

CPED Loan Lifecycle Management Audit

City of Minneapolis – Internal Audit Department
July 19, 2016



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Date: July 19, 2016

To: Mayor Betsy Hodges, City Council Members and Community Planning and Economic Development
Director Craig Taylor,

Re: CPED Loan Lifecycle Management Audit

Background

The Department of Community Planning and Economic Development (CPED), with support from the Finance and Property Services (FSP) Department, administer twelve current City programs that provide financing for housing and business development, funded by local, state and federal sources. Financing activities are organized into three CPED groups: multi-family housing in the Residential Finance group, single family housing in the Residential & Real Estate Development group and business development in the Business Development group. These groups are involved in the origination, approval, closing and disbursement of loans, and handle post-closing monitoring and reporting on loan portfolios. Development Finance staff within the FSP Department manage the transactions and portfolios for three current home improvement loan programs, and is generally involved in post-closing monitoring and reporting for the other CPED programs.

The structure for these development loan programs is complicated – four distinct groups cover fifteen different current programs under which loans are issued. The programs have distinct goals established when they were approved by Committee. A key risk to manage for these programs is the effective use of resources to achieve objectives. In reviewing how the CPED loan portfolio was managed, Internal Audit referenced common controls structures. Common control components include the internal environment; setting objectives; identifying, assessing, and responding to risks and opportunities; control activities; information & communication; and monitoring. These control components would be applied during planning, operations, and reporting on results.

To effectively manage and control CPED's development programs, it is important CPED management and the CD&RS committee has adequate information on the common control components. Adequate information is needed to oversee planning and setting of goals, to oversee and guide the achievement of those goals as the program operates, and to assess the results and effectiveness of the programs. Because development in Minneapolis is ongoing, assessing results and effectiveness of past programs feeds into evaluating how resources should be directed in future programs.

CPED loans are managed using the Management Information Network System (MINS), designed to be a database and workflow management tool for loans and other CPED activities. Different business lines use additional tools to manage their workflow and data relevant to their program loans. COMET, the City's financial accounting system, is used to disburse funds and receive payments.

Objective, Scope and Approach

This audit was conducted as part of the Internal Audit Department's Fiscal Year 2015 Annual Audit Plan, as presented to the Audit Committee.

Objective

The objective of this audit was to assess the effectiveness of how the department issues, manages, and terminates loans. The audit also evaluated how the department uses MINS to ensure that it adequately facilitates the process, meets the needs of the users, and appropriately safeguards data and records.

Scope

The audit scope included a review of:

- Reporting on the CPED loan portfolio and on CPED loan program results to management and the CD&RS Committee.
- Issuing of CPED loans, including authorization, documentation and accounting treatment.
- Management and monitoring of closed CPED loans, including monitoring of loan terms and collection of payments.
- CPED loan satisfaction, restructure and write-off processes and documentation.
- Software and tools used in the CPED loan processes.

Approach

Internal Audit conducted a review of the structure and organization of CPED loans, starting with a review of information posted on the City website and interviews with CPED management. Internal Audit interviewed CPED and FPS staff on the various programs that have loan components discussing program processes, results reporting, and systems and tools used.

Testing of loan portfolio management and reporting focused on:

- Reporting on the results of various programs based on the program goals established when they were created and approved.
- Reporting on typical loan portfolio metrics for different loan programs, such as total loans issued and outstanding, current and projected cash flows, and collectability issues.
- How reporting was conducted, to whom, and with what frequency.

Testing of loan issuing, monitoring, and satisfaction focused on:

- Reviewing documents supporting loan issuance, management, and satisfaction, and verifying that information was being correctly captured and documented.
- Comparing loan processes and organization across business lines, with attention to differences in processes that could be aligned to ease implementation of the CPED/IT MINS update project.
- Reviewing how information on loan issuance, program management and satisfaction is tracked and documented.

The review of software and tools use consisted of:

- Discussion with CPED and FPS staff on the tools, spreadsheets and other systems used for CPED loan related work.
- A review of the tools and spreadsheets identified in discussions.
- Documentation of the information on what tools are used to facilitate CPED processes, to share the collected information with CPED and IT for the MINS update project.

Audit Results and Recommendations

Finding 1: Loan Program Reporting

Reports on CPED's loan programs did not include complete information on key loan portfolio measures, and did not clearly lay out achievement of all program goals. These opportunities for improvement in reporting exist because reporting on programs is not requested, and the contents of reports are not clearly defined. The level of information presented impedes assessment of the implementation and effectiveness of each program.

Testing Results

Internal Audit reviewed information reported on program goals and results for two types of information. First, the review looked for reporting of key loan portfolio measures, including program balances, number and size of loans issued, number and size of loans outstanding, current and projected cash flows, and write-offs and restructures. Second, the review identified the goals established for the programs when they were approved, and reviewed reporting for information on how well the programs were accomplishing those goals.

Observations on key loan portfolio information coverage per program for 2014 and 2015 program results:

- Reporting provided information on funding balances for programs for the current period.
- Reporting provided information on quantity of loans issued, and dollar amount of loans issued for the current reporting period.
- Reporting rarely showed information on the total portfolio, such as total loans and dollars outstanding under a specific program.
- Reporting rarely showed information on portfolio cash flow, such as current and projected loan repayments.
- Reporting rarely showed information on changed loan terms, such as deferrals, write-offs, or restructures.

