The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City's finances and operations, including the reliability of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

Audit Committee

Timothy M. O'Brien, CPA, Chairman
Rudolfo Payan, Vice Chairman
Jack Blumenthal
Leslie Mitchell
Florine Nath
Charles Scheibe
Ed Scholz

Audit Management

Valerie Walling, CPA, CMC®, Deputy Auditor
Heidi O’Neil, CPA, CGMA, Director of Financial Audits

Audit Staff

Dawn Wiseman, CRMA, Audit Supervisor
Brad Harwell, Lead Auditor

You can obtain copies of this report by contacting us:

Office of the Auditor
201 West Colfax Avenue, Department 705
Denver CO, 80202
(720) 913-5000 • Fax (720) 913-5247

Or download and view an electronic copy by visiting our website at: www.denvergov.org/auditor
Report number: A2014-009
December 29, 2016

Paul Washington, Executive Director
Office of Economic Development
City and County of Denver

Re: Audit Follow-Up Report

Dear Mr. Washington:

In keeping with generally accepted government auditing standards and the Audit Services Division’s policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure that audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

This report serves to inform you that we have completed our follow-up effort for the Denver Affordable Housing audit issued November 20, 2014. Our review determined that the Office of Economic Development (OED) has adequately implemented the recommendations made in the audit report.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to OED personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Dawn Wiseman, Internal Audit Supervisor, at 720-913-5069.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Denver Affordable Housing
December 2016

Status
The Office of Economic Development (OED) has implemented the five recommendations made in the November 2014 audit report.

Background
OED includes four main divisions—Housing and Neighborhoods (Housing), Workforce Development, Business Development, and Small Business Opportunity. Through its Housing division, OED provides direct support to eligible renters and homeowners and provides gap financing for affordable housing developers. To accomplish this, OED coordinates with a variety of partners including the federal and state governments, local agencies, the Denver Housing Authority, the Denver Urban Renewal Authority, for-profit and non-profit developers, and a variety of non-profit organizations. To increase Denver’s supply of affordable housing, which has not kept pace with demand, the Mayor announced a 3x5 Initiative in 2013, which charged the City with creating 3,000 affordable units by 2018.

Purpose
The audit assessed OED’s efforts to provide affordable housing in Denver. To accomplish this, auditors considered potential barriers to increasing Denver’s supply of affordable housing, such as dwindling federal funds, and OED’s strategy to overcome these barriers.

Highlights from Original Audit
The audit found that recent efforts may have alleviated OED’s previous lack of emphasis on affordable housing. OED had issued a five-year housing plan, to be followed by annual action plans documenting specific actions and outcomes for each year. Prior to this, OED did not have an official guiding document for its affordable housing activities. The plan includes a variety of leading practices, including actions to streamline the application process for developers. Also, we determined that OED’s strategic plan, JumpStart, demonstrates a gradual increase in the visibility of affordable housing projects and initiatives since 2013.

However, auditors identified opportunities for OED to improve its housing plan and future strategic plans and to increase funding resources for affordable housing. First, certain leading practices such as tax abatements could be worthwhile additions to the plan. In addition, focusing the housing section of OED’s future strategic plans on affordable housing initiatives only would demonstrate an increased emphasis on this critical need for affordable housing. Finally, OED could dedicate more Community Development Block Grant (CDBG) funds to housing activities rather than economic development. A trend analysis of OED’s CDBG spending since 1999 showed a notable decrease in CDBG spending on housing since 2004 when the Division of Housing and Neighborhood Development was combined with other divisions to form OED. Furthermore, a comparison of OED’s CDBG spending to that of benchmark cities illustrated that other cities consistently dedicate CDBG funding to housing rather than economic development.

