



Susan Montee, JD, CPA  
Missouri State Auditor

---

# MISSOURI HOUSING DEVELOPMENT COMMISSION

---

June 2009  
Report No. 2009-65



---

[auditor.mo.gov](http://auditor.mo.gov)



Office of the  
Missouri State Auditor  
Susan Montee, JD, CPA

June 2009

The following findings were included in our audit report on the Missouri Housing Development Commission.

---

The Missouri Housing Development Commission (MHDC) Standards of Conduct policy does not require commissioners and employees in positions with significant decision making capacity to publicly disclose actual and potential conflicts of interest and/or situations which could present the appearance of a conflict of interest. Commissioners are not required to recuse themselves in situations involving actual/potential conflicts of interest. We identified two commissioners who appeared to have at least the appearance of conflicts of interest, but did not recuse themselves from decision making or actions relevant to the parties involved in the potential conflict. As noted in our audit report No. 2008-23, *Analysis of Low Income Housing Tax Credit Program*, a perception exists that political influence and campaign contributions to elected officials on the commission influenced the project selection process. In addition, soliciting donations for conference expenses from entities doing business with the MHDC gives the appearance of, and may result in, potential conflicts of interest. Also, assistant attorney generals acting on the behalf of the Attorney General do not file annual personal financial disclosure forms with the Missouri Ethics Commission pursuant to state law.

According to some former and current employees, MHDC's management practices contribute to low employee morale. The results from a survey we sent to 48 former and 27 current employees indicate there are employee morale problems, some involving the relationship between employees and management. For former employees, the most commonly cited reason for leaving was conflict with management and/or supervisors. There was also the perception management did not use fair practices when hiring or promoting employees. The MHDC does not normally verify applicants' education, professional certifications, prior employment, or personal references when filling job vacancies. MHDC records were not always in agreement with state merit system records maintained by the Office of Administration (OA). One employee's actual job responsibilities and duties did not appear compatible with the job description for the employee's merit system classification. A second employee's position and classification did not appear to be properly identified in OA records.

MHDC procurement policies and procedures need to be improved. There is inadequate guidance on the solicitation method, evaluation criteria, renewal options and frequency of bids, and documentation to be maintained/retained. The procurement policy, revised effective September 2008, now requires written price quotes from at least three vendors, and provides some guidance on selecting the supplier using objective and/or subjective criteria. However, the policy does not require documentation of the evaluation of bids/proposals, nor does it provide guidance regarding limits on the number of renewal

YELLOW SHEET

options for contracts, or the frequency of when goods and services should be bid. On an individual basis, MHDC management determines the length of contracts/agreements and when to bid for goods and services. Also, the policy does not include guidance on documentation retention requirements.

Competitive proposals are not always obtained on a periodic basis for some professional services. It has been many years since the procurement of bond trustee services for the single and multi-family bond programs, and limited documentation was available to substantiate the performance reviews or assessment of the reasonableness of the trustee's fees. Also, the bond trustee made campaign contributions to some elected officials serving as commissioners. The MHDC did not always solicit bids or request competitive proposals for goods and services in compliance with its procurement policy or retain documentation of the bids or requests. The MHDC has not established procedures to file payment documentation in a centralized location. Some invoices did not provide sufficient information for management to verify accuracy and reasonableness of the amounts billed and invoices were not on file for some expenditures. Documentation to support journal entries in the accounting system was not always adequate, and there was no management review or approval of the journal entries. Some expenditures reviewed did not appear to be allowable, prudent, or necessary uses of public funds, including alcohol purchases totaling nearly \$15,000 for receptions during the 2006 and 2007 Governor's Conferences on Housing and the purchase of 1,000 promotional brochures (at \$28 each) about MHDC programs/activities. Similar information about MHDC programs/activities was previously available in the MHDC annual report at a lower cost per report. Additionally, other expenditures were not properly classified in the MHDC accounting system.

The supporting documentation for employee related expenses such as meals, lodging, and conference/meeting charges was not always adequate and did not always comply with MHDC policy. Executive staff expense reimbursements and credit card account statements are not always properly reviewed and approved. In November 2008, the Executive Director and Director of Operations received expense reimbursements of \$18,000 and \$2,545, respectively, for professional fee expenses incurred between November 2007 and November 2008. Documentation supporting the reimbursements did not include any itemization of these expenses, information supporting these expenses were actually incurred, or information explaining how the expenses related to official MHDC business. Upon our request for additional information, the Executive Director responded, "The requested information is relative to an ongoing investigation, the specifics of which we are not at liberty to discuss."

Policies regarding public access to MHDC records, record retention, and document destruction need to be improved. The MHDC does not have a complete written policy regarding public access to its records as required by Chapter 610, RSMo (Sunshine Law). The MHDC has also not established a formal written policy for record retention and document destruction as required by state law.

Various concerns were noted regarding the MHDC capital asset/property records and related procedures. Capital asset duties are not adequately segregated, property tag numbers are not unique, and a disposition policy has not been established. Finally, the MHDC does not periodically perform a cost-benefit analysis for leased property and equipment.

**All reports are available on our Web site: [www.auditor.mo.gov](http://www.auditor.mo.gov)**

MISSOURI HOUSING DEVELOPMENT COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-4
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....	5-34

<u>Number</u>	<u>Description</u>	
1.	Conflicts of Interest and Personal Financial Disclosure Statements .....	6
2.	Personnel Matters .....	10
3.	Procurement Policy .....	15
4.	Expenditures .....	18
5.	Employee Related Expenses .....	26
6.	Public Records .....	31
7.	Capital Assets .....	32

HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION .....	35-49
--	-------

Appendix

	Balance Sheet	
A-1	As of June 30, 2008 .....	40
A-2	As of June 30, 2007 and 2006.....	42
	Statement of Revenues, Expenses and Changes in Net Assets	
B-1	Year Ended June 30, 2008 .....	44
B-2	Two Years Ended June 30, 2007 .....	45
	Statement of Cash Flows	
C-1	Year Ended June 30, 2008 .....	46
C-2	Two Years Ended June 30, 2007 .....	48

STATE AUDITOR'S REPORT



**SUSAN MONTEE, JD, CPA**  
**Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
Members of the General Assembly  
and  
Linda M. Martínez, Director  
Department of Economic Development  
and  
Missouri Housing Development Commission  
and  
Pete Ramsel, Executive Director  
Missouri Housing Development Commission  
Kansas City, Missouri

We have audited the Missouri Housing Development Commission. The commission engaged BKD LLP and RubinBrown LLP, Certified Public Accountants (CPAs), to audit the commission's financial statements for the year ended June 30, 2008 and the two years ended June 30, 2007, respectively. To minimize duplication of effort, we reviewed the reports and substantiating working papers of the CPA firms. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2008, 2007 and 2006. The objectives of our audit were to:

1. Evaluate the commission's internal controls over significant management and financial functions.
2. Evaluate the commission's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain revenues and expenditures.

Our objectives did not include analyses of the commission's tax credit programs. Separate reports were issued for the audits of these programs. In April and July 2008, the State Auditor's Office issued audit report No. 2008-23, *Analysis of Low Income Housing Tax Credit Program*, and No. 2008-47, *Analysis of Affordable Housing Tax Credit Program*, respectively. Our objectives also did not include compliance with certain federal requirements which are

covered by an annual audit performed by the commission's CPAs in accordance with the Office of Management and Budget Circular A-133.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the commission, as well as certain external parties; analysis of responses to written surveys or of input otherwise received from concerned parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the commission's management and was not subjected to the procedures applied in our audit of the commission.

The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri Housing Development Commission.