Observations on identified program goal accomplishment coverage per program from 2014 and 2015:

- Reporting on achievement of program goals varied significantly between programs. Reports generally did not present complete information based on program goals, other than for Great Streets.
 - Great Streets program goal achievements, including its loan components, are provided in multiple reports, including a Committee requested fund balance report, and in the YE 2013 CPED Results Minneapolis report.
- Several reports on City initiatives and goals overlapped with loan programs and provided partial information on achievement of goals:
 - AHI reports provided information on achievement of the multi-family program and some single family program goals, combining AHTF, NSP, HOW, and GHN results. The report showed single family homes produced at or below 80% AMI, though some programs fund homes up to 120% AMI.
 - The annual Business Development Loan Program reports provided information on achievement of some goals of different participation programs.
- Achievement of program goals was periodically included in requests for funding a subsequent phase or year of the same program, but generally was not systematically reported. This includes home improvement, Great Streets, GNH, and NSP programs.

Additional and general observations:

- Multiple programs can contribute to funding one development, but reporting did not clearly illustrate when this occurred in single family projects. Program transparency would increase if reporting

showed how much of what type of funding goes into each house. As an example, Internal Audit notes that multifamily housing reports showed information on each City program funding source, as well as private and other public funding sources.

- Reporting generally focused on current fund expenditures, and did not show the effects of funds the City already had committed. The City funded loans to attempt to generate results over an extended period of time that go beyond a return on investment, like affordable housing units and retained local businesses. If information is shared on only current activity, the overall effect CPED's loan programs have on the City is not getting captured.
- Requests for committee action to approve subsequent years of a program, or approve appropriation of a program's income back to that program, provided some reporting of prior results to support the request. Since some program income is restricted in the way it can be used, there may be an opportunity to eliminate the wait for an appropriation to use program income by providing the CD&RD Committee regular reporting on program income usage.

Reporting on achievement of goals was focused on City and department goals and initiatives. However, the City approves and funds loan programs with stated goals which are more specific, or more expansive, than the larger City and department initiatives. Since reporting did not uniformly cover goals at the program level, it was more difficult to assess the effectiveness of individual programs.

Loan Program Reporting Recommendations

Internal Audit recommends that staff responsible for CPED Loans:

- Compare the objectives of loan programs with the information provided in reports on these programs to senior management and the CD&RS Committee, and hold a discussion on whether the currently provided information is adequate to oversee program objectives and the loan portfolio.
- Using input from management and the CD&RS Committee, establish reporting expectations for loan portfolio information and program objective information.

Loan Program Reporting Response:

CPED agrees that the nature of the reporting of the various programs vary given the different characteristics of the programs and the various groups administering them.

- CPED and FPS staff will hold a discussion across the groups administering the programs about the nature and adequacy of program and portfolio reporting.
- CPED will work cooperatively with stakeholders to identify operational reporting needs to effectively manage and evaluate program performance.
- CPED will work with FPS to analyze and implement financial reporting needs.
- CPED and FPS will consult with the relevant City Council Committee Chairs and Vice Chairs on the adequacy of current loan reporting and potential opportunities for change.
- Based on those discussions, CPED and FPS will establish or affirm reporting expectations for loan portfolio and program objective information.

Finding 2: Loan C Portfolio Completeness

The report generated showing receivable and collectable amounts for loans serviced internally by the City, also known as Loan C, was incomplete because the system for generating the report did not have complete information. This resulted in inaccurate reports summarizing the Loan C portfolio balance.

Testing Results

The portfolio report of loans internally serviced by the City in Loan C provided to audit staff included 798 loans, with a total receivable balance of \$243.9 million, and a collectable estimate of \$31.8 million. Externally serviced loans included \$7.3 million business loans estimated to be fully collectable, and \$9.0 million in other loans with a collectable estimate of \$6.8 million.

Loans not included in Loan C report

Internal audit sampled supporting documentation and compared information to data stored in MINS, the system of record for CPED Loans, and the source for information on the Loan C portfolio.

- 6 of 153 (3.9%) files selected for testing were incorrectly excluded from the Loan C portfolio balance, totaling \$9.8 million, or 4% of the total reported balance. Loans affected were:
 - AA880010 – Due to report generation issue
 - AA900087 – Due to incomplete MINS entry
 - AA900108 – Due to report generation issue
 - BD00000029 – Due to incomplete MINS entry
 - HD00000607 – Due to incomplete MINS entry
 - HD00001177 – Due to incomplete MINS entry

We also observed one loan that had the same incomplete MINS entry as four of the above loans, but was separately identified and added by Development Finance staff to the Loan C portfolio report:

- HD00000654 – Due to incomplete MINS entry

Internal audit also sampled separately stored documentation supporting old Empowerment Zone program agreements.

- 1 of 14 (7%) files selected for testing was incorrectly excluded from the Loan C portfolio balance, totaling \$100,000.

Loans with incorrect entries

Internal audit sampled Multifamily, Business Development, and Single Family projects and compared information in secondary systems used by CPED staff to information in MINS.

- 1 loan to a homeowner, affecting 1 of 30 sampled Single Family HOW and NSP program projects, should have been satisfied when the associated property sold, but was still listed as outstanding in MINS. Loan affected was:
 - HD00000601
- 5 loans to developers, affecting 4 of 30 sampled Single Family HOW and NSP program projects, were reported in the Loan C portfolio with outstanding balances that did not align with disbursements to, and receipts from, the borrowers. Loans affected were:
 - HD00001005
 - HD00001337
 - HD00001403
 - HD00001404

- HD00001641
- The result of these two issues was an overstatement of the Loan C portfolio balance of \$360,695 and an understatement of \$300,871, for a net effect of \$59,824.

Accrued interest

Internal audit also noted that the loan C portfolio as presented, and as reported in the 2014 CAFR, was based on the principal amounts of the loans. Accrued interest on loans that have deferred collection terms was not included as part of the Loan C portfolio balance and the allowance for uncollectable amounts. Examples reviewed by Internal Audit varied greatly in the impact on reporting:

- Some loans with zero interest rates, and loans that had up to date monthly repayment terms had no effect on reported figures.
- An example reviewed of a 30 year, \$1.4 million loan had \$492 thousand in accrued interest as of year-end 2015 which was not included in the reported receivable balance. This one loan resulted in an understatement in the total receivable balance of 0.2%, and an understatement in the total collectable estimate of 0.3%.

