



**DEPARTMENT OF HOUSING AND COMMUNITY
DEVELOPMENT**

BIENNIAL PERFORMANCE AUDIT REPORT

Fiscal Years Ended June 30, 2018 and 2017

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Honorable Joan M. Pratt, Comptroller
and Other Members
of the Board of Estimates
City of Baltimore, Maryland

Executive Summary

We conducted a Biennial Performance Audit of selected performance measures of the Department of Housing and Community Development (DHCD) for the fiscal years (FYs) ended June 30, 2018 and 2017. The objectives of our performance audit were to determine whether DHCD: (1) met its performance measure targets; (2) has adequately designed internal controls related to the selected performance measures; and (3) properly implemented corrective actions resulting from prior audit findings and recommendations included in DHCD's previous performance audit report, dated December 29, 2017.

According to the FY's 2017, 2018, 2019, 2020 Agency Detail Board of Estimates Recommendations (Budget Books) and data provided by DHCD, two of three selected performance measures, or 67 percent met their targets. However, our review indicated that the FY 2018 and FY 2017 performance measures were not accurately reported nor supported for Service 593 - Community Support Projects' percent of activities carried out by subrecipients and City of Baltimore (City) agencies that met contractual goals. This is because the DHCD:

- Used significant performance; in lieu of, contract minimums to determine subrecipient and agency performance outcomes.
- Current process for tracking subrecipients' activities involves multiple databases. These databases are not integrated which makes it difficult to produce accurate reports. The absence of an integrated database of all awards and contracted activities under the Service 593's control resulted in the exclusion of two activities.

Additionally, we observed the following control weaknesses related to the accuracy and reasonableness of the selected performance measures:

- Service 593 - Community Support Projects' percent of activities carried out by subrecipients and City agencies that met contractual goals: The DHCD does not have a verification process to ensure that all subrecipients and the corresponding contracted activities are identified, monitored, and reviewed by senior management.

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- Service 751- Building and Zoning Inspections and Permits' number of inspections: The DHCD did not periodically evaluate the reasonableness of the target that was set for the performance measure – “Number of Inspections.” As shown in Table III on page 7, the difference between target and actual for FY 2018 and FY 2017 is 30 percent and 25 percent, respectively.

Of 13 recommendations that were followed up during this Biennial Performance Audit, four recommendations are no longer performance measures. Of the remaining nine recommendations, eight recommendations or 89 percent were implemented; and one recommendation or 11 percent was not implemented. The Service 749 has not met with the Bureau of Budget Management and Research (BBMR) to revise the metric to meet deliverables under its direct control.

To improve the accuracy and reasonableness of the performance measures, the Commissioner of DHCD should implement the recommendations included in this report.

We wish to acknowledge DHCD cooperation extended to us during our audit.

Respectfully,



Josh Pasch, CPA
City Auditor
Baltimore, Maryland
November 7, 2019

Background Information

I. Selected Performance Measures

We judgmentally selected three DHCD performance measures, which are summarized as follows.

Table I

Summary of Selected Performance Measures' Targets and Actuals as Reported in the Budget Books for Fiscal Years 2018 and 2017

Service	Performance Measure	2018		2017	
		Target	Actual	Target	Actual
593 ¹	Percent of activities carried out by subrecipients and City agencies that met contractual goals	97	98	97	97
751 ²	Number of inspections	72,000	89,689	72,000	93,474
	Number of inspections per inspector per day	16	15	16	15

Note: ¹ Community Support Projects is responsible for the service 593.
² Enterprise Building and Zoning Inspections is responsible for the service 751.

Source: FY 2017, 2018, 2019, 2020 Budget Books

II. Department of Housing and Community Development

The DHCD is responsible for increasing the availability of new housing for low and moderate income families; increasing homeownership opportunities for City residents; providing financing to rehabilitate older housing stock; preserving the historic integrity of older neighborhoods and buildings; recycling land and buildings to maximize community stability; assisting the indigent with housing and emergency services; proposing and expediting the funding of community projects; ensuring the safety and structural integrity of all buildings; and enforcing the City's housing code.

III. Services

The following services are responsible for the performance measures discussed above.

- **Community Support Projects (Service 593):** This service provides administrative and service-delivery assistance grants to approximately 61 nonprofit organizations per year. This Community Development Block Grant funding underwrites activities such as youth and senior programs, health services, literacy programs, home ownership counseling, child day care service and project delivery costs related to rehabilitation.

- **Building and Zoning Inspections and Permits (Service 751):** This service provides monitoring of construction activity to ensure the safety and integrity of new construction and alterations by reviewing permit applications and construction drawings for building, electrical, mechanical, zoning and other related codes. Subsequent inspections are made to ensure compliance.

Objectives, Scope, and Methodology

We conducted our performance audit in accordance with *Generally Accepted Government Auditing Standards*, except for peer review requirements. 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.