Susan Montee, JD, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Toni M. Crabtree, CPA
In-Charge Auditor:	Gayle A. Garrison
Audit Staff:	Rex Murdock, M.S.Acct. Connie James Kimberly Shepard



MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

MISSOURI HOUSING DEVELOPMENT COMMISSION  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

**1. Conflicts of Interest and Personal Financial Disclosure Statements**

The Missouri Housing Development Commission (MHDC) Standards of Conduct policy does not require full public disclosure of conflicts of interest. Two commissioners voted on decisions/projects when there was at least an appearance of a conflict of interest. In addition, there appears to be a perception that political influence and campaign contributions to elected officials on the commission influence the project selection process. Also, soliciting donations for conference expenses from business-related entities appears to be a potential conflict of interest. Finally, employees of the Attorney General who act on his behalf do not file annual personal financial disclosures with the Missouri Ethics Commission.

- A. The Standards of Conduct policy does not require commissioners and employees in positions with significant decision making capacity to publicly disclose actual and potential conflicts of interest and/or situations which could present the appearance of a conflict of interest.

In 2007, the MHDC recognized its policy needed to be revised for conflicts of interest issues and appointed a subcommittee in December 2007 to create an updated policy. In spite of working on a new policy for over a year, the subcommittee has not been able to reach a consensus on how to handle actual/potential conflicts of interest and/or the appearance of conflicts of interest. A commissioner identified below as having conflicts of interest chaired the subcommittee through January 2009.

The existing policy provides commissioners and employees should 1) "avoid conflicts between their duties to MHDC and their own personal interests", 2) identify and disclose potential conflict to appropriate person(s), and 3) take appropriate steps, including "... recusing themselves from decision-making or action pertaining to the situation." A draft of a new Standards of Conduct presented to the MHDC for its input in May 2008 strengthen some issues such as requiring 1) disclosure of actual/potential conflict of interest to the Commission Chairman and Executive Director prior to the next commission meeting and 2) recusal by the individual from action pertaining to the situation. In addition, the draft provided the commissioners, executive director, and department directors who participated in the final decisions regarding the disposition of MHDC administered funds or the letting of any MHDC contracts could not appear before the commission or receive compensation for services from the commission for 1 year after discontinuing their employment or service. However, this provision was eliminated in a subsequent draft. This provision is similar to provisions in Chapter 105, RSMo, regarding prohibited acts by elected and appointed public

officials and employees. The MHDC should consider including these provisions in its policy.

A subsequent draft, presented to the MHDC in November 2008, also provides that communication with commissioners by any individual regarding any matter coming before the MHDC for an authorizing vote on housing developments is not subject to public record requirements under the Sunshine Law (Chapter 610, RSMo). It is unclear why these types of communications should be closed under the Sunshine Law.

Neither the current policy nor the draft revisions provide for public disclosure of actual/potential conflicts or the appearance of a conflict of interest. Commissioners and employees of the MHDC serve in a fiduciary capacity. The Missouri Supreme court has stated, "A public officer owes an undivided loyalty to the public whom he serves and he should not place himself in a position which will subject him to conflicting duties or expose him to the temptation of acting other than in the interests of the public ..." State v Cumption 240 S.W. 2d 877,866 (Mo banc. 1951). In addition, entities receiving federal funds, such as the MHDC, are subject to federal rules and regulations regarding the conduct of public officials, including the right of the public to the "honest services" of public officials.

In the interest of complete transparency and full disclosure to the public, the MHDC policy should require conflicts of interest and/or situations which could present the appearance of a conflict of interest, to be reported to the MHDC in writing. The written report should describe the nature and circumstances of the conflict, be included in the official record of the MHDC, and be made available to the general public. The MHDC should ensure its policy is in compliance with state and federal law. Also, the MHDC should consider excluding any commissioners from the subcommittee who have reported conflicts of interest.

- B. Commissioners are not required to recuse themselves for actual/potential or the appearance of conflicts of interest. We identified two commissioners who appeared to have at least the appearance of conflicts of interest, but did not recuse themselves from decision making or actions relevant to the parties involved in the potential conflict. As noted above, the current policy does not require individuals to recuse themselves from decision-making or action pertaining to the situation. The policy allows the individuals to decide what steps are appropriate in the situation.

A commissioner reported on his annual personal financial disclosures filed with the Missouri Ethics Commission that he is a member of a limited partnership. This partnership includes another individual whose separate business activities periodically receive funding from the MHDC for low income housing development projects. The commissioner has not recused himself from decisions or actions of the MHDC related to these housing development projects.

As previously reported in newspaper articles, another commissioner sold properties he owned for over \$6.7 million to two different developers who periodically receive funding through the MHDC for low income housing development projects. The commissioner has not recused himself from MHDC decisions or actions related to these developers' housing development projects. The commissioner reported the possibility of a conflict for one of these transactions to the Commission Chairman.

The following table shows the funding approved by the 2 commissioners during the 2008, 2007, and 2006 funding cycles related to these situations:

Type of Project Funding	Commissioner #1	Commissioner #2
9% Tax Credits (1)	\$ 27,855,050	67,070,000
MHDC Loans	820,000	2,180,000
HOME Federal Grant Funds	930,000	7,645,000
Third Party Loans	0	3,150,000
Total funding	\$ 29,605,050	80,045,000

(1) Represents total tax credits which can be redeemed by the owner over a ten year period.

Commissioners #1 and #2 resigned from the board in December 2008 and January 2009, respectively.

To avoid conflicts of interest or the appearances of a conflict of interest, the commissioners should recuse themselves from decisions or actions on housing development projects proposed by individuals or entities with which they have a business relationship or have engaged in significant financial transactions.

- C. As noted in our audit report No. 2008-23, *Analysis of Low Income Housing Tax Credit Program*, there appeared to be a perception that political influence and campaign contributions to elected officials on the commission influenced the project selection process. In a publicized case, a developer questioned why, during the 2007 project selection process, he had fewer projects approved than other developers despite political contributions he had made.

To evaluate the source of contributions to elected officials on the MHDC, we reviewed campaign contribution data submitted to the Missouri Ethics Commission. However, the records could not be easily searched and limited information made it difficult to always match specific donations to developers or developers' organizations.

To avoid conflicts of interest or the appearances of a conflict of interest, elected officials serving on the commissioner should recuse themselves from decisions or

actions on housing development projects proposed by individuals or entities from whom they have received campaign contributions.

- D. Soliciting donations for conference expenses from entities doing business with the MHDC gives the appearance of, and may result in, potential conflicts of interest.

The MHDC solicited and received contributions from various housing development-related companies and organizations to partially fund the 2006 Governor's Housing Conference hosted by the MHDC and the 2007 Governor's Conference on Economic Development hosted by the Missouri Department of Economic Development. According to MHDC records, contributions totaling approximately \$42,000 were received during the 2 years ended June 30, 2007. We examined the list of contributors and noted that many of the companies and organizations provided services to the MHDC or were developers funded by the MHDC.

Actively soliciting contributions from these entities gives the appearance of, and may result in, a conflict of interest. The MHDC should discontinue soliciting contributions from companies and organizations which have a business relationship with the MHDC.

- E. Assistant attorney generals acting on the behalf of the Attorney General do not file annual personal financial disclosure forms with the Missouri Ethics Commission pursuant to state law.

Several different assistant attorney generals attended MHDC meetings to represent the Attorney General during the last several years. These assistant attorney generals act as a commissioner with the full powers and duties of the Attorney General including discussing and voting on policies, contracts, and agreements; approving millions of dollars of long term debt; and approving millions of dollars of project funding and tax credits to multi-family housing project developers and homeowner assistance programs.

Section 105.483.12, RSMo, requires any person who is designated as a decision-making public servant to file personal financial disclosures. It appears the assistant attorney generals who fulfill duties of a commissioner are decision-making public servants and should file annual personal financial disclosures.