Interest rates, loan terms and collection rates vary across the loan portfolio, and accrued interest was calculated and tracked in separate spreadsheets. As a result, generalization of the total amount of collectable interest was difficult, and an analysis would require reviewing each loan.

Loan C Portfolio Completeness Recommendations

Internal Audit recommends that staff responsible for CPED Loans:

- Verify that all Empowerment Zone program loans have either been satisfied, or are part of Loan C or an externally monitored group of loans.
- Verify that all hard copy Loan C supporting document files are entered into MINS and appear correctly on the Loan C portfolio balance reports.
- Implement a process by which Single Family loan disbursements, and developer loan statuses, are kept up to date in MINS. Review the current Single Family loans recorded in MINS and validate disbursements and status of developer loans to address current issues.
- Develop and implement a process to accurately report Loan C portfolio accrued interest on the City CAFR.

Loan C Portfolio Completeness Response:

CPED and FPS concur with the recommendations associated with Finding 2. The current system (MINS) used to manage and track the loans in Loan C requires a significant amount of manual input of loan data and information for tracking purposes. Although significant improvements have been made in the last couple of years in the management and reporting of loan information and transaction data for Loan C in MINS, CPED, in conjunction with the City's IT Department, has started a project to replace MINS. The MINS replacement project should improve the business process for data entry and enhance reporting of disbursements and loan status.

CPED and FPS Development Finance and Controller Accounting staff will work on process improvement measures that will help to more effectively manage and track the loan and transaction information in MINS and address the concerns raised in this finding, including the development of a business process for data entry to reduce the likelihood of loans being duplicated or lost.

Finally, CPED and FPS staff will analyze the rationale and usefulness of reporting accrued interest on Loan C loans and will consider including this information and related calculations as part of the business requirements for the MINS replacement system.

Finding 3: Process Improvement

Internal Audit observed opportunities for improvements in CPED's loan related processes.

3.1 Process Improvement – Processes Across Business Lines

Processes for similar CPED loan activities diverged between business lines, as each line developed its own processes to address their specific work flows and programs. The differences in these processes provide a challenge for the development of a comprehensive MINS update, and could cause delays to development if not aligned prior to significant update work.

Testing Results

Business lines generally functioned independently of each other, and business lines had different processes and tools for managing their loan-related workflow and data. Differences stemmed from uniqueness of loan programs. For example, multi-family and single family housing used different checklists with different phases designed to match their workflows. The GHN borrower selection process involved loan approval by CD&RS Committee, but the HOW selection process involved approval by CPED officers through delegated authority. Business development tracked applications on a rolling basis through a pipeline, but other programs collected applications yearly through a Request For Proposal process. There were also several points at which work flowed across business lines: MINS data tracking; COMET funding, disbursement and payment information; and some loan oversight.

Please see Appendix A for more details on how each business line structured the issuance, management, termination and reporting for their loan programs.

Internal Audit observed that the lifecycle for all CPED loans followed a common path, consisting of the following steps:

1. Funds are made available for a loan.
2. Borrowers seek, or are provided, information about available loans.
3. Borrowers apply and are evaluated.
4. Borrowers are selected and go through a loan close process.
5. Disbursement documents are assessed and funds are issued.
6. Payments and performance information are collected and tracked; deferral, restructure, and contract change requests are handled.
7. Loan satisfaction through a payoff, forgiveness, or write off is confirmed and processed.

Because there are common elements across all loan programs, including several already existing points of intersection, there is an opportunity to increase alignment of different business unit processes into a broader, enterprise-wide structure for CPED loan activities.

Organizing each program's unique steps and phases into a more uniform framework can provide several benefits.

- A key benefit for CPED is linked to the planned MINS update project. The project goal is to update the database and workflow management that MINS provided, making sure the resulting software can

support the needs of the business units. To be successful, the project needs to incorporate the business units' current disparate workflows. Taking the time to define broader processes and align workflow where reasonable before the project begins will simplify software requirements and speed up the design and implementation timeline.

- Reviewing current processes for common elements can help identify key positions and key staff. This focuses attention on areas that may need additional resources, or that need more detailed of processes and procedures to ensure business continuity.
- Finally, establishing a broader framework can help identify opportunities for centralizing aspects of the loan process. Noted below are two suggested process improvements related to document and records storage, and payment processing; both improvements are more effectively addressed from the department level than from a program or business line perspective.

Process Improvement – Processes Across Business Lines Recommendations

Internal Audit recommends that staff familiar with CPED's loan programs:

- Collaboratively identify common elements, phases, and procedures, and develop an enterprise-wide business processes for CPED's loan programs.

Processes Across Business Lines Response:

CPED agrees that the lifecycle for CPED loans follow the general seven steps outlined above, however there are variations in the specifics of the steps depending on the program (e.g. a 2% business development participation loan versus an Affordable Housing Trust Fund loan). A cross team of CPED and FPS staff will meet and collaboratively identify common elements and to the specificity at which it is useful develop an enterprise-wide business process for the various loan programs. The team will use this process to help inform the MINS update project.

3.2 Process Improvement – Document and Records Storage

Locating all documents related to a loan required several steps because the documents generated as part of CPED's Loan activities were stored in different ways and in different locations. There is an opportunity to improve the records process to reduce the risk of documents being misplaced and speed up the time needed to respond to information requests.