The objectives of our performance audit were to:

- Determine whether DHCD: (1) met its performance measure targets; and (2) has adequately designed internal controls related to the selected performance measures.
- Follow-up on prior findings and recommendations included in DHCD's previous performance audit report, dated December 29, 2017.

The scope of our audit includes three performance measures (see Background Information) reported for the periods of FY 2018 and 2017.

To accomplish our objectives, we interviewed key individuals to obtain an understanding of internal controls over input, processing, output, and monitoring of selected performance measures. We reconciled performance activity where practicable to determine the population of transactions. We judgmentally selected samples and tested detail records to determine the accuracy and completeness of the data used to compile subrecipient and / or agency performance results. Additionally, we re-performed the metric calculations to determine accuracy.

Management responses are included in Appendix I.

SECTION I Findings and Recommendations

Finding #1: A process to ensure the accuracy and completeness of all subrecipient awards, contracted activities and the corresponding metric calculations is missing for the Service 593.

The DHCD current process for tracking subrecipients' activities involves multiple databases. These databases are not integrated which makes it difficult to produce accurate reports. Also, DHCD does not have a verification process to ensure that all subrecipients and the corresponding contracted activities are identified, monitored, and reviewed by senior management. As a result, as shown in Table II below, agency performance measures were not accurately reported nor supported. Specifically,

- Although DHCD indicated target goals were achieved for seven FY 2018 and six FY 2017 contracted activities, the subrecipients' activities did not meet contract minimums. The DHCD used significant performance; in lieu of, contract minimums to determine goal achievement.
- The absence of an integrated database of all awards and contracted activities under the Service 593's control resulted in the exclusion of two activities from the management review process.

Table II

Analysis of Contracted Activities and Performance Metric Calculation

FY	Metric Calculation	(a) Contracted Activities	(b) Goal Not Achieved	(c) Achieved Goals	(c) / (a) DHCD Metric Target (Percent)
2018	DHCD	112	3	109	97
	Department of Audits	114	10	104	91
2017	DHCD	110	2	108	98
	Department of Audits	112	8	104	93

Source: FY 2017, 2018, 2019, 2020 Budget Books; FY 2018 and FY 2017 Annual Action Plan-Final; 2018 and 2017 Caper Beneficiary Data by Entity and Activity Type; Department of Audits

Subrecipient agreements specify minimum performance measurements to be used to determine goal achievement.

The *Guide to Performance Measure Management* 2012 Edition Report No. 12-333 states that a good performance measurement system should provide information that is meaningful and useful to decision-makers. A good system and good performance measures play an integral part in an agency's daily operations and are well supported by executive management. An effective measurement system should provide accurate, consistent information over time.

Recommendation #1:

We recommend the Commissioner of DHCD:

- Use performance minimums as specified by contract to determine subrecipient performance and Service 593’s performance.
- Establish a database that tracks all awards and contracted activities under the Service 593’s control.
- Acquire the population of contract activities from the database and reconcile it to the contract files to ensure completeness and senior management review.

Finding # 2: The target for a selected performance measure for the Service 751 is not reasonable.

The DHCD did not periodically evaluate the reasonableness of the target that was set for the Service 751 performance measure – “Number of Inspections.” As shown in Table III below, the difference between target and actual are significantly varied. As a result, there is a risk that performance measure targets may be artificially low to increase the probability of achieving them.

Table III

Analysis of Construction Inspections

	FY 2018		FY 2017	
	Target	Actual	Target	Actual
Number of Inspections	72,000	93,474	72,000	89,689
Difference between Target and Actual – Amount		21,474		17,689
Difference between Target and Actual – Percentage		30		25
Number of Inspections per Inspector ¹	16	15	16	15

Note: ¹ The target for FY 2018 was reduced to 15 in the FY 2019 Budget Book and the target for FY 2017 was reduced to 15 in the FY 2020 Budget Book. In the FY2020 Budget Book, a note indicating the more realistic goal of 15 was included.

Source: FY 2017, 2018, 2019, 2020 Budget Books and the Department of Audits

According to the State of Maryland’s *Managing for Results Guidebook*,

- “If the variance between your performance measure and your performance target is small, your process is probably ok, but you should re-evaluate your goals and objectives to make them more challenging.”

- “If the variance is large, you may have a problem with a process and will need to develop and implement corrective action to bring performance in line with the performance target. To address problems with process, you can form a quality improvement team to do a root cause analysis. If you make changes in a process, you will need to re-evaluate your goals and objectives to make sure that they are still viable.”

Recommendation #2:

We recommend the Commissioner of DHCD periodically re-evaluate the reasonableness of target set for the Service 751 performance measure – “Number of Inspections.”

