

Arlington County
Deputy Director, Department of Management and Finance
Arlington, Virginia

We have conducted an agreed-upon procedures engagement for Arlington County as of June 30, 2017, in accordance with attestation standards established by the American Institute of Certified Public Accountants, for the purpose of assisting the Arlington County Department of Community Planning, Housing, and Development with respect to the Affordable Housing Investment Fund (AHIF) Multifamily Housing Loan Portfolio of Arlington County through December 31, 2016, and have issued our report thereon, dated June 30, 2017.

During performance of the agreed-upon procedures engagement we became aware of opportunities to strengthen your internal controls and improve the efficiency of your operations. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 30, 2017.

Our performance of the agreed-upon procedures does not contemplate obtaining an understanding of internal control, and we have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement. Accordingly, we provide no assurance on the effectiveness of the entity's internal control.

Project and Loan Servicing Setup Worksheets

The Arlington County Multifamily Loan Program Loan Portfolio Management Procedures and Guidelines (the Guidelines) contain instructions for the various processes in the loan cycle including underwriting, fund disbursement, loan filing, annual borrower requirements and oversight procedures. In addition to these procedures we recommend creating worksheets to document the performance and review of these processes. In addition to providing an audit trail of procedures performed it will also act as a guide for others to perform the procedures in the event of extended staff absences or the loss of a staff person.

For instance, a file setup worksheet similar to Appendix A could be used to guide the creation of project loan files and the setup of electronic records in PRISM and ATRACK. For instances, ATRACK requires certain loan information in order to calculate accrued interest and repayment amounts. The worksheet should incorporate those procedures included in the Guidelines and provide a place for staff to sign and date upon completion. An area for a reviewer signature and date is also recommended to document the approval of the loan file creation and ensure all necessary information was uploaded electronically. Upon completion this checklist would remain in the project loan file.

Management Response

The Asset Manager, with the assistance of the Development Specialist, currently creates the hardcopy, electronic, and ATRACK filing system to record the various documentation and loan information required for every project. Going forward, the Asset Manager will also create a checklist and/or use a

hardcopy of an electronic checklist/spreadsheet in the paper file to confirm the contents of the hardcopy file, electronic file, and loan information in ATRACK.

Annual Monitoring Worksheets

The Housing Division should create a formalized standard checklist to use for the desktop review of each project to ensure similar information is reviewed for each project. The desktop review should be performed by one person who completes, signs and dates the checklist. A separate person should review the file and sign/date the checklist as a reviewer. Suggested minimum information to include on the checklist:

- Date audited statements submitted
- Type of opinion on financial statements (unmodified, modified, adverse)
- Net assets (current year and prior year)
- Net income (current year and prior year)
- Net increase/decrease in cash (current year and prior year)
- Indicate whether owner submitted insurance certificate listing County as an additional insured
- Calculation of loan repayment based on terms of loan agreement and the current year financial statements. Compare this amount to the amount received from borrower

Management Response

The Asset Manager reviews and/or analyzes the items listed below and makes notations on the actual documents. Going forward, the Asset Manager will also create a checklist and/or use a hardcopy of an electronic checklist/spreadsheet in the paper file to confirm that these items have been received, reviewed and reconciled where appropriate. This information will be forwarded to the Housing Director, Finance and Operations Manager and Development Director once completed.

Most information listed above is included in the reviews performed by the Asset Manager, but a formalized checklist would ensure comparability between projects. It is also recommended to prepare a brief memo providing a brief overview of the financial information obtained from the financial statements to allow department managers to assess the financial condition of the property and determine whether discussions about loan modifications are needed. For example, a discussion of changes in net assets, income and cash flows would be included along with any significant changes in rental income or operating expenses per unit. Any significant variances should be discussed with the project owner and explained in the memo.

The completed annual financial review should be sent to a supervisor for review and clear indication of approval (signature and date) should be documented on the form by the supervisor.

We will review the status of these comments during our next engagement to perform agreed-upon procedures. We have already discussed these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Arlington County Department of Management and Finance, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 30, 2017