**WE RECOMMEND** the MHDC:

- A. Finalize a new Standards of Conduct policy that requires commissioners and employees to disclose conflicts of interest and/or the appearance of conflict of interest in writing to the MHDC. Those reports should be included in the official record of the MHDC and made readily available to the general public. The policy should be in compliance with the state and federal law.

- B&C. Ensure commissioners and employees abstain from voting on issues and decisions when actual/potential conflicts of interest and/or the appearance of a conflict of interest have been identified.
- D. Discontinue the practice of soliciting contributions from companies and organizations which have a business relationship with the MHDC.
- E. Work with the Attorney General to ensure the assistant attorney generals acting as a commissioner on his behalf file annual personal financial disclosures with the Missouri Ethics Commission.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A-C. The Standards of Conduct Committee met on May 12, 2009. The Committee is in the process of developing appropriate revisions to MHDC's current Standards of Conduct Policy.*
- D. MHDC staff agrees with this recommendation. Such practice has already been terminated and a new policy has been developed and will be submitted to the Policy Committee and the Commission for approval during the next fiscal year.*
- E. MHDC staff disagrees with this recommendation. The elected officials who serve on the Commission submit their Personal Financial Disclosure Statements (PFDS) to the Missouri Ethics Commission. The determination of the individuals within their offices who should also submit a PFDS is rightfully made by the elected officials.*

<b>2.</b>	<b>Personnel Matters</b>
-----------	--------------------------

According to some former and current employees, MHDC's management practices contribute to low employee morale. In addition, some hiring practices need to be improved and MHDC's records were not always in agreement with the state's merit system records.

Pursuant to state law, MHDC employees are classified as state employees. With a few exceptions, employees are subject to the Missouri Merit System rules and regulations administered by the Office of Administration (OA).

- A. It appears management practices may be contributing to low employee morale. Low employee morale may negatively affect MHDC programs and operations.

Complaints concerning management and employee morale issues were reported to us during the audit. To review these complaints/concerns and to help us gain a better understanding of the extent of the low employee morale, we sent a survey

to 48 former employees who terminated employment between July 2005 and March 2008 and 27 current employees. We excluded former employees who had been fired to eliminate individuals who would tend to have a negative bias. Responses were received from 23 former employees (48 percent response rate) and 17 current employees (63 percent response rate).

The survey asked various questions, including the employee's overall level of job satisfaction, reason(s) for leaving, and how they were treated by management. Responses to questions posed in the survey provided the following results:

- 48 percent of former employees and 30 percent of current employees who responded reported low job satisfaction.
- 78 percent of former employees and 41 percent of current employees who responded reported management/supervisors 1) did not treat employees well and with respect, 2) did not give fair and equal treatment, and 3) did not welcome suggestions and feedback from employees.
- Many of the surveys returned by former employees cited multiple reasons for leaving employment including, but not limited to, conflict with supervisor(s)/management, higher pay, better job opportunity, and retirement. The most commonly cited reason was conflict with management and/or supervisors.

While some surveys returned provided positive feedback regarding the employment experience with MHDC management, the survey results indicate there are employee morale problems, some involving the relationship between employees and management. It should be noted the complaints/concerns shared with us involved various positions from clerks to management, including some individuals with many years of experience.

The following represent selected comments received from former and current employees who returned a survey to us. For these employees, the average length of employment reported on the surveys was over 9 years.

- "The atmosphere at MHDC is a hostile/negative work environment."
- "I did not feel like a valued employee."
- "Morale is very low. You are labeled a trouble maker for making suggestions."
- "Morale is at an all time low. Most people are scared they will lose their job for basically no reason."

- "I respectfully decline to reply (to the survey) for fear of retaliation from management."

There was also the perception management did not use fair practices when hiring or promoting employees and employees were written up for minor indiscretions to support terminating those employees, especially longer tenured employees. In addition, we noted the employee manual was not available to employees from October 2007 through March 2008. According to management, the manual was removed from the MHDC intranet so that revisions could be made. However, based on comments in the surveys it appears this action was perceived negatively by some individuals. Providing clear expectations to employees, including providing access to the official employee manual, is vital to good personnel management and supervision.

It appears efforts are needed to improve employee/management relations. The MHDC should conduct or authorize an in-depth, independent review of management practices to gain a better understanding of the problems that exist and take corrective actions as needed. Additionally, the MHDC should consider conducting exit interviews with employees to determine reasons employees leave employment and/or to obtain suggestions from employees.

B. Some hiring practices need to be improved.

- 1) The MHDC does not normally verify applicants' education, professional certifications, prior employment, or personal references when filling job vacancies. MHDC management indicated they believed individuals hired through the state merit system had been subjected to these verifications by the OA. However, according to OA personnel, agencies are expected to perform these verifications when making hiring decisions for applicants under final consideration.

Good personnel management practices include verifying information submitted by applicants prior to making offers of employment. Additionally, the OA policy provides that state agencies under the Governor are required to perform professional reference checks. This policy may be adopted by commissions of the state. For applicants being considered for employment, the MHDC needs to establish procedures to verify an applicant's education, professional certifications, prior employment, and personal references.

- 2) The MHDC had no documentation to support criminal background and state income tax filing compliance checks were performed for three recently hired employees. Also, the MHDC does not periodically conduct criminal history checks for employees in sensitive or management positions.



Upon request by the MHDC, the Department of Economic Development (DED) conducts criminal background, tax compliance, and driver license checks for new employees. It appears the MHDC did not request these checks from the DED for these 3 employees.

OA policy SP-10 provides that state agencies under the Governor shall perform pre-employment criminal history checks and also should perform criminal history checks on current employees who may assume duties in sensitive job areas and/or managerial positions. This policy may be adopted by commissions of the state. Also, Section 105.262.1, RSMo, requires, "As a condition of continued employment with the state of Missouri, all persons employed full time, part time, or on a temporary or contracted basis by the executive, legislative, or judicial branch shall file all state income tax returns and pay all state income taxes owed."

The MHDC needs to ensure all applicable employment checks are performed for new employees.

C. MHDC records were not always in agreement with state merit system records. The OA maintains merit system records for employees based on information furnished by the MHDC.

- 1) One employee's actual job responsibilities and duties did not appear compatible with the job description for the employee's merit system classification. The employee's merit system classification is Housing Development Officer; however, the employee's internal title is executive assistant.

The MHDC has not developed a job description for the position of executive assistant, and the actual duties/responsibilities of this employee are not consistent with the job description of a housing development officer in the merit system. The employee's compensation is within the pay range for this merit classification; however, it is unclear what the proper compensation should be for an executive assistant.

It appears the MHDC may have circumvented requirements of the merit system for this employee. Such practices may give the appearance of favoritism in employee appointments. The MHDC should prepare a job description for the duties of an executive assistant, correct the employee's merit system classification, and ensure the employee's pay is consistent with the corrected classification's pay range. Similar actions should be taken to review and correct merit system classifications for any other employees whose actual duties/responsibilities are not compatible with their merit system classification.

- 2) A second employee's position and classification was identified in OA records as an unclassified attorney position. However, this employee serves as MHDC human resource director and is not identified as an attorney by the Missouri Bar Association.

The state merit system rules and regulations allow certain positions to be unclassified (not subject to merit system rules/regulations regarding hiring practices) if certain requirements are met, such as serving as an attorney for the agency. Merit system records need to be complete and accurate to ensure positions are properly identified and proper merit system practices are followed.

