repair Program vendors appear to be awarded contracts appropriately and only paid for actual work performed.

  o For approved Minor Repair Program applications, Community Services obtains bids for the repair work, select a vendor, and oversees completion of the repair. These processes are adequately documented in a standard operating procedure.

  o Based on a review of the sample of 40 awarded Minor Repair Program applications, all repairs had documented evidence showing the repair bids were prepared through the City's requisition request process, detailing the bid request email and vendors contacted, whether they were a historically underutilized business, actual quotes received, and justification for the vendor selection to be awarded the bid.

- o In addition, all awarded repairs had documented evidence showing the awarded contractor's bid, actual receipts to request payment, and review and approval from the Residential Construction Specialist, Community Development Specialist, and Community Development Manager. Before and after pictures of the repair were included for 37 of the 40 repairs.

- o Community Services requires homeowners who received housing program assistance to complete an Owner Satisfaction Statement inquiring whether the work was completed to their satisfaction, if they authorize the City to pay the vendor's invoice, and if they have any recommendations for improving the program. Based on review, all received Owner Satisfaction Statements indicated the homeowners were satisfied with the repairs and authorized payment to the vendor ensuring all work was completed.

- All requests for expenditure reimbursements appeared to comply with grant requirements and only included costs for labor, materials, supplies, and related expenses for repair or replacement of properties.

  - o Based on a review of the 24 grant drawdown requests for the period October 2021 through September 2023 all grant draw request reports included Summary of Expenditures records, and were appropriately reviewed, approved, and signed by the Community Development Manager, Director of Community Services, and Senior Grants Accountant prior to being sent to HUD for reimbursement.[14]

  - o Community Services has established internal procedures to document the steps for processing grant draw requests, however, these procedures only record the steps to pull the draw balances and not how to review the data to ensure expense accuracy and applicability.

- Two Consolidated Annual Performance & Evaluation Reports were submitted by the City during the period of review as required.[15] Based on review of both reports, each properly detailed the funding summary for each program year, including funded priorities and activities, expenditures, summary of persons assisted, monitoring programs, and actions taken to address specific community goals.

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[14] Grant drawdown requests are prepared in accordance with grant program years, beginning October 1st and ending September 30th.

[15] During the scope of the audit, the City submitted two CAPERs for performance years 2022 and 2023 (October 2021 – September 2023). October 2023 through December 2023 will be included in the performance year 2024 CAPER (Oct. 2023 – Sept. 2024) so these three months were excluded.

Why It Matters

While all needed supporting documentation was ultimately found, proper retention of applicant information and application documentation is important to support the City's efforts for awarded grants and housing programs to ensure all grant funds are awarded per requirements. Over time, the use of the vendor software system has improved the process by securely centralizing information storage and streamlining the eligibility review and approval process; however, ongoing improvement remains vital to fully optimize the benefits.

Updating current guidelines to include standard operating procedures that specify how to manage, process, and review program applications would help ensure that all Rental Repair and Homebuyer Assistance program applications are reviewed and awarded fairly per program requirements and contain the necessary documentation to support eligibility determination and completed work. Similarly, enhancing current standard operating procedures to specify the process to review and approve draw requests would help ensure all grant expenditures are appropriate and contain necessary supporting documentation. This formal guidance would provide Community Services staff with institutional knowledge, facilitate consistency, and help navigate emergency situations.

Further, although Homebuyer Assistance Program funds are provided in the form of a forgivable loan, the amount of funds provided determines the length of the affordability period for the homebuyer. During this period, the City can recoup part of the loan if the homebuyer sells the property; however, due to the complexity of the loan funding process, an effective process should be documented to ensure loan amounts are tracked, amounts forgiven are calculated accurately annually, and regularly monitor assisted home purchases for re-sell during the affordability period for each awardee so loan payback can be requested as needed.

Recommendations:

4. Establish detailed procedures for monitoring Rental Repair Program assistance.

Community Services Comments: Agree. Staff has a process to track Home Buyer Assistance (HAP) and Rental Repair Program (RRP) loans to ensure compliance that includes annual monitoring of taxes and ownership changes documented in our Policy and Procedure Guidelines. Staff will create comprehensive procedures for monitoring program loans. These procedures will include clear guidelines for tracking loan balances, the process for loan forgiveness, and compliance measures to ensure accurate and consistent documentation.

5. Establish detailed procedures for monitoring Homebuyer Assistance Program loans. Procedures should include the process to forgive and obtain loan balances with adequate tracking.

   Community Services Comments: Agree. Staff has a process to track Home Buyer Assistance (HAP) and Rental Program (RRP) loans to ensure compliance that includes annual monitoring of taxes and ownership changes documented in our Policy and Procedure Guidelines. Staff will develop a comprehensive procedure for monitoring program loans. These procedures will include clear guidelines for tracking loan balances, the process for loan forgiveness, and compliance measures to ensure accurate and consistent documentation.