Testing Results

Documents generated as part of CPED's Loan activities were stored in different ways and locating all documents related to a loan required several steps. Internal Audit observed several separate document repositories, including:

- The Loan C archive, containing hard copy key financial documents for loans.
- An electronic archive used by Multi-family Housing, containing key financial documents and post-closing oversight documents.
- Most project coordinators maintained documents related to their projects in a mix of electronic and paper formats.
- Hard copy storage files for project coordinator files after closing but before off-site storage.
- Hard copy storage files for payment receipts.
- Some documents supporting construction-related due diligence documents were maintained by construction coordinators.

- Internal audit also noted that some loan documents were kept in storage boxes in cubicles or hallways. While the documents are maintained in open areas the risk of inappropriate access is low since the floor is restricted to City staff.

Archives primarily contained contract agreement information, so finding due diligence and payment information on a specific loan required speaking to additional individuals, usually through the loan’s project coordinator.

Documents for several programs have been maintained electronically in recent years. Internal Audit noted that documents for loans maintained electronically were more readily available, and it was easier to locate a specific document. Electronic records would reduce the need to maintain paper records on site, and enable retention of all related documents in one location and easy accessibility to different staff members. Electronic documentation would also reduce the potential risk documents being lost when staff depart.

Process Improvement – Document and Records Storage Recommendations

Internal Audit recommends that CPED staff responsible for documents and records:

- Develop and implement a process to organize and centrally retain electronic documents for loans, including intake, construction and other disbursement due diligence, closing documents, payment receipts, loan oversight information and relevant borrower communications.
- Consider whether any documents for previously issued loans should be incorporated.

Process Improvement – Document and Records Storage Response:

CPED concurs with this recommendation. As noted above, some files are stored electronically. This is a result of a pilot program developed by CPED Housing staff. The pilot created a central electronic filing system—a project folder that is stored on the common drive that allows all internal parties to store relevant project information in one place.

CPED staff will work with the appropriate city representatives and stakeholders to study, identify and implement improvements to document and record storage practices.

3.3 Process Improvement – Payment Processing

Payments for loans were received by a variety of City staff, and were tracked in COMET in different ways that did not directly tie to loans. This increased the risk for mishandling of funds, and precluded COMET from easily supplying complete data on payment receipts causing CPED to rely on dual entry to track payments. The form of COMET tracking also makes it more difficult to integrate COMET with an updated MINS system.

Testing Results

Loan payments were received either through wire transfers and ACHs, through checks delivered to FSP staff, or through checks delivered to CPED project coordinators or oversight staff. Appropriate COMET coding was determined by the recipient or by the FSP staff member responsible for entering payments into COMET. After entry and deposit of checks by Treasury, payments were entered by either FSP or CPED staff into MINS.

Internal Audit noted that there were occasional gaps in data entry of receipts into MINS, particularly when an ACH or wire transfer was the source of payment. These payments were processed in batches, making tracking cash related to a specific loan in COMET impossible without referring to accompanying remittance

information. There was also a difference in how loan receivable amounts were tracked in COMET also making it difficult to identify when a specific payment came in. Loans that had recurring payments billed by the City had a receivable set up and satisfied when cash was received, while other amounts were just entered as revenues without an associated receivable.

There is an opportunity to improve the payment receipt process by being able to track incoming payments to specific loans in COMET. This could be accomplished several ways. A receivable created for every loan payment, either as part of billing or when cash is actually received would accomplish this. While this would require additional entries into COMET, it would enable tracking of payments to be done based on COMET satisfied receivables instead of needing to reference remittance vouchers. Alternatively, tracking loan payments to a specific MINS loan ID in the COMET Accounts Receivable module could provide similar benefits, and might be accomplished with an expanded use of customer IDs. A specific field in COMET designed as a cross-reference point to CPED Loan IDs could also work.

Easier COMET to loan identification can make data entry into MINS more straightforward and enable concentrating those duties with fewer staff. A uniform approach to tracking cash on a per-loan basis would also enable easier integration between COMET and the MINS update project results. Finally, some loan program income must be used within the originating program. Being able to more directly connect incoming cash to a specific program can make it easier to deposit that income into the program's fund, and potentially shorten the process of getting cash to the program that must use it.

The other aspect of this process that could be improved is how checks are received. While there were no issues noted, to minimize risk checks would ideally be handled only through treasury. There is difficulty in aligning this part of the process because the staff that received checks had the best knowledge on appropriate COMET coding for the amounts. If the check handling part of the process is revised, it would need to incorporate a systematic way to get project coordinator and other CPED staff input on appropriate coding.

Process Improvement – Payment Processing Recommendations

Internal Audit recommends that City staff responsible for CPED loan payment processing:

- Review the process for payment receipts across business lines and work to develop a uniform enterprise-wide approach, specifically addressing how information is tracked in COMET and then entered into MINS.
- Consider revising the check receipt process to reduce the number of staff handling checks.

Process Improvement – Payment Processing Response:

CPED agrees with this finding. It would be very useful to have a loan tracking system (i.e. MINS) that could communicate directly with the City accounting system (i.e. COMET). The financial draw and payment data should reside in the City accounting system so that only one entry is required. CPED staff hopes that the MINS update project can result in such a system.

In the meantime, CPED agrees that a cross team of CPED and FPS staff can review the process for payment receipts across business lines, including reducing the number of staff handling checks, and work to develop a uniform enterprise-wide approach.

3.4 Process Improvement – Processes For Incorporation Into MINS Update

Internal Audit observed a number of tools and processes in place to manage data and workflow that result in inefficiencies. These were put in place to address specific business line needs. The opportunity exists to incorporate some or all of these additional tools, and address the needs, through the MINS update project.