APPENDIX A – SAMPLE FILE TRACKING SHEET

Project and Loan Servicing File Setup Worksheet					
Date:		From:	<input type="checkbox"/>	To:	<input type="checkbox"/>
			<input checked="" type="checkbox"/>		<input type="checkbox"/>
<input type="checkbox"/> New Project			<input type="checkbox"/>		
<input type="checkbox"/> Existing Project			<input type="checkbox"/>		
File Info:					
Project Name:			Loan Start Date:		
Project Sponsor:			Loan Maturity Date:		
Database ID #:					
Attached please find the following:					
<u>Legal Documents</u>			<u>Unsecured Loans/Pre-Closing Docs</u>		
<input type="checkbox"/> Deed of Trust/Mortgage Agreement			<input type="checkbox"/> Letter Loan		
<input type="checkbox"/> Deed of Trust Note/Promissory Note			<input type="checkbox"/> Predevelopment Loan		
<input type="checkbox"/> Regulatory Agreement			<input type="checkbox"/> Memorandum of Understanding		
<input type="checkbox"/> Financing Statement			<input type="checkbox"/> HLRC Loan Summary		
<input type="checkbox"/> Building Loan Agreement			<input type="checkbox"/> Director Memo		
<input type="checkbox"/> Payment in Lieu of Taxes Agreement			<input type="checkbox"/> Commitment Letter		
<input type="checkbox"/> Allonge/Modification Agreement			<input type="checkbox"/> Other:		
<input type="checkbox"/> Subordination Agreement			<input type="checkbox"/> Other:		
<input type="checkbox"/> Other:					
<input type="checkbox"/> Other:					
<input type="checkbox"/> Other:					
<input type="checkbox"/> Other:					
Please perform the following:					
<input type="checkbox"/> Set up/update Project file					
<input type="checkbox"/> Set up/update Loan Servicing file					
<input type="checkbox"/> Copy documents, place <i>copies</i> in the Project file and <i>originals</i> in the Loan Servicing file					
<input type="checkbox"/> Provide a copy of the Note/Modification Agreement to DHCA Accounting					
<input type="checkbox"/> Scan the attached documents into the database					
<input type="checkbox"/> Other:					
<input type="checkbox"/> Other:					
<input type="checkbox"/> Other:					
<input type="checkbox"/> Other:					
<input checked="" type="checkbox"/> Send to Loan and Asset Manager for review and approval					
<input type="checkbox"/> File Reviewed					
and Approved		By:		Date	

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Arlington County
Deputy Director, Department of Management and Finance
Arlington, Virginia

We have performed the procedures enumerated below, which were agreed to by Arlington County Virginia Department of Management and Finance (the specified parties), solely to assist you with respect to the Affordable Housing Investment Fund (AHIF) Multifamily Housing Loan Portfolio of Arlington County through December 31, 2016. Arlington County's management is responsible for the Affordable Housing Investment Fund (AHIF) Multifamily Housing Loan Portfolio. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Obtain a listing of all AHIF loans active at 12/31/16 and all AHIF loans paid in full between 1/1/16-12/31/16. The list should include identifying loan details including the year funds were allocated, the actual principal loan disbursed and the percentage of the principal repaid as of 12/31/16.

Results

We obtained a listing of all loans in the multifamily portfolio active at 12/31/16 and all AHIF loans paid in full between 1/1/16-12/31/16 from the Asset Manager. The listing included a total of 53 loans funded from AHIF, HOME and CDBG sources. The listing included a total of 36 loans utilizing AHIF funds with total original loan balances of \$197,599,821. 6 of the 36 loans also utilize federal funding. The list included identifying loan details including the year funds were allocated, the actual principal loan disbursed and the percentage of the principal repaid as of 12/31/16.

2. Haphazardly selected a sample of 6 loans from the listing obtained in step 1. The selection of the sample should consider the age of the loan, the original dollar value of the loan and the repayment history (percentage repaid as of 12/31/16). The sample will consist of a cross-section of these three characteristics.

Results

We haphazardly selected a sample of 6 loans from the listing obtained in step 1. The selection of the sample considered the age of the loan, the original dollar value of the loan and the repayment history (percentage repaid as of 12/31/16). The sample consists of a cross-section of

these three characteristics and includes loans with an original loan balance totaling \$45,472,527. The sample represents a sample size of approximately 17% of active AHIF loans. The 36 loans in the AHIF portfolio includes loans disbursed from 1996 to 2016 and represents 10 different developers/owners. The sample of 6 loans selected covers loans disbursed from 1997-2016 and includes 4 different developers/owners.

3. For each loan selected in step 2, perform the following procedures:
 - a. Obtain the loan agreement with applicable attachments, recorded deed of trust, original promissory note and the deed of declaration of restrictive covenants related to the loan origination and state whether or not the documentation was obtained.

Results

We obtained the loan agreement with applicable attachments, recorded deed of trust, original promissory note and the deed of declaration of restrictive covenants related to the loan origination for each loan selected in step 2. All documents listed were obtained.

- b. List the repayment terms contained in the loan agreement and the promissory note for each loan.

Results

See Appendices A-F for the repayment terms contained in the loan agreement and promissory note for each loan selected in step 2.

- c. Obtain the annual certified audited financial statements submitted by the developer or other financial documents as specified in the loan agreement and promissory note for the 2009-2015 periods. State whether all information required for submission was available or what information was missing.

Results

We obtained the annual certified audited financial statements submitted by the developer covering the 2009-2015 fiscal periods for each loan selected in step 2. All information was obtained.