Findings at Follow-up
While the OED did not increase its percentage of CDBG funds to be dedicated to affordable housing, leadership has taken several other notable steps to increase the supply of affordable housing units in Denver. First, OED established the Revolving Affordable Housing Loan Fund to support the development of 600-700 units. Second, OED has restructured its Housing and Neighborhoods Division to better support on-going affordable housing strategies. Finally, OED, in collaboration with the Mayor’s Office and City Council, established permanent funding sources for affordable housing in the City and County of Denver.

For a complete copy of this report, visit www.denvergov.org/auditor
Audit Contact Person: Dawn Wiseman | 720.913.5069 | Dawn.Wiseman@denvergov.org
## Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINDING: Recent Efforts May Help Alleviate the Office of Economic Development’s Previous Lack of Emphasis on Affordable Housing</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1.1  
The Office of Economic Development’s Executive Director should consider allocating a greater percentage of CDBG funds to affordable housing for the fiscal year 2016 budget cycle. | OED did not increase its allocation of CDBG funds from 2014 to 2015 because new resources that are better suited to affordable housing were used as OED focused on new construction in 2015. Specifically, the Revolving Affordable Housing Loan Fund was used, since CDBG funds cannot be utilized for new construction. According to OED officials, the CDBG grant for 2016 was $6.3 million and was allocated as applications were received. | **Implemented** |
| 1.2  
The Office of Economic Development’s Executive Director and Housing Director should pursue a permanent source of dedicated local funding, such as a tax levy, bonds, or property taxes, to aid in addressing declining federal funding sources. | OED has taken a variety of steps to establish a permanent source of local funding to support affordable housing. In 2015, the $10 million Revolving Affordable Housing Loan Fund was established with the support of the Colorado Department of Local Affairs and Colorado Housing and Finance Authority. In 2016, the Mayor allocated $8 million for affordable housing to create new units. Also, in 2016, City Council passed an ordinance that established two permanent funding sources dedicated to affordable housing. One funding source is through a property tax mill levy of 0.5 mills and the second funding source is through a linkage fee imposed on new commercial and residential construction projects based on the gross square footage of the project. | **Implemented** |
# Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.3</strong> The Office of Economic Development’s Executive Director should better focus OED’s Housing and Neighborhood Development pillar within JumpStart on affordable housing activities and those initiatives that directly benefit affordable housing in future strategic plans.</td>
<td>Through Denver’s JumpStart 2015 and 2016 plans, OED has articulated new construction, finance, and policy and information strategies to support affordable housing preservation and development. Over the next year, OED plans to develop 600 units with identified partners and develop a tool to analyze the long-term needs of Denver.</td>
<td><strong>Implemented</strong></td>
</tr>
<tr>
<td><strong>1.4</strong> The Office of Economic Development’s Executive Director should consider utilizing certain additional leading practices to increase the supply of affordable housing, including tax abatements or exemptions, and shared equity mechanisms and document these strategies in updates to the Denver Housing Plan.</td>
<td>Throughout 2015, OED sought out information from peer cities to understand the usage of many finance tools to incorporate into the Denver Housing Plan. In 2016, OED has been active in peer city working groups, such as Enterprise Community Partners High Cost Housing Forum and the National Housing Trust’s Inclusive Communities Working Group, to learn and share affordable housing best practices.</td>
<td><strong>Implemented</strong></td>
</tr>
<tr>
<td><strong>1.5</strong> The Office of Economic Development’s Executive Director should assess the potential benefits of structural changes that may increase the visibility of housing with OED and document the outcome.</td>
<td>In 2015, OED reorganized the Housing and Neighborhoods Department and hired three additional staff to further support new housing developments, housing policy, and ongoing evaluation efforts.</td>
<td><strong>Implemented</strong></td>
</tr>
</tbody>
</table>
Conclusion

We found that the Office of Economic Development has fully implemented all recommendations and adequately mitigated the risk identified during the original audit. As a result, we conclude our follow-up effort related to the Denver Affordable Housing audit.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Office of Economic Development for their cooperation during our follow-up effort and their dedicated public service.