Testing Results

Current inefficient tools and processes noted:

- Data from COMET must be entered manually into MINS and vice versa.
- Availability of funds for programs was tracked manually on spreadsheets, and tracking involved periodic reconciling to COMET and to MINS. Accurate, readily available information on funds would assist with projections and budgeting.
- Data needed for CAFR reporting was not readily available, and had to be produced through a time consuming MINS upload and COMET cross-reference process.
- Tracking of interest for Loan C loans was done in spreadsheets.
- Tracking of key loan performance results and program results was done primarily in spreadsheets, with some duplicate entries in MINS. For example affordable unit production and data for private/public financing ratios.
- Tracking of loans prior to closure, including pipeline tracking for applicants, was done in spreadsheets.
- Evaluating and assessing loan applicants was done in spreadsheets.
- MINS and other tools showed a snapshot of activity, making reports 'as of' specific dates difficult to produce.
- Tracking spreadsheets for HOW and NSP programs were not aligned with information in MINS, resulting in incorrect reports on Loan C totals.

Please see Appendix B for a summary of key systems used in the CPED Loan process.

Internal Audit also learned that a MINS system-wide update has been planned since 2010. As a result of plans for a wider update, less funding and time had been devoted to develop staff requested features for the current system. That request list had over 100 items at the time of this audit. The delays in updating MINS seem connected to the development of secondary systems by staff to accomplish their loan work. These other systems were functional, but are not as efficient and reliable as a well-designed workflow and database tool because they require manual entries, duplicate entries and reconciliations.

Process Improvement – Processes For Incorporation Into MINS Update Recommendations

Internal Audit recommends that CPED staff involved in the MINS update project:

- Work to incorporate current systems that require reconciliations, duplicate entries, and separate data tracking into the MINS system update through collaboration with IT and revision of current processes where needed.
- Heighten the time and funding priority of the MINS update project to reduce further delays.

Processes For Incorporation Into MINS Update Response:

CPED agrees that the systems developed by staff are functional, but are not as efficient and reliable as a well-designed workflow and database tool because they require manual entries, duplicate entries and reconciliations. That said, CPED is committed to the MINS upgrade and has identified a team of subject matter experts from each work unit to work with the assigned business analysts from IT working on the MINS upgrade.

Finding 4: Roles and Responsibilities

Internal Audit identified opportunities to improve the tracking of City staff roles and responsibilities as they relate to CPED Loans.

4.1 Roles and Responsibilities – Loan Compliance

Identifying City staff responsible for compliance with loan conditions throughout their duration was difficult because project coordinator and loan oversight responsibilities were not systematically tracked. This could result in the City inadequately managing loan agreement terms.

Testing Results

Project Coordinators

Project Coordinators (PCs) played key administrative roles throughout the life of a loan. PCs were heavily involved up to loan disbursement, and involved in monitoring and oversight to varying degrees. Significant effort was put into working with loan applicants to assemble and assess appropriate documentation for applications, and to validate documentation necessary for disbursements. PCs were also the go-to staff after loans closed on subsequent loan complications and questions, such as restructuring and subordination. For some loans, PCs were also the points of contact for payments and may have been responsible for monitoring compliance with loan terms.

When loans were entered into MINS, their administering PC was also entered. Internal Audit noted some PC assignment tracking in other systems, but MINS was the only CPED-wide method for tracking these responsibilities. This information was expected to be kept up to date in MINS both as staff leave and through periodic reviews. Internal Audit tested Loan C PC assignments, noting that 13 of 34 PCs (38%) were no longer CPED employees. Those PCs were assigned 14.6% of the total Loan C portfolio loans, and most had departure dates before 2015.

Loan Monitoring and Oversight

After a loan closed two stages of oversight typically occurred. The first was confirming compliance with the loan terms prior to funds disbursement. This was generally administered by the PCs or by a third party contracted to do so, and was reasonably tracked using tools like check lists. The second stage, after disbursement was complete, consisted of borrower compliance with terms and requirements that span the life of the loan. These could include continued operation requirements and employment statistics for businesses, affordability and upkeep for multifamily projects, and residency for single family and home improvement projects.

The second stage of oversight did not have systematic tracking of requirements that could be monitored or of monitoring assignments. Internal Audit notes that the more critical loan term monitoring appeared to be reasonably addressed:

- Tracking for federal reporting requirements, if applicable, was generally done by a third party specifically contracted to do so.
- Notes on titles provided fail-safes for business operations and housing residency conditions, requiring the City to be contacted when changes occurred.
- Some of the more complicated conditions that the City is responsible for are in the MF housing group, where specific staff is designated to confirming compliance.

However, CPED did not maintain a list of loan terms that could be monitored; only the Multi-family group maintained a partial list. This increased the risk that a key loan condition was not identified and monitored, jeopardizing the purpose of the loan. The monitoring could have been done either externally or internally, and though CPED staff were aware of their monitoring responsibilities assignment was not tracked. This raised the risk that a loan could end up not monitored by anyone. Some examples of monitoring issues were noted in Finding 2 above:

- One EZ Program loan was not monitored by a current staff member and was never entered into MINS.
- Six loans affecting 5 of 30 sampled Single Family HOW and NSP program projects, should have been satisfied when the associated property sold, but were still listed as outstanding in MINS.

Internal Audit also did not identify any policy or procedure documenting how CPED determined who was responsible for monitoring, and what should be monitored. Significant knowledge on how monitoring was executed rests with key staff.

Roles and Responsibilities – Loan Compliance Recommendations:

Internal Audit recommends that staff responsible for CPED Loans:

- Throughout the life of a loan, maintain up to date tracking of staff with key responsibilities related to those loans.
- Consider implementing systematic tracking of loan terms that could be monitored, of whether monitoring is occurring, and of the party responsible for monitoring.

Roles and Responsibilities – Loan Compliance Response:

CPED agrees that tracking of the loan requirements for some programs could be further improved with more standardized and centralized processes. More attention could be paid to maintaining an up to date tracking of staff with key responsibilities to those loans. CPED staff will consider these system improvements as part of the MINS replacement system and in the meantime consider other ways to systematically track loan terms.