- d. Calculate the required annual repayment for the 2009-2015 periods based on the repayment terms specified in the loan agreement and promissory note and the financial information provided by the developer each year. Compare the amount calculated with the required annual repayment amount approved by the County for each period as indicated in their notes in the loan file. State whether any differences exist between the calculations.

Results

We calculated the required annual repayment for each loan selected in step 2 for the 2009-2015 periods based on the repayment terms specified in the loan agreement and promissory note and the financial information provided by the developer each year. We compared the amount calculated with the required annual repayment amount approved by the County for each period as indicated in their notes in the loan file. There were no differences between our calculations and the amounts approved by the County as noted in the loan files.

- e. Obtain a copy of all checks or wire transfers received from the developer between 2010-2016 related to the loan repayment. Compare the amount received and date received with the required annual repayment calculated in step 3(d) and the repayment terms listed in step 3(b). State whether the amounts and timing of the repayments complied with the repayment amounts listed in step 3(d) and the repayment terms listed in step 3(b).

Results

We obtained a copy of all checks or wire transfers received between 2010-2016 from the developer for each loan selected in step 2. We compared the amount received and date received with the required annual repayments calculated in step 3(d) and the repayment terms listed in step 3(b). Except as noted below, all payments were received in the correct amount as calculated in step 3(d) by the repayment date listed in step 3(b):

- The residual receipt payment related to the 2011 financial statements of Calvert Manor was received on October 18, 2012. The loan agreement states repayments must be made by September 24th each year. The payment made was the correct amount.

Management Response

The owner/developer was in the process of a management change following the departure of their Chief Financial Officer. Arlington County staff took this under consideration when evaluating the slight delay in the receipt of payment.

- f. For each payment received in step 3(e) trace the amount deposited to the general ledger cash account in PRISM and to the individual loan account in ATRACK to verify the balance was properly reduced.

Results

We traced the amount of each payment received in step 3(e) to the general ledger cash account in PRISM and to the individual loan account in ATRACK to verify the balance was properly reduced. Except as noted below, all payments were recorded in the correct PRISM account and were also properly reduced in ATRACK:

- The \$85,060.50 payment deposited on March 4, 2013 related to the Madison (Buckingham) was posted to account #101-357000-91102-0000-0000-0000 (a general housing account) instead of account #101-357000-91102-BUK1-AHIF-0000 (the specific sub-account for Madison at Buckingham). The sub-accounts were created by the Department of Community Planning, Housing, and Development to expedite their loan reconciliation process during the fiscal year closing. The sub-accounts all roll up into the general housing account for financial statement purposes so there is no financial impact.

Management Response

County staff confirmed that the deposit was made to the general multifamily housing revenue account (101.357000.91102.0000.0000.0000) rather than the property-specific "sub-account" (101.357000.91102.BUK1.AHIF.0000). As a result, staff did not have the property-specific account for this payment when reconciling revenue balances during FY 2013 closeout, yet the payment was still correctly posted to AHIF revenue account and was appropriately reconciled between Housing and the Department of Management and Finance for FY 2013.

- The \$110,206 payment deposited on March 20, 2012 related to the Monterey (Columbia Heights) was posted to account #101-357000-91102-0000-0000-0000 (a general housing account) instead of account #101-357000-91102-0000-SVWD-COLH (the specific sub-account for Monterey/Columbia Heights). The sub-accounts were created by the Department of Community Planning, Housing, and Development to expedite their loan reconciliation process during the fiscal year closing. The sub-accounts all roll up into the general housing account for financial statement purposes so there is no financial impact.

Management Response

Although the cash receipt input form (CRIF) for the deposit showed the project-specific account code combination (101.357000.91102.0000.SVWD.COLH), the funds were inadvertently posted to the general multifamily housing revenue account (101.357000.91102.0000.0000.0000). As a result, staff did not have the property-specific revenue account for this payment when reconciling revenue balances during FY 2012 closeout, yet the payment was still correctly posted to the AHIF revenue account and was appropriately reconciled between Housing and the Department of Management and Finance for FY 2012.

- g. Sight the hard copy loan agreement and attachments (excluding the promissory note) filed by the asset manager in the asset manager's office. State whether the asset manager produced the documents.

Results

We sighted the hard copy loan agreement and attachments (excluding the promissory note) for each loan selected in step 2 which were filed by the asset manager in the asset manager's office. All information was provided.

- h. Sight the electronic copy loan agreement and attachments by physically viewing the Housing Division folder on the County's L drive.

Results

We sighted the electronic copy of the loan agreement and attachments (excluding the promissory note) for each loan selected in step 2 by physically viewing the Housing Division folder on the County's L drive. All information was provided.