SECTION II Implementation Status of Prior Audit Findings and Recommendations

Table IV

Summary of Implementation Status of Audit Findings and Recommendations from the Performance Audit Report for Fiscal Years Ending 2016 and 2015 for Service 742- Promote Homeownership

No.	Finding	Recommendation	Management's Self-reported implementation status	Auditor's Assessment
1	The DHCD's Promote Homeownership Program's 2015 performance measure target changed in the FY 2017 Budget Book.	We recommend that performance measure targets that are revised include justification for such revisions as well as disclosures that such revisions were coordinated along with the BBMR.	Implemented - Any changes made to a performance measure target are coordinated and documented with BBMR. To date, there have not been any changes made to performance measure targets.	Implemented
2	DHCD's FYs 2016 and 2015 databases to support the reported actual number of vacant unsafe structures made habitable or razed did not agree to amounts reported in the budget book, included duplicate addresses and structures without addresses.	We recommend DHCD develop procedures to monitor the database to ensure that it is accurate and consistent with what is reported in the budget book.	Implemented - A new online database was implemented which makes monitoring and reviewing cases, and maintaining file information much more efficient and effective.	Implemented
3	The FY 2016 and 2015 databases of actual Homeowners assisted included 45 Homeowners that were not actually assisted in the FYs in which they were reported.	We recommend DHCD review and monitor the databases of homeowners assisted to ensure that the number of homeowners assisted is accurately recorded in the proper FY.	Implemented - A new database makes it easier to determine when the incentive was provided based on when the funds were released, not when the application was approved.	Implemented

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No.	Finding	Recommendation	Management's Self-reported implementation status	Auditor's Assessment
4	The FY 2015 database of actual homeowners assisted included ten homeowners without settlement dates.	We recommend DHCD review and monitor its database of homeowners assisted to ensure that all information to be included is complete and consistent with the actual reported number of homeowners assisted.	Implemented - A new online database has been in use which makes monitoring and reviewing cases, and maintaining file information much more efficient and effective. By the end of FY 2020, the majority of Homeownership files will be 100 percent electronic.	Implemented
5	The original FY 2016 and 2015 databases to support the reported actual number of homeowners assisted for the Baltimore City Employees Program was not consistent with the homeowner files examined. The corrected database and testing resulted in determining that: (1) homeowner reported as assisted in FY 2016 was actually assisted in FY 2015 and; (2) homeowners reported as assisted in FY 2015 were actually assisted in FY 2014.	We recommend DHCD develop procedures to ensure the databases that support performance measures are accurate and remain consistent with its reported performance measures.	Implemented - We have reviewed processes for how to count incentives that are opened and closed within the last three weeks of a FY, and those are tracked in the online database.	Implemented

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No.	Finding	Recommendation	Management's Self-reported implementation status	Auditor's Assessment
6	16 of the 25 files tested (64 percent) for homeowners assisted in FY 2016, did not include Department of Housing and Urban Development-I settlement sheets.	We recommend DHCD develop procedures to ensure all documents required to support the number of homeowners assisted are properly maintained in its files and that a periodic review of the files be performed to ensure completeness and accuracy.	Implemented - The online database allows for electronic submission of documents by title companies, lenders, and buyers, and provides a check list function to ensure all documents have been uploaded.	Implemented
7	The DHCD did not provide a homeowner file to support its FY 2015 database of homeowners assisted.	We recommend DHCD implement procedures to ensure the database of homeowners assisted are supported by homeowner files. We also recommend DHCD perform periodic reviews of the database and homeowner files for uniformity.	Implemented - We have reviewed with staff the importance of maintaining files. Moving forward, all files will be electronic, and not able to be misplaced.	Implemented
8	The DHCD did not consistently maintain homeowner counseling certificates in the FY 2016 homeowner files.	We recommend DHCD develop procedures to ensure that all documents required to support the number of homeowners assisted be properly maintained in its files and that a periodic review of the files be performed to ensure completeness and accuracy.	Implemented - The online database allows for electronic submission of documents by title companies, lenders, and buyers, and provides a check list function to ensure all documents have been uploaded.	Implemented

Table V

Summary of Implementation Status of Audit Findings and Recommendations from the Performance Audit Report for Fiscal Years Ending 2016 and 2015 for Service 749- Blight Elimination

No.	Finding	Recommendation	Management's Self-reported implementation status	Auditor's Assessment
1	<p>Service 749 refined the measurement methodology across the years under audit to better reflect the portion of the process under its control; however, these changes make the actual performance reported inconsistent for comparison across years prior to FY 2013.</p> <p>The target performance measure has been consistently set at 90 percent since FY12, but FY14 is the only year the Service came close to meeting this target, and 19 percent of all settlements were excluded as outliers in that year.</p>	<p>We recommend DHCD develop procedures to monitor the database to ensure that it is accurate and consistent with what is reported in the budget book.</p>	<p>The department will work with BBMR to ensure the measure is accurately stated in the budget book. It should be noted that the adjusted metric of measuring milestones from Application Awarded to Board of Estimates submitted was implemented in 2014 and has not changed since.</p>	<p>Not Implemented</p> <p>The measurement has not been revised and the Service 749 continues to not meet targets.</p>