4.2 Roles and Responsibilities – MINS Access

Individuals had unnecessary access permissions in MINS. Information on loans could be accessed by staff that did not need access to this information.

Testing Results

Internal Audit reviewed and sampled the MINS access list, and compared the sample to current employee roles and responsibilities.

- 3 of 10 individuals on the access list no longer needed access to MINS. One was a contractor no longer working with the City, and two were City employees whose current duties did not require MINS access.

Internal Audit reviewed the permissions and access levels granted to the 90 individuals on the access list. MINS access permissions could limit a user to only see information within their assigned department, unless

specifically permitted to view information across all departments. Access levels determined how much a user could do, and at a certain point allowed a user to reassign their own department.

- 3 of 90 individuals were not permitted to view data across departments, but had an access level high enough to be able to reassign their own departments. This gave these individuals the ability to see more information than the department restriction would allow.

Roles and Responsibilities – MINS Access Recommendations:

Internal Audit recommends that staff responsible for MINS access:

- Reinforce with supervisors the need to be informed of staffing changes and role changes that could affect the need for an employee to have access to MINS.
- Change the methodology for assigning access permissions and levels to ensure that users not needing access across departments cannot modify their own department.
- Review the MINS access list, and verify that access is provided only as needed.

Roles and Responsibilities – MINS Access Response:

CPED concurs with the findings and the recommendations. CPED commits to review the MINS access list and clean it up for accuracy. In addition to the clean-up process, the CPED team will develop a process for removal of access when a separation or change in duties necessitates a change in MINS. CPED will work with the CPED Systems Integrator to enhance the methodology for assigning access permissions and levels to ensure that the users have the appropriate access in MINS. Lastly, CPED and the assigned business analysts will ensure that any process changes made prior to the MINS upgrade will be incorporated in the upgrade.

Acknowledgments

The City of Minneapolis Internal Audit team would like to acknowledge the time and effort put in to this audit by Community Planning and Economic Development staff, and Finance and Property Services staff. We greatly appreciate the cooperation we received during this audit.

Appendix A

Summary of the different CPED and Finance and Property Services (FPS) groups loan program structures for issuance, management, termination and reporting.

Multi-family

Multi-family housing loans fall primarily under the Affordable Housing Trust Fund program (AHTF), comprised of multiple funding sources, whose purpose is to finance the production and preservation/stabilization of affordable and mixed-income rental housing projects in Minneapolis. Some multi-family housing loans come through the Neighborhood Stabilization Program (NSP) Request for Proposal (RFP) process, as detailed in the Single Family section below. After the RFP, these loans follow the multi-family processes, and projects may receive both AHTF and NSP dollars.

Issuance

AHTF loan recipient selection is made through an annual RFP process. Received proposals are ranked by assigned Project Coordinators in line with criteria detailed in the RFP. After these initial due diligence reviews, CPED staff provides recommendations to the Development Finance Committee for review and comment. The final results are presented to the CD&RS Committee, which approves the loans and authorizes execution of necessary documents. Once approved, the Project Coordinator performs more due diligence work as described in the RFP to enable closing and funds disbursement. After loan closing and before disbursement a series of contractor bid, construction plan and other documentation is reviewed. Once the loan closes, loan information is entered into the CPED Management Information Network System (MINS), and into the Residential Finance group database.

Management

Borrowers must comply with program requirements included in the agreements, which include compliance with federal requirements for federally sourced loans. Loan repayment is generally deferred until the end of the term, though some projects that are expected to generate income pay the City a portion of their cash flow. Payments are generally submitted to CPED staff, who determine appropriate account coding and provide to FSP staff for deposit and entry into COMET.

Compliance requirements are tracked in the Residential Finance group's database. The City contracts with Affordable Housing Connections to monitor compliance with federal HOME funded loans and low-income housing tax credits. CPED staff monitor compliance with loans funded from other sources. Monitoring generally consists of reviewing compliance reports generated by project owners, reviewing reports on physical inspection conducted by third parties and reviewing financial statements to verify cash flows.

Termination

The goal of multi-family housing loan programs is to create affordable housing, which is guaranteed by contract terms in exchange for funds. As a result, CPED generally works to defer or extend payment terms rather than collect outstanding balances to try and keep affordable housing requirements in place. Loan satisfaction, deferral, restructure, and write-offs are handled in line with the process described at the end of this background section.

Reporting

An Affordable Housing Initiative report is provided to the CD&RS Committee annually, and shows information on multi-family and single family affordable housing results. The report shows multi-family information on projects that received AHTF and NSP loans, the affordable units produced, and

progress on the Affordable Housing Initiative goals. Multi-family housing also produces quarterly activity reports that are posted on the City website, which list new and completed multi-family projects.

Single Family

Single family housing loans fall under several programs. Loans through the Home Ownership Works program (HOW) generate home ownership opportunities for low/moderate income households by providing direct assistance and development gap assistance through non-profit construction managers. Loans through the Neighborhood Stabilization Program (NSP) help redevelop foreclosed and abandoned homes, and are sold subject to income restrictions. HOW and NSP are federally funded. Loans through the Green Homes North program (GHN) provide development assistance for constructing green homes in North Minneapolis, and are also sold subject to income restrictions.

Issuance

Loans are issued to third party developers that produce homes and sell them to home buyers. For HOW and NSP, developers are chosen via a Request for Qualifications (RFQ) process to be eligible to apply for funding. Each year a certain amount of funding is available, and developers that passed the RFQ process apply to get funding for specific housing projects. Funding is provided on a first come first served basis, projects are reviewed by Project Coordinators for qualification, and funding is approved by CPED officers with authority delegated by the CD&RS Committee. NSP funding can be requested for multifamily projects, which follow the same RFP process, but are then managed in line with Multi-family processes. For GHN, an annual RFP open to private and non-profit developers is held. CPED staff and a Design Review Committee review submissions and make funding recommendations for approval by the CD&RS Committee. A single property could be selected to receive a combination of funding, including HOW, NSP, GHN, and other sources outside of City programs.