- i. Sight the hard copy Deed of Trust, Deed of Declaration of Restrictive Covenants and Promissory Note in the locked file cabinet in the Housing Division file room. State whether any document was not sighted or if the file cabinet was not locked.

Results

We sighted the hard copy Deed of Trust, Deed of Declaration of Restrictive Covenants and Promissory Note for each loan selected in step 2 located in the locked file cabinet in the Housing Division file room.

- j. Obtain access to the Arlington County Apartment Tracker (ATRACK) internet-based system and compare the loan terms to the terms listed in step 3(b)

Results

We obtained access to the Arlington County Apartment Tracker (ATRACK) internet-based system and compared the loan terms for each loan selected in step 2 to the terms listed in step 3(b). All loan terms agreed.

- k. Obtain access to the Arlington County Apartment Tracker (ATRACK) internet-based system and compare repayment amounts to the amounts obtained in step 3(e).

Results

We obtained access to the Arlington County Apartment Tracker (ATRACK) internet-based system and compared the repayment amounts shown for each loan selected in step 2 to the repayment amounts obtained in step 3(b). All amounts agreed.

- l. Obtain all annual desktop reviews performed by Arlington County Housing staff for the 2010-2016 fiscal years. State whether all annual reviews included a review and approval of the annual operating budget and review and acceptance of the annual audited financial statements.

Results

We obtained the annual desktop reviews performed by Arlington County Housing staff for the 2010-2016 fiscal years. All annual reviews included a review and approval of the annual operating budget and review and acceptance of the annual audited financial statements.

4. Obtain the loan origination and underwriting guidelines utilized by Fairfax County, Virginia and Montgomery County, Maryland relating to multifamily properties. List the types of information applicants must provide in order to obtain project financing and the typical loan terms including types of loans offered, length of loan, interest rate, repayment requirements.

Results

See Appendix G

5. Obtain the Arlington County Affordable Housing Investment Fund Project Funding Guidelines FY 17. Create a table listing the items noted in step 4 with the same items from the Arlington County Affordable Housing Investment Fund Project Funding Guidelines FY 17.

Results

See Appendix G

6. Speak with the Management and Budget Specialist. Inquire about the procedures he performs to disburse loan funds. Compare the procedures he performs with the procedures listed in the "Financial Procedures" section of the Arlington County Multifamily Loan Program "Loan Portfolio Management Procedures and Guidelines" updated as of December 2016. State whether any differences exist between the procedures.

Results

We spoke with the Management and Budget Specialist regarding the procedures they perform to disburse loan funds and compared his statements with the procedures listed in the "Financial Procedures" section of the Arlington County Multifamily Loan Program "Loan Portfolio Management Procedures and Guidelines" updated as of December 2016. No differences existed between the procedures.

7. Speak with the Asset Manager. Inquire about the administrative procedures they perform relating to loan filing and documentation of information in the ATRACK system. Compare the procedures she performs with the procedures listed in the “Administrative Procedures – Loan Filing” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. State whether any differences exist between the procedures.

Results

We spoke with the Asset Manager about the administrative procedures they perform relating to loan filing and documentation of information in the ATRACK system and compared them to the procedures she performs with the procedures listed in the “Administrative Procedures – Loan Filing” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. No differences existed between the procedures.

8. Speak with the Asset Manager. Inquire about the loan monitoring procedures they perform relating to annual operating budgets, annual audited financial statements and insurance certificates. Compare the procedures she performs with the procedures listed in the “Annual Requirements for Borrowers” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. State whether any differences exist between the procedures.

Results

We spoke with the Asset Manager about the loan monitoring procedures they perform relating to annual operating budgets, annual audited financial statements and insurance certificates and compared the procedures she performs with the procedures listed in the “Annual Requirements for Borrowers” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. No differences existed between the procedures.

9. Speak with the Asset Manager. Inquire about the procedures they perform to deposit loan repayments. Compare the procedures she performs with the procedures listed in the “Annual Repayments” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. State whether any differences exist between the procedures.

Results

We spoke with the Asset Manager about the procedures they perform to deposit loan repayments and compared the procedures she performs with the procedures listed in the “Annual Repayments” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. No differences existed between the procedures.

10. Speak with the Asset Manager. Inquire about the annual financial monitoring overview procedures she performs. Compare the procedures she performs with the procedures listed in the “Annual Financial Monitoring Overview” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. State whether any differences exist between the procedures.

Results

We spoke with the Asset Manager about the annual financial monitoring overview procedures she performs and compared the procedures she performs with the procedures listed in the “Annual Financial Monitoring Overview” section of the Arlington County Multifamily Loan Program “Loan Portfolio Management Procedures and Guidelines” updated as of December 2016. No differences existed between the procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Affordable Housing Investment Fund (AHIF) Multifamily Housing Loan Portfolio of Arlington County. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Arlington County Department of Management and Finance and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 30, 2017