6. Develop a process to ensure all application and project support documentation is centrally retained in the application management software before closing each client's project application, including denials.

   Community Services Comments: Agree. Staff initiated this practice July 2024 and plan to develop a written procedure for departmental Policies and Procedures by the end of the calendar year.

7. Update the current procedures for completing drawdown requests to include reviewing and retaining support documentation.

   Community Services Comments: Agree. The department currently has a documented procedure for drawdown requests and will update it to include specific written guidelines for reviewing and retaining supportive documentation.

Audit Project Background

The City Auditor's Office is responsible for providing: (a) an independent appraisal[16] of City operations to ensure policies and procedures are in place and complied with, inclusive of purchasing and contracting; (b) information that is accurate and reliable; (c) assurance that assets are properly recorded and safeguarded; (d) assurance that risks are identified and minimized; and (e) assurance that resources are used economically and efficiently and that the City's objectives are being achieved.

Auditing Standards

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 findings and conclusions based on our audit objectives.

Management Responsibility

City management is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Objectives, Scope, and Methodology

The City Auditor's Office has completed a performance audit of the City's community housing initiatives. This report is intended to provide assurance that the City's community housing initiatives are managed efficiently, effectively, equitably, and in compliance with applicable regulations.

Audit fieldwork was conducted during December, January, February, March, April, May, June, August, and September 2024. The scope of the review varied depending on the procedure being performed. The following list summarizes major procedures performed during this time:

➢ Reviewed documentation to develop criteria including documented policies and procedures, industry standards, and best practices;

➢ Developed process narratives to identify current control activities in housing assistance program management and grant compliance

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[16] The City of Denton City Auditor's Office is considered structurally independent as defined by generally accepted government auditing standard 3.56.

processes including the client application process, application evaluation and determination process, client repair process, vendor solicitation and payment process, and grant monitoring process;

➢ Interviewed Community Services Department staff;

➢ Evaluated the status and progress made on the City's adopted Affordable Housing Strategic Toolkit strategies and goals;

➢ Compared the City's housing assistance program processes to grant requirements and best practices;

➢ Surveyed awarded and denied applicants of the Minor Repair Program to gain an understanding of the community's thoughts and opinions of the program and the application process;

➢ Reviewed a random sample of 50 Minor Repair Program applications and documentation to determine whether the client was awarded or denied assistance in accordance with program requirements, ensure repairs were properly completed, ensure vendor bids and contracts were managed appropriately, and verify vendors were only paid for actual work performed;[17]

➢ Reviewed 24 grant draw requests for the scope to verify whether requests for expenditure reimbursements complied with grant requirements, and were properly reviewed and approved by City staff; and

➢ Reviewed two Consolidated Annual Performance & Evaluation Reports for the scope to verify whether the City fulfilled grant reporting requirements.

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[17] This sample size provides with 95% confidence that the true population statistic is with ±10% of the sample size.

Appendix A: Management Response Summary

The following summarizes the recommendations issued throughout this report. The auditors found that staff and the Departments were receptive and willing to make improvements where needed. Management has provided their response to each recommendation.

1	*Continue coordinating with the City Manager's Office to identify additional, sustainable funding opportunities to continue implementing Affordable Housing Strategic Toolkit initiatives in the long term.*		**Agree**
Responsibility:	**Director**	Expected Completion:	**Ongoing**
2	*Establish a process to measure and track Affordable Housing Strategic Toolkit goal outcomes.*		**Agree**
Responsibility:	**Housing Programs Coordinator**	Expected Completion:	**FY25, 4th Quarter**
3	*Consider establishing a more detailed customer feedback survey process for awarded and denied applicants and incorporate recipient demographic data to help inform targeted outreach programs. Include an inquiry to identify where the applicant heard about the program and use this information to focus outreach activities.*		**Agree**
Responsibility:	**Deputy Director**	Expected Completion:	**FY25, 1st Quarter**
4	*Establish detailed procedures for monitoring Rental Repair Program assistance.*		**Agree**
Responsibility:	**Community Development Manager**	Expected Completion:	**FY25, 2nd Quarter**
5	*Establish detailed procedures for monitoring Homebuyer Assistance Program loans. Procedures should include the process to forgive and obtain loan balances with adequate tracking.*		**Agree**
Responsibility:	**Community Development Manager**	Expected Completion:	**FY25, 2nd Quarter**
6	*Develop a process to ensure all application and project support documentation is centrally retained in the application management software before closing each client's project application, including denials.*		**Agree**
Responsibility:	**Community Development Manager**	Expected Completion:	**FY25, 1st Quarter**

7	*Update the current procedures for completing drawdown requests to include reviewing and retaining support documentation.*	**Agree**
Responsibility:	**Community Development Manager**	Expected Completion:	**FY25, 1st Quarter**