Management

A portion of these programs is used to provide loans for construction, which are repaid when developers sell the properties to homeowners. Construction loans are entered into the CPED MINS system and are monitored by staff from CPED and FPS. Project Coordinators review developer-provided construction cost information and oversee outgoing disbursements. They also review closing documents at time of sale, handle incoming funds and verify that buyers satisfy program requirements. After a project is complete, activities are handled by Development Finance staff.

Capped amounts under these programs are also used to cover the gap between development cost and final sale price of the property, and to provide homebuyer assistance. Once a home is sold, gap financing and homebuyer assistance amounts are entered into the CPED MINS system. NSP assistance is handled primarily through CPED staff, with some direct buyer assistance provided through the City's outside lender, Greater Metropolitan Housing Corporation. Development Finance staff oversee HOW assistance, which is also provided through Greater Metropolitan Housing Corporation. If the buyer stops living in or owning the property before the end of the required residency period, the City is able to recapture some or all of these amounts. If there is a sale the title company contacts the City to remove the obligations from the property, and staff works to confirm residency based on available information such as hazard insurance certificates. These agreements are serviced by either Development Finance or externally by Community Reinvestment Fund.

Termination

Construction loans are settled at the time the developer sells the property to a home buyer or the affordability period is met for rental projects. All or a portion of the loan, up to a cap, can be used by

the developer for development gap coverage or homebuyer assistance and does not need to be repaid once program criteria are met. The Project Coordinator is engaged in the process up to the time of sale or lease-up, and payments due to the City are sent by the title company.

Homebuyer assistance and development gap amounts are tracked by CPED and may need to be repaid by the home buyer for non-rental projects. Collectability varies by program, with some amounts only collectable if the homeowner sells the property or no longer resides in it within a specified period. Rental project gaps may need to be repaid if tenants are not program eligible due to income. If there is a change in ownership or residency, CPED staff determine any recapturable amounts. Loan satisfaction, deferral, restructure, and write-offs are handled in line with the process described at the end of this background section.

Reporting

The Affordable Housing Initiative report provided annually to the CD&RS Committee shows information on single family housing units that are affordable at 80% of area median income (AMI). The report shows the number of units and their affordability levels. City Committee requests for Green Homes North program funding provides information on loans issued in prior years. Finally, total program fund balances were reported in CPED's Financial Status Reports.

Business Development

Business development loans fall into two groups, externally serviced and internally serviced. Participation loans are externally serviced and encompass loans from the two-percent loan program, alternative financing program, business development fund loan program, and energy efficiency program. Participation loans support the expansion of Minneapolis businesses by pairing a loan from a primary lender, such as a bank or a nonprofit community lender, with a loan from the City to provide a financial package the private lender cannot provide on its own. The City participates in these packages by contracting with the private lender, which then services the loans. Internally serviced loans are serviced by City staff, and currently fall under the Great Streets Program and Grow North Program. Great Streets provides gap financing loans to businesses in targeted business districts to encourage greater private investment in those districts. Grow North provides loans to jobs-intensive businesses investing in North Minneapolis.

Issuance

Applications for participation loans are received on a rolling basis by CPED staff from businesses, and from private lenders on behalf of businesses. Applicants are tracked on a pipeline spreadsheet, which is discussed at bi-weekly staff team meetings. Project coordinators work with applicants to obtain needed documentation and with the private lender on its underwriting of the transaction. Applications are reviewed by CPED staff for compliance with loan program criteria.

Applications for internally serviced Great Streets and Grow North loans are submitted to the program manager. Applications are reviewed by project coordinators for compliance with program criteria, then by the Development Finance Committee, and approved by the CD&RS Committee. Several gap loans were issued in recent years, however there have been enough available funds in the Great Streets program to deploy some of those funds toward the business technical assistance program.

Management

Participation loans are serviced by private lenders that provide primary funding to the borrowers. These lenders monitor loans and collect payments from borrowers. After collection, they remit to the City its portion of the payment. Most payments are deposited through the regular FSP Department Accounts Receivable and Treasury processes. Payments for the Alternative Financing program are rate

of return based, and are sent to CPED staff before being deposited. After deposit, payments are entered into MINS and reviewed quarterly for missing or mismatched amounts. Great Streets loans are monitored by the project coordinators that worked on issuing and closing the loan.

Termination

Participation loans have a high collection rate, and are serviced by private lenders which oversee any deferrals, restructures or write-offs. The City relies on documentation provided by these lenders if collection issues arise, and follows the internal process for getting Finance Officer and/or CD&RS Committee approval as described at the end of this background section.

Reporting

CPED staff provide a yearly report to the CD&RS Committee on participation loans, the Business Development Loan Program Year-End Loan Portfolio Report. The report includes information on program balances, the total number and dollar amount of loans issued, and demographics on loan recipients. Information on Great Streets Program activity is provided as requested, and some program accomplishments are shared with the CD&RS Committee when requests to approve additional, or a subsequent year's program, are made. Information on the Great Streets Program was also included in the CPED's 2013 Results Minneapolis report, and total program fund balances were reported in CPED's Financial Status Reports.

Home Improvement

Home improvement loans fall under several programs and are managed by Development Finance staff. The Rehab Support Program provides matching loans for low/moderate income homeowners for remodeling/rehab projects. The Code Abatement Loan Program provides assistance to low income homeowners to make repairs or do maintenance cited by the City's Department of Inspections. The Home Repair Loan program provides assistance to low/moderate income homeowners to complete similar code repairs.