APPENDIX I

Management's Response

Date: November 6, 2019

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report Biennial Performance Audit Report on Department of Housing and Community Development

Our responses to the audit report findings and recommendations are as follows:

Recommendation # 1

We recommend the Commissioner of DHCD:

- Use performance minimums as specified by contract to determine subrecipient performance and Service 593's performance.
- Establish a database that tracks all awards and contracted activities under the Service 593's control.
- Acquire the population of contract activities from the database and reconcile it to the contract files to ensure completeness and senior management review.

Management Response/Corrective Action Plan

Agree Disagree

The DCHD CDBG Office (DHCD CO) is appreciative of observations made by the Department of Audits concerning the use and management of data and will use these observations to refine existing data bases and create a unified reporting process. However, it disagrees with intimations the DHCD CO does not have, or extensively use, data in carrying out its operations or that it does not track/gather the above referenced information. The DHCD CO uses both HUD based data systems – the Integrated Disbursement and Information and System and eCon Planning Suite - and several Excel based tracking systems. As the findings on activity count discrepancies make clear, application of these systems was not perfect; but nor were the amount of errors extensive and systemic. One specific change that will be made based on the findings is to de-aggregate the count of contractual/MOU activities from the data base that tracks beneficiary data by HUD activity category by recipient and make a separate data base for tabulating activity counts and associated goals.

There is a fundamental divergence between DHCD CO and the Department of Audits as to what standard is used to determine subrecipient and City agency performance as regards the recommendation that contractual minimums be the absolute basis of whether a goal can be counted as achieved. The data validation template for this metric sets a standard that contractual goals be “substantially met”, not that they meet contractual

minimums. The agreements, both contracts and MOUs, are not performance bid contracts but full faith effort contracts where subrecipients are expected to continue working for the entire contract period even if they have met their goal. The metric standard can of course be changed if it is determined that the contract minimum standard is required by City regulation. The DHCD CO would hold the non-profit organizations it contracts with to this standard and adjust its target for this metric accordingly.

DHCD CO would not adopt such a standard for other City agencies as it will not accept audit findings for entities over which it can exert only limited control as concerns goal setting and attainment, and hence would no longer fund them through the CDBG program. It should be noted that two City agencies – DPW Property Management Public Works and the Community Action Centers – that the DHCD CO categorized as having substantially met their targets were noted in the audit as having failed. The former, in CFY 2017, had a target of 40,000 Boarding and Cleanings of which it achieved 36,524; the latter had a target of providing 45,000 persons with public service assistance or referrals of which it achieved 43,121. In both cases the DHCD CO views these outcomes as reflecting full faith efforts that substantially met their contract obligations.

In order to resolve the issue of performance standard, the DHCD CO will work with BBMR to refine the metrics for Service # 593, how the definition of “substantially met” might be formalized and potential changes to contract language governing performance.

Implementation Date

As regards the creation of a data base dedicated to activity counts and associated goals, this will be completed and in operation before the end of CFY 2020. For some months DHCD CO has internally been discussing converting its Excel based databases into an Access, or similar, data base system and recently requested some outside advice concerning such an action. This effort, if undertaken, would not be fully implemented until the first half of calendar year 2021.

As concerns working with BBMR to examine metrics and performance standards, the process will be completed prior to the end of CFY 2020.

Responsible Personnel

Steve Janes, Deputy Commissioner, 410-396-4051

Recommendation #2

We recommend the Commissioner of DHCD periodically re-evaluate the reasonableness of target set for the Service 751 performance measure – “Number of Inspections.”

Management Response/Corrective Action Plan

Agree

Disagree

DHCD reevaluates Service # 751 targets on an annual basis and going forward will document and make more manifest the determinations involved in the process. We agree that there was a significant difference between target and actual inspections numbers for CFYs 2017 and 2018, but this is not because performance measure targets were set artificially low to increase the probability of achieving them. The number of inspections completed is based on the amount of permitted work being performed in the City and the number of inspections requested by customers. There are many external economic factors outside of DHCD's control that can affect the number of permits and in turn the number of inspections completed. The fiscal year 2014 -2016 actuals averaged out to 76,377. The goal of 72,000 inspections was set in 2017 and carried over into FY18 because we did not expect to have a significant increase in permit and inspections activity, nor did we expect it to continue at that level.

Implementation Date

The reevaluation process will take place annually every autumn as part of the OBB budget cycle.

Responsible Personnel

Jason Hessler, Deputy Commissioner, Permits & Litigation, 443-984-1806 Ext. 21589