**WE RECOMMEND** the MHDC:

- A. Take action to improve employee/management relations to positively impact employee morale and MHDC programs, and operations. Such actions should include an in-depth, independent review and evaluation of management/supervisory practices.
- B.1. Establish procedures for verification of education, professional certifications, prior employment, and personal references for applicants under final consideration.
  2. Perform criminal history and state income tax filing compliance checks for all individuals under final consideration for employment. In addition, periodic criminal history checks should be performed for current employees in sensitive or management positions.
- C.1. Ensure employees' actual job duties/responsibilities and pay rates are compatible with the state merit system job descriptions and pay ranges.
  2. Ensure employees' positions/classification are properly identified in the state merit system records and proper merit system practices are followed.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A. *MHDC staff agrees with a portion of this recommendation. MHDC strives to provide a professional culture that encourages the development of its staff. MHDC currently administers employee programs which include recognition for milestones and extraordinary performance, thereby fostering an environment of positive reinforcement. MHDC will continue to recognize and reward quality performance. In addition, MHDC will provide supervisory and management training intended to encourage positive employee/management communications and relations.*

*The auditor recommends an in-depth, independent review and evaluation of management/supervisory practices. MHDC staff will consider this recommendation and discuss options with the Board Chairman.*

- B.1. MHDC staff agrees with this recommendation. Although MHDC has sought verifications for management level positions, we have been inconsistent in verification of non-management level positions. MHDC currently employs a professional and qualified human resources staff capable of developing a standardized process in this area. MHDC will immediately implement a process to follow the recommendations of the auditors in verifying the qualifications of applicants.*
  
- 2. MHDC staff agrees with this recommendation. For the past couple of years, MHDC consistently ensured that background checks were completed for all new hires and will continue to do so. MHDC will immediately implement a process to conduct periodic criminal history checks for current employees in sensitive or management positions.*
  
- C.1. Insofar as MHDC continues to be statutorily required to participate in the merit system, MHDC staff agrees with this recommendation. However, the nature of MHDC's business does not fit neatly within the merit system and variances from generic job descriptions provided through the Office of Administration are, therefore, inevitable. MHDC does, however, recognize that the job classifications specific to MHDC's business are outdated and in need of revision. MHDC will review such classifications in fiscal year 2010 and investigate the feasibility of changes.*
  
- 2. Insofar as MHDC remains statutorily required to participate in the merit system, staff agrees with this recommendation. MHDC endeavors to ensure that all applicable employee positions are properly identified and classified within the merit system and will continue to do so.*

<b>3. Procurement Policy</b>
------------------------------

MHDC procurement policies and procedures need to be improved. There is inadequate guidance on the solicitation method, evaluation criteria, renewal options and frequency of bids, and documentation to be maintained/retained.

The previous procurement policy required competitive bids for equipment and services costing more than \$5,000 and delegated purchasing authority to various management staff for items costing less than \$5,000. The revised policy, effective September 2008, now requires the use of a purchase requisition and competitive price quotes for all purchases exceeding \$3,000 and Executive Director approval for all purchases exceeding \$5,000. The following weaknesses in the procurement policies and procedure were noted:

- A. The revised procurement policy requires written price quotes from at least three vendors. However, the policy does not allow for other methods of solicitation.*

Through August 2008, the MHDC used many different methods of solicitation and did not document the rationale for selecting one method over another, other than the personal preference of the individual procuring the goods/services. For example, price quotes/bids were obtained by phone, Internet, catalog, or mail. In addition, the MHDC used multiple methods of notifying potential vendors of opportunities for bids/requests for proposal including advertising in newspapers and professional publications, publishing information on its web-site, and direct notification to vendors.

Depending on the situation and estimated cost of the goods/services, various methods could be used including catalog comparisons, e-mail quotes/bids, telephone quotes/bids, fax quotes/bids, and sealed bids. Also, consideration should be given to when bids/proposals should be formally advertised, when sealed bids should be used, and when requests for quotation or bids are necessary. The policy should also indicate exceptions to the policy (i.e. emergency or sole source procurements) and the minimum number of bids required.

- B. Although the revised procurement policy provides some guidance on selecting the supplier using objective and/or subjective criteria such as availability, quality, value, and supplier performance, the policy does not require documentation of the evaluation of bids/proposals.

Documented evaluation criteria was not used for the procurement of some services such as commercial banking, bond counsel, multi-family bond trustee, financial advisor, loan servicing, or a tax credit study. Also, the decision process for selecting the commercial banking and financial advisor services was not clearly documented. In addition, no documentation was available to support why a lower cost proposal for financial advisor services was not selected.

Establishing evaluation criteria helps ensure bids/proposals comply with mandatory specifications and requirements and are the lowest and best. Additionally, the criteria and the relative weight of each criterion should be part of the solicitation document if a subjective evaluation is used. Also, the evaluation documentation should be retained.

- C. Although the revised procurement policy provides that competitive price quotations may be waived for a period not to exceed 3 years in connection with supplier performance, the policy does not provide guidance regarding limits on the number of renewal options for contracts or the frequency of when goods and services should be bid. On an individual basis, MHDC management determines the length of contracts/agreements and when to bid for goods and services.

Establishing the number of renewal options and the frequency for bidding helps ensure the opportunity for prospective vendors to compete and the MHDC receives the best value for the cost.

- D. The revised procurement policy does not include guidance on documentation retention requirements.

MHDC staff who perform bidding generally create and maintain procurement documentation in their department. However, bid documentation was not always adequate and/or retained. In addition, some expenditures were not supported by original invoices, the method to notify prospective vendors was not always documented, and the date and time sealed bids were received was not always recorded. Additional documentation weaknesses are identified in MAR finding number 4.

All documentation related to each procurement should be maintained in a centralized manner so there is a clear audit path linking the solicitation process, evaluation, award, and payment. Documentation may include 1) solicitation document, 2) list of vendors solicited, 3) original/copy of each written bid received, 4) bid record/tabulation summary sheet, 5) correspondence concerning the procurement, 6) evaluation, 7) written explanation if award is to other than the lowest/best bidder, 8) written justification for restrictive, proprietary, or brand name specification, and 9) written documentation for a single feasible source procurement.

**WE RECOMMEND** the MHDC:

- A. Establish policies and procedures regarding the appropriate solicitation methods and the applicable cost threshold for each method. The policy should also indicate possible exceptions to the policy and the minimum number of bids required.
- B. Require objective and/or subjective criteria be used to evaluate bids and proposals, as appropriate. The evaluation documentation should be retained.
- C. Establish guidance regarding renewal periods and frequency of when goods and services should be bid.
- D. Maintain procurement documentation in a centralized manner so there is an audit path linking the solicitation process, evaluation, award, and payment.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A-C. MHDC staff agrees with this recommendation. Staff will continue to refine the agency's purchasing policy and will submit the revised policy for commission approval during fiscal year 2010. In certain circumstances, competitive procurement may not be necessary or appropriate for certain business needs and circumstances. In*

*such situations, MHDC will continue to exercise prudent judgment and decision-making.*

- D. *MHDC staff will evaluate its current process and determine the efficiencies of making the recommended change.*

<b>4. Expenditures</b>
------------------------

A competitive bidding process was not always appropriately used, bid documentation was not always obtained and retained, and supporting documentation for expenditures and journal entries was not always adequate. Also, some expenditures did not appear to be necessary or prudent uses of MHDC funds or properly classified in the accounting system.

According to MHDC audited financial statements, general and administrative expenses, excluding payroll related expenses, totaled over \$10.8 million for the 3 years ended June 30, 2008.

As noted previously, there are weaknesses in MHDC procurement policy. These weaknesses contributed to the problems noted below:

- A. Competitive proposals are not always obtained on a periodic basis for some professional services. For example, it has been many years since the procurement of bond trustee and bond credit rating services for the single and multi-family bond programs. The MHDC established these programs in 1995 and 2000, respectively. The MHDC paid approximately \$785,000 and \$430,000 for the bond trustee and bond credit rating services, respectively, during the 3 years ended June 30, 2008.

The MHDC indicated the selection of a vendor for these services is most appropriate when a bond program is established and transferring services to a different vendor would be inefficient. Thus, MHDC practice is to only obtain bond trustee and rating services when a bond program is created or substantially changed. According to MHDC management, competitive proposals have not been solicited since these programs have not substantially changed. MHDC management also told us the bond trustee's performance and changes in fees are periodically reviewed for reasonableness and compared to fees paid by other housing finance agencies and a major competitor. However, limited documentation was available to substantiate the performance reviews or assessment of the reasonableness of the fees. In addition, the original vendors for the bond trustee services have been acquired by or merged with other financial entities and the economy and financial markets have changed significantly since the programs were created. Also, the bond trustee made campaign contributions to some elected officials serving as commissioners. This situation could

contribute to the perception of political influence impacting commission decisions.

The MHDC should consider requesting proposals for bond trustee and rating services related to the Single Family Bond and Multi-Family Bond programs on a periodic basis, especially when there are significant changes in the conditions and circumstances regarding the vendor or the financial market. If the MHDC decides competitive procurement for professional services approved by the MHDC is not necessary or feasible, the reason(s) should be clearly documented and alternative procedures should be performed, documented, and retained to ensure the MHDC is receiving the best services at the best value.

- B. The MHDC did not always solicit bids or request competitive proposals for goods and services in compliance with its procurement policy and/or did not retain documentation of the bids/requests. In addition, some bids, studies, or price quotes were over 10 years old and did not appear to justify the continued use of the same vendors.

Competitive bids/proposals were not performed or documentation was not retained for the following goods and services:

Purchase	Costs for the three years ended June 30, 2008
<hr/>	
Office rent	
Kansas City	\$ 1,736,752
St. Louis	675,876
Computer services	
Wide area network	316,201
Data back up and recovery	71,250
Wireless internet access	55,507
Equipment leases	
Computer hardware lease	279,032
Copier leases	299,575
Legal Counsel	200,842
Mortgage bankers bond	173,921
Appraisals	184,125
Governor's Conference on Housing	
2006 facilities and lodging	42,907
2006 banquet	13,832
2005 facilities and lodging	39,908
2005 banquet	18,784
Property Management Conference	
2006 facilities and lodging	18,949
Commission Meeting	
June 2006 facilities and lodging	14,650
Printing and publishing	
promotional brochure	28,850
2005 annual report	16,787
	<hr/>
	\$ 4,187,748
	<hr/> <hr/>

The MHDC indicated bids were solicited for the wireless internet access; price quotes were obtained for the 2005 annual report, conferences and commission meetings; price quotes were obtained for the wide area network services in 2004 and the mortgage bankers bond in 2003; and a study was performed for the computer hardware lease in 1998; however, documentation was not retained. Also, we question whether price quotes and studies in 1998, 2003, and 2004 justify continued use of the same vendors.

In addition, the MHDC extended a vendor's existing contract to obtain unrelated services. The existing contract was to review and evaluate the budgets of entities



receiving funding from the MHDC under its multi-family bond program. The MHDC extended the contract to obtain 1) modifications to a web-based reporting system used by the MHDC and 2) a comprehensive assessment and conceptual design of significant enhancements for the web-based reporting system. The amended contract provided up to \$30,375 and \$100,00 for the system modifications and assessment/conceptual design, respectively. Also, the vendor was allowed to begin performing services several months before the MHDC formally accepted the vendor's proposal outlining the services and associated costs.

Good procurement practices for purchases provide a framework for the economical management of resources and help ensure the MHDC receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in MHDC business.

The MHDC should ensure goods and services are procured through a competitive bid process and bid documentation is retained. When, under unusual circumstances, the MHDC determines requests for proposals are not feasible, the reasons should be clearly documented and alternative procedures should be performed and documented to ensure the vendor selected is uniquely qualified to provide the services required and fees for the services are reasonable. Also, when the scope of services changes significantly, the new services should be competitively bid. Although the MHDC may purchase goods and services using contracts issued by the OA in lieu of bidding, the MHDC has chosen not to utilize these contracts. Purchasing through OA contracts, if feasible, could save the MHDC time and effort in its procurement process.

- C. Adequate supporting documentation was not obtained/retained for numerous expenditures reviewed and/or was not filed with the invoice. The MHDC has not established procedures to file payment documentation in a centralized location. If retained, documentation was filed in the accounting department or individual departments that reviewed and authorized the payment.

Concerns noted regarding the documentation maintained to support some expenditures included:

- 1) Some invoices reviewed did not provide sufficient information for management to verify accuracy and reasonableness of the amounts billed.
  - Three invoices, totaling almost \$289,000, for annual budget reviews of housing projects did not separately identify the projects reviewed. The invoices only indicated a total of 765 projects were reviewed.

- One invoice, totaling \$19,000, for the difference between the annual estimated and actual maintenance costs for the Kansas City office space did not explain how the difference was determined.
- Two invoices, totaling \$22,700, for legal services did not provide details of services provided/activities performed.
- Three invoices, totaling \$430,000, for annual credit rating services did not itemize the type of services provided or the associated cost of the services.
- Two invoices, totaling over \$45,000, for printing the promotional brochures and 2005 annual report did not indicate the number of copies printed.
- One invoice, exceeding \$3,200, for a classified advertisement included separate fees for various services; however, the fees did not agree to the amount billed.

For us to obtain a complete understanding of the expenditures, the MHDC provided additional documentation and/or explanations for many of the invoices. However, some of the documentation appeared to be created by the MHDC rather than the vendor.

Detailed supporting documentation for expenditures is essential to ensure expenditures are reasonable and necessary uses of public funds. Such documentation allows adequate reviews of services performed and reasonableness of amounts billed. Supporting documentation for expenditures should be retained and filed in a centralized location.

2) Invoices were not on file for some expenditures.

- A grant payment and a payment for appraisal services, totaling \$150,000 and \$30,000, respectively, were supported only by a memo from a member of management. In addition, the MHDC did not retain a copy of its appraisal services contract to justify the fees charged.
- A payment for office supplies, totaling approximately \$3,000, was supported only by a billing statement which covered multiple invoices. Although the Director of Operations indicated she reviewed the detailed invoices at the time of approving the billing statement, the invoices were not retained with the billing statement. Making payments from billing statements increases the likelihood of duplicate payments because invoices could be processed separately.

Expenditures should be supported by original vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of funds.

- D. Documentation to support journal entries in the accounting system was not always adequate. The reasons and/or purposes for the entries were not always clearly identified. In addition, there is no management review or approval for the journal entries.

Documentation of the reasons/purposes for journal entries is necessary to provide a basis for supervisory reviews and an accurate historical record of the circumstances which required the entries. Also, management should review and approve journal entries to ensure the entries are proper and for good internal control.

- E. Some expenditures reviewed did not appear to be allowable, prudent, or necessary uses of public funds, including:

- Alcohol purchases, totaling almost \$15,000, for receptions hosted by the MHDC during the 2006 and 2007 Governor's Conferences on Housing.
- 1,000 promotional brochures about MHDC programs/activities, costing \$28 each for a total of \$28,000. Similar information was previously available in the MHDC annual report at a lower cost per report. The promotional brochure has replaced the annual report.
- A security deposit, totaling \$1,000, included in an individual's relocation expenses.
- Holiday luncheons, totaling almost \$1,400.
- Engraved trinkets and a reception, totaling almost \$2,400, for employees when the MHDC reached \$2 billion in assets.
- A reception, totaling over \$500, for recognizing employees for length of service.
- Flowers, totaling almost \$5,800, for the 3 years ended June 30, 2008. Flowers were given to an employee for successfully organizing a conference and for the birth and/or death of employee family members.

The public has placed a fiduciary trust in the MHDC to expend public funds in a necessary and prudent manner. These expenditures do not appear to be necessary costs of supporting the MHDC mission and maintaining its operations/activities and constitute questionable uses of public funds.

- F. Expenditures, totaling approximately \$31,000, were not properly classified in the MHDC accounting system for 20 of 113 (18 percent) expenditures reviewed. Additionally, credit card expenditures totaling approximately \$4,600 were not properly classified for 41 of 240 (20 percent) receipts included in our review of 22 monthly billing statements.

For example, some 1) printing expenses were coded to computer expense, 2) conference registrations fees, food, meeting room rentals, and office supplies were coded to staff travel, 3) recognition awards, flowers, clothing, and reception/food expenses were charged to office supplies, and 4) reimbursement for CPA exam fees was coded to staff travel.

Expenditure misclassifications can negatively affect the budget process and result in inaccurate and inconsistent presentation of financial activity. Accurate and consistent expenditure coding is necessary to adequately monitor how funds are spent and to assist in making budgeting decisions and allocating resources. The MHDC should ensure expenditures are charged to the most appropriate expenditure category.

**WE RECOMMEND** the MHDC:

- A. Ensure competitive proposals for professional services are solicited on a periodic basis, especially when there are significant changes in the conditions and circumstances regarding the vendor or financial markets. If competitive procurement is not performed, the reason(s) should be clearly documented and alternative procedures should be performed, documented, and retained.
- B. Ensure goods and services are procured through a competitive bid process and bid documentation is retained. If a competitive bid process is not used, the MHDC should document rationale to support 1) why competitive bidding was not utilized, 2) how the vendor was selected, 3) why the vendor is qualified to provide the goods/services, and 4) why the cost is reasonable. In addition, when the scope of services changes significantly, the new services should be competitively bid. The MHDC should also consider purchasing goods and services through OA contracts if feasible.
- C. Require adequate, detailed supporting documentation be obtained and retained for all expenditures. The supporting documentation should be filed in a centralized location.
- D. Require adequate explanations be prepared and retained for journal entries. Also, management should review and approve journal entries to ensure the entries are proper.
- E. Ensure expenditures are limited to those which are a necessary and prudent use of public funds.

- F. Ensure expenditures are coded consistently and to the most appropriate expenditure category.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A. *MHDC staff agrees with this recommendation. MHDC will continue to obtain competitive proposals for professional services on a periodic basis. In certain circumstances, competitive procurement may not be necessary or appropriate for certain business needs and circumstances. In such situations, MHDC will continue to exercise prudent judgment and decision-making.*
- B. *MHDC staff agrees with this recommendation. MHDC will continue to obtain competitive proposals for appropriate goods and services. In certain circumstances, competitive procurement may not be necessary or appropriate for certain business needs and circumstances. In such situations, MHDC will continue to exercise prudent judgment and decision-making.*

*MHDC staff agrees with the recommendation regarding purchasing goods and services through OA contracts and has utilized the state contracts in contracts relating to digital certification, telephone service, wireless services, and computer-related contracts (in an amount in excess of \$186,000). In other instances, however, the state-negotiated bid has not proven to be the lowest prices available for our particular needs.*

- C. *MHDC staff agrees with the first part of this recommendation. MHDC will continue to require that adequate, detailed supporting documentation is obtained and retained for expenditures. MHDC staff disagrees with the second part of this recommendation. Supporting documentation will continue to be retained in a centralized location, when appropriate. For programmatic purposes and cost-effectiveness, certain documentation, particularly for specific programs, will continue to be retained within appropriate departmental records. This retention system works effectively for compliance purposes and results in substantial savings by avoiding duplicate efforts and records and also enhances accuracy.*
- D. *MHDC staff agrees with this recommendation. MHDC will continue to maintain adequate explanations for journal entries. Finance management will continue to review and approve non-recurring and unusual journal entries and will continue to review recurring entries on a periodic basis. Further, Finance Management will continue to perform monthly financial analysis and review, which assists in identifying posting errors or mistakes.*
- E. *MHDC staff agrees with the spirit of this recommendation. MHDC will continue to ensure that expenditures and disbursements are appropriate, representing a prudent use of funds. MHDC takes exception to the use of the term "public funds." MHDC is entirely self-supporting, financing both its statutory programs and its operations out of*

*income generated from its sale of bonds and mortgage arbitrage. None of MHDC's funds are generated by an appropriation of state funds nor are MHDC funds a product of administering the state tax credit.*

- F. *MHDC staff agrees with this recommendation. MHDC will continue to ensure expenditures are coded consistently to appropriate classifications.*

### **AUDITOR'S COMMENT**

- E. The MHDC is a government instrumentality of the state of Missouri created under Section 215.020, RSMo. The commission includes four statewide elected officials with six other commissioners appointed by the governor. As such, it is unclear why the MHDC would not consider operating funds to be "public" funds.

<b>5. Employee Related Expenses</b>
-------------------------------------

The supporting documentation for employee related expenses such as meals, lodging, and conference/meeting charges was not always adequate. The documentation did not always comply with MHDC policy and/or did not include sufficient information. Travel expenses such as food/meals, lodging, and mileage costs are not separately tracked in the accounting system. Additionally, the Executive Director's expenses are not reviewed and approved by the Commission Chairman. Finally, guidelines have not been established to determine when reimbursement for personal vehicle use or vehicle rental is most cost effective and reasonable.

The MHDC travel policy provides travel expenses such as meals incurred for other employees and/or non-employees are reimbursed provided the business reason and name(s) of individual(s) involved are documented. Lodging and meal costs within an individual's official domicile are generally not allowed except when incurred as part of a required conference/meeting and the individual is conducting MHDC business during the meal or where it is clearly economical or advantageous to the MHDC. Also, documentation of the names of those involved or group name with the number of attendees and the business purpose should be documented for meal expense incurred as part of an a required conference/meeting held within the individual's official domicile.

Additionally, the MHDC uses a per diem rate for breakfast, lunch, dinner, lodging, and incidentals by geographical areas as established by the U.S. General Services Administration. Breakfast and dinner per diem is only allowed if business travel begins and ends at certain times.

Food/meals, lodging, and mileage costs are recorded in the accounting records as 1) staff travel compliance/meetings, 2) staff travel training/conferences, and 3) conferences and educational seminars. These three expenditure categories totaled approximately \$1.4 million for the 3 years ended June 30, 2008.

A. The supporting documentation was not adequate for some business meals reviewed.

- For the executive staff, 22 of 240 (9 percent) credit card receipts reviewed, totaling over \$1,450, did not include the complete name of the guest(s) and/or business purpose of meals. The meals were provided to both employees and non-employees. Also, eight of these receipts, totaling over \$500, were lunches within the official domicile of the employees who were provided meals.
- An employee's expense account showed meals, totaling over \$500, were provided to other individuals on four occasions. Although the names of the guests were identified, the business purposes of the meals were not documented.

Accountability over business expenses is reduced without the name of the guest(s) and a business purpose. Adequate information is needed to evaluate necessity and reasonableness.

B. Expense reports did not always include sufficient information. We reviewed 115 expense accounts totaling over \$94,000 and noted the following:

- Three expense reports included lodging or meal costs which exceeded per diem rate limits; however, explanations for exceeding the limits were not provided. In addition, 14 credit card receipts totaling over \$1,200 also included lodging or meal costs which exceeded per diem rate limits; however, explanations were not provided.
- Seventeen expense reports included breakfast and/or evening meals on the days the employees departed from or returned to their official domicile; however, there was no indication that an early departure or late arrival was required to conduct official business.

A written explanation for exceeding established lodging and meal costs and travel policies should be submitted to ensure the costs are appropriate, necessary, and reasonable.

C. Some invoices for conferences, meetings, and trainings did not include sufficient information. We reviewed invoices totaling over \$190,000 and noted the following:

- One invoice, totaling over \$8,700, related to lodging did not provide details of dates checked in/out or specific charges incurred. The invoice only listed the amount due for each person.

- Two invoices, totaling almost \$50,000 did not separately identify facility usage charges such as room rentals, snack or food service, audio visual rental, or set-up charges. These invoices provided summary totals for the usage charges.
- Four invoices, totaling over \$750, included lodging for individuals who were not employees and the reasons for paying lodging for these individuals were not documented. According to MHDC personnel, these individuals were conference speakers or consultants required to be in attendance.
- Twelve invoices indicated training, meals, banquets, and shuttle service, totaling over \$5,800, were provided; however there was no documentation to support who these services were provided to.
- Three invoices included lodging, totaling almost \$1,600, for nights before or after the date(s) of a conference. There was no reason(s) documented to justify why the extra lodging was appropriate.
- Two invoices, totaling over \$19,000, did not indicate the dates of the conferences or trainings.
- An invoice, totaling almost \$1,200, was for food provided to trainees who were not MHDC employees. There was no reason(s) documented to justify why this expenditure was appropriate.

Conference, meeting, and training related expenditures should be supported by detailed invoices, agendas, and/or other detailed documentation to support the costs incurred and allow for effective review. Such documentation is necessary to ensure the expenditures are valid, necessary, and appropriate business expenses.

- D. The MHDC has not established separate expenditure classifications within its accounting system to track food/meal, lodging, or mileage costs. As noted above, these costs may be charged to various expenditure categories; therefore, MHDC management does not know the extent of these types of expenditures.

The MHDC should establish separate expenditure classifications to track these costs to better monitor such expenses and to assist in budgeting decisions and allocating resources.

- E. Executive staff expense reimbursements and credit card account statements are not always properly reviewed and approved.
- The Executive Director's expense reimbursements were not reviewed and approved by the Commission Chairman during the 2 years ended June 30, 2007. During that time the Executive Director's expenses were



reviewed/approved by the Director of Operations. Also, the Executive Director's credit card statements from July 2007 through December 2008, totaling approximately \$8,300, were not reviewed and approved by the chairman. Two of these credit card receipts contained alcohol charges totaling over \$330. Additionally, the Director of Operations approved some of her own credit card statements, totaling over \$15,000, from July 2007 through December 2008. Beginning in July 2007, the chairman began reviewing the expense reimbursements.

- In November 2008, the Executive Director and Director of Operations received expense reimbursements of \$18,000 and \$2,545, respectively, for professional fee expenses incurred between November 2007 and November 2008. Documentation supporting the reimbursements did not include any itemization of these expenses, information supporting these expenses were actually incurred, or information explaining how the expenses related to official MHDC business. The Executive Director stated the Commission Chairman did not review or approve, but was subsequently made aware of these transactions in 2009. At our request, the Executive Director and Director of Operations provided additional information itemizing legal expenses incurred. However no additional support was provided to establish how these expenses related to official MHDC business or why it was necessary to obtain outside legal services instead of obtaining legal services from MHDC's Legal Counsel. Upon our request for additional information, the Executive Director responded, "The requested information is relative to an ongoing investigation, the specifics of which we are not at liberty to discuss."

To ensure executive staff expenses are proper and reasonable for conducting MHDC business, the executive director's expense reimbursements and credit card statements should be reviewed and approved by the commission chairman. Also, the director of operation's expense reimbursements and credit card statements should be reviewed and approved by the executive director.

- F. The MHDC has not established guidelines for determining the most cost effective and reasonable mode of travel between reimbursement for personal vehicle use or vehicle rental. Effective 2008, the MHDC reimburses for personal vehicle use at the rate allowed by the Internal Revenue Service. Previously, personal vehicle use was reimbursed at the rate allowed by the OA.

All relevant issues such as the urgency, nature of travel required, type of vehicle required for the number of passengers, tool or equipment load, employee time and effort, proximity to rental vehicles and other administrative costs should be considered when selecting the most cost effective travel option. The OA has determined for state employees that in most circumstances rental vehicles are more cost effective than personal mileage reimbursement for in-state single day trips.

The MHDC needs to ensure travel expenses are minimized to the fullest extent possible by establishing guidelines for determining whether reimbursement for personal vehicle use or vehicle rental is more cost effective and reasonable.

**WE RECOMMEND** the MHDC:

- A. Ensure meals within an individual's official domicile are allowed only when necessary to conduct official business and the business purpose of such meals is clearly documented. In addition, employees should clearly document the business purpose and guests when providing meals to others.
- B. Ensure lodging and meal costs do not exceed MHDC travel policy. If for significant reasons the travel policy is not followed, the reasons should be fully documented.
- C. Require charges related to conferences, meetings, and training be supported by detailed invoices, agendas, and or other detailed documentation. The business purpose for providing food/meals and lodging to non-employees and before/after conference dates should be clearly documented.
- D. Establish separate expenditure classification codes to account for, and monitor the extent of, food/meal, lodging, and mileage expenditures.
- E. Ensure the Commission Chairman reviews and approves the Executive Director's expense reimbursements and credit card statements. Also, the Executive Director should review and approve the Director of Operation's expense reimbursements and credit card statements.
- F. Establish guidelines for determining the most cost effective and reasonable mode of travel between reimbursement for personal vehicle use or vehicle rental.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A. *MHDC staff agrees with this recommendation. MHDC will continue to ensure that meals are provided only when necessary to conduct official business. Appropriate documentation will continue to be assured through the supervisor approval process.*
- B. *MHDC staff agrees with this recommendation. Exceptions to the travel policy currently require supervisor approval. Appropriate documentation will be assured through the supervisor approval process.*
- C. *MHDC staff agrees with this recommendation. MHDC supervisors require all appropriate documentation before signing approval for expense report reimbursement.*

*In many instances, the business purpose has been pre-approved by the supervisor prior to the submission of the expense report.*

- D. MHDC staff disagrees with this recommendation. MHDC has a well established expenditure coding system in which administrative costs are classified by business purpose, such as compliance meetings and educational training. These classifications include the related costs for such purposes, including the incidental food, lodging and mileage items. The business-purpose classifications are used consistently for budgeting and expenditure tracking for prudent management of resources. MHDC's administrative costs represent 5% of total revenues, which is comparable to peer housing finance agencies whose administrative costs range from 5% to 10% of total revenues.*
- E. MHDC staff agrees with this recommendation. Procedural changes have been implemented to effect this change.*
- F. MHDC staff will assess all pertinent factors in making determinations relating to personal vehicle use versus vehicle rental.*

<b>6. Public Records</b>
--------------------------

Policies regarding public access to MHDC records, record retention, and document destruction need to be improved.

- A. The MHDC does not have a complete written policy regarding public access to its records as required by Chapter 610, RSMo (Sunshine Law). MHDC policy for access to public records only provides the public will not be charged for information requests if the cost is less than \$10. MHDC management indicated for other requests, the cost depends on salary rate of the employee who retrieves the information. Requests for information are directed to the director of operations.

Section 610.028, RSMo, provides each public governmental body have a reasonable written policy and Section 610.023, RSMo, lists requirements for making MHDC records available to the public, including the appointment of a custodian of records, providing an address to mail such requests, and timeliness of response. Also, Section 610.026, RSMo, establishes the costs for providing copies of public records, including the fees for copying public records should not exceed 10 cents per page, with the hourly fee for duplicating time not to exceed the average hourly rate of pay for clerical staff of the public governmental body. Research time may be charged at the actual cost of time required to fulfill records requests.

- B. The MHDC has not established a formal written policy for record retention and document destruction as required by state law.

We found many instances when documentation such as original invoices, price quotes, and bid documentation was not available. Usually, MHDC management indicated this information was obtained, but not retained.

Pursuant to Sections 109.200 to 109.310, RSMo (The State and Local Records Law), the MHDC should develop a records retention schedule jointly with the Secretary of State's Records Management Division. Also, Section 109.260.1, RSMo, provides that records may not be legally destroyed or otherwise disposed of unless they are on a records retention schedule. It is essential that records be retained to provide accountability and to ensure the open records law is followed.

**WE RECOMMEND** the MHDC:

- A. Develop a formal written policy regarding procedures to obtain public access to, or copies of, public MHDC records.
- B. Develop a formal written records retention schedule.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A. *MHDC staff disagrees with this statement. MHDC currently has in place a formal written policy regarding the procedures to obtain public access to, or copies of, public MHDC records. This policy was provided to the State Auditor's office on May 5, 2008.*
- B. *MHDC staff agrees with this recommendation. MHDC has underway an effort to develop a comprehensive retention policy. MHDC has also contacted the Secretary of State's records services department and requested their assistance in developing the applicable records retention guidelines. This project has been assigned to the appropriate personnel. It is anticipated that the formal policy will be developed and approved within the next year.*

**AUDITOR'S COMMENT**

- A. As noted in our comments, the policy provided did not include some relevant provisions required by state law.

<b>7.</b>	<b>Capital Assets</b>
-----------	-----------------------

Various concerns were noted regarding the MHDC capital asset/property records and related procedures. Capital asset duties are not adequately segregated, property tag numbers are not unique, and a disposition policy has not been established. Finally, the MHDC does not perform a cost-benefit analysis for leased property.

Capital assets, net of accumulated depreciation, totaled approximately \$771,000 and \$917,000 at June 30, 2008 and 2007, respectively.

- A. Capital asset duties are not adequately segregated. The individual who maintains the records of capital assets is also responsible for performing the physical inventory. In addition, adjustments to inventory records are not routinely reviewed and approved by management.

To improve internal controls and adequately safeguard assets from theft or misuse, the physical inventory should be performed by an individual independent of the custodial and record keeping functions. Also, management should review and approve adjustments to inventory records.

- B. Capital assets are not tagged with a unique tag number. Instead, capital assets are tagged with a bar code indicating the type of asset and the asset's specific location. For example, all lateral 4 door filing cabinets are coded as LFC-0400, plus a code for the location. As a result, bar codes are identical when similar items are located in the same location and assets may not be readily accounted for.

A unique tag number allows for identification of the asset in the records, ensures the asset is properly accounted for, and helps to deter and detect theft.

- C. The MHDC has not established formal policies/procedures related to the disposal of capital assets nor are capital asset dispositions required to be formally approved or authorized.

According to MHDC personnel, an auction was held in 2005 for the disposal of assets and no assets have been disposed of since the auction. Excess and obsolete assets are placed in storage until management decides when and how to dispose of them.

The MHDC needs to establish formal written policies and procedures to ensure the disposition of capital assets is properly handled, approved and recorded in the capital asset records. These procedures should ensure the method of disposal (e.g. bids, public sale, etc.) allows for participation by the public and provides the best price. Also, the date and method of disposal should be recorded in the records. In addition, an independent management level approval of the disposition should be required.

- D. The MHDC does not periodically perform a cost-benefit analysis regarding the leasing of certain property and equipment. Rather than purchasing offices to house its operations, the MHDC leases office space in Kansas City and St. Louis. In addition, the MHDC leases its computer hardware and copiers. Expenditures for these leases totaled approximately \$3 million during the 3 years ended June 30, 2008.

Although MHDC management indicated a study was performed in 1998 for the computer hardware, the study has not been subsequently updated to ensure the continuing cost effectiveness of leasing computer equipment. MHDC management indicated copier utilization is reviewed annually; however, a lease versus purchase analysis is not performed. Eight-year leases were signed in 2003 and 2004 for the St. Louis and Kansas City office spaces, respectively, without a lease versus purchase analysis being performed.

Periodically performing a cost-benefit analysis of leasing versus purchasing of property is needed to ensure funds are used in an economical manner and the most financial benefit is received.

**WE RECOMMEND** the MHDC:

- A. Ensure an individual independent of the record keeping and custodial functions performs the physical inventory. Management should review and approve adjustments to inventory records.
- B. Tag its capital assets with unique identification numbers.
- C. Establish formal written policies and procedures regarding the disposition of capital assets including the requirement of management approval of dispositions.
- D. Perform a periodic cost-benefit analysis of leasing versus purchasing property to ensure the most financial benefit.

**AUDITEE'S RESPONSE**

*The management staff of the MHDC provided the following written responses:*

- A. *MHDC staff agrees with this recommendation and will take the necessary steps to modify the current procedure during fiscal year 2010.*
- B. *Staff agrees with this comment and has modified its procedure. As capital assets are purchased, they are now given a unique identification number.*
- C. *MHDC staff agrees with this recommendation and has developed a policy which is under review by the Commission.*
- D. *MHDC staff agrees that a periodic cost-benefit analysis will provide valuable information in determining the financial advantage of leasing versus purchasing. Staff will continue to use this tool in assessing the most advantageous method. MHDC's IT department has included a reassessment of previous bids/leases in its current Action Plan.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

MISSOURI HOUSING DEVELOPMENT COMMISSION  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The Missouri Housing Development Commission (MHDC) is a body corporate and politic established in 1969 pursuant to Chapter 215, RSMo. The MHDC is assigned to the Department of Economic Development.

The MHDC is authorized to make, purchase or participate in the purchase of mortgages to finance the building, rehabilitation or purchase of residential housing designed and planned to be available for rental or sale to low-income to moderate income persons or families or to purchase or participate in the purchase of any other securities which are secured, directly or indirectly by any such loan.

Additionally, the MHDC sells tax-exempt and taxable bonds and notes, for the purposes of financing owner-occupied residential mortgage loans for lower and moderate income persons and for providing construction and long-term financing for rental developments to be occupied by lower and moderate income persons. The MHDC's accumulated assets are an additional source of funding for such loans. The MHDC also conducts other programs related to its housing finance activities including administering the federal and state housing tax credits for the State of Missouri and the Project Based Section 8 program which provides rental subsidies from federal funds.

In the Management's Discussion and Analysis section of the fiscal year 2008 financial statements, the MHDC reported a strong financial position at June 30, 2008. Excluding the effects of fair value reporting and conduit bond assets, the net worth ratio (net assets as compared to total assets) was 23.4% at June 30, 2008, as compared to 23.1% at June 30, 2007. Net assets totaled \$484,551,000 and \$433,691,000 as of June 30, 2008 and 2007, respectively. The MHDC also indicated that the economy and market conditions have affected its financial results. Overall revenues, plus interest and investment income, increased primarily due to the increase in the fair value adjustments. In addition, the MHDC expects, depending on future financial markets, interest rate fluctuations to have a continuing material effect of its financial statements. The Standard & Poor's Ratings Services "... affirmed its 'AA+' issuer credit rating" on the MHDC and "... affirmed its ratings on all debt supported by the commission's GO pledge", and "... affirmed the AAA rating" for the MHDC's single family homeownership loan bond program, in July 2007 and October 2008, respectively.

The MHDC consists of ten members including the governor, lieutenant governor, state treasurer, attorney general, and six members selected by the governor with the advice and consent of the senate. The persons selected by the governor are individuals knowledgeable in the areas of housing, finance, or construction. No more than four of the members appointed by the governor are to be from