Issuance

The CD&RS Committee approved contracts with Greater Metropolitan Housing Corporation (GMHC) to issue loans under these programs. The contracts lay out the terms and lending requirements, and are administered by Development Finance staff. GMHC is responsible for reviewing and validating home improvement work, and invoices the City for the issued loans. Development Finance staff reviews supporting documentation and approves payment.

Management

Once a loan has closed, GMHC provides the City with valid loan documentation. GMHC receives reimbursement and the loan is entered into the CPED MINS system. Loan information is then sent to a third party, Community Reinvestment Fund (CRF), for servicing. CRF collects payments and remits them to the City, and will contact Development Finance staff if there are potential residency requirement issues. CRF also provides information on all loans status to the City through a web portal.

Termination

Once CRF has collected the full amount of the loan it informs the Development Finance staff member, who verifies collection and closes out the loan. Development Finance staff also works to address any residency issues that are identified by CRF. Loan satisfaction, deferral, restructure, and write-offs are handled in line with the process described at the end of this background section.

Reporting

Reports on program results are provided to management and the CD&RS Committee when requested. Some program accomplishments are also shared with the CD&RS Committee when requests to approve additional funding, or a subsequent year's program, are made. Total program fund balances were reported in CPED's Financial Status Reports.

Process for Write-Offs, Restructures and Deferrals

The process for satisfying loans is uniform across all programs. When loans are satisfied, Development Finance and Project Coordinators verify and document payoff, and inform the borrowers. Borrowers at times request that loans be deferred or restructured; loans can also be written off. Such requests are generally processed by Development Finance, are reviewed by Project Coordinators who provide recommendations, and are approved by at least the Finance Officer. Deferrals and restructures for loans with balances over \$200,000 are also reviewed and commented on by the Development Finance Committee. Approval by the Community Development & Regulatory Services Committee (CD&RS) is needed for deferral of loans with balances over \$200,000, for write-off of loans with balances over \$50,000, and generally for restructuring when the reduction in City revenue is over \$50,000.

Appendix B

Summary of key systems used in the CPED Loan process across business lines:

	Tool/System Used	Purpose/uses
Multi-family Housing	Access Database	Tracks information needed for MFH purposes, most overlaps with MINS Also tracks information not in MINS: - Pictures - Housing units created and at what affordability level - Financing from non-City sources for properties, and tax credits granted - Some loan monitoring information Used to generate 'one-page' reports on properties Used to generate quarterly and other reports
	Excel Spreadsheets	Sheet to aggregate and evaluate/score RFPs
	Checklists (.doc)	Track phases and deliverables for projects
	MINS	Enter loan information Enter payment/disbursement information Use to look up information when needed
	Windows folders - scanned files	Database storing electronic versions of key loan documents from closing onward Various documents supporting pre-loan close documents and disbursements support
	Paper documents	Paper copies are stored of all pre- and post- close documents
Business Development	Salesforce	Track relationships, contacts, and communications with businesses
	Excel Spreadsheets	Loan pipeline spreadsheet to track applicants and potential applicants Spreadsheets to track fund commitments/guarantees to borrowers Spreadsheets to track funds remaining from different sources, reconciled to COMET via finance staff Track Business District Support program (non-loan program)
	MINS	Enter loan information Payments for loans are entered by CPED or Finance staff
	Checklists (.doc or .xls)	Track underwriting information needs
	COMET	Via accounting, used as source for vendor numbers Track down payments deposited in accounts/COMET but not entered into MINS
	Hennepin County Property System	Property information, plot lines, and Property ID numbers
	Paper documents	Central storage of project coordinator pre- and post- close documents Central storage of payment receipt information

Tool/System Used	Purpose/uses
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Single Family Housing	<p>Excel Spreadsheets</p>	<p>Track project information for NSP programs, including fund status, developer and homebuyer info</p> <p>Track project information for HOW programs, including fund status, developer and homebuyer info</p> <p>Track project information for GHN programs, including fund status, developer and homebuyer info</p> <p>Gather information to align COMET figures with Federal reporting system</p> <p>Track program income</p>
	<p>Spreadsheets/google docs</p>	<p>Track project specific data, including:</p> <ul style="list-style-type: none"> - Project pipelines - Development Gap calculations - Share information with developers - Project draws
	<p>Checklists (.doc or .xls)</p>	<p>Track phases and deliverables for projects across all programs</p>
	<p>MINS</p>	<p>Use with COMET to compile data as information requests come in</p> <p>Payment entry</p> <p>Information on what has closed in a given timeframe</p> <p>Enter loan information</p>
	<p>COMET</p>	<p>Use via Finance staff, with MINS, to compile information as requests come in</p> <p>Use to look up when payments to developers went out</p>
	<p>City data/county data</p>	<p>Property ownership, permits, police reports</p>
	<p>MLS</p>	<p>MLS online data for property development</p>
	<p>Windows folders - scanned files</p>	<p>Currently using electronic files for documents</p>
	<p>Paper documents</p>	<p>Older files are tracked in paper; originals of newer documents that were scanned are sometimes stored</p>

Development Finance	<p>Excel Spreadsheets</p>	<p>Interest calculations for Loan C</p> <p>Converting MINS report to a Loan C portfolio report for State Auditor/CAFR</p>
	<p>MINS</p>	<p>Works to ensure all information is entered into MINS by CPED staff</p> <p>Used for CAFR reporting</p> <p>Enter payments and other information received into MINS</p>
	<p>Paper documents</p>	<p>Contracts and loan satisfaction documents database for Loan C loans</p>
	<p>CRF System</p>	<p>Access CRF online portal to get information on loans services externally by CRF</p>
	<p>COMET</p>	<p>Issue/receive money related to loans.</p> <p>Enter repayment schedules for performing loans</p> <p>Compare to data in MINS reports (Loan C Portfolio), in CPED staff spreadsheets for fund status and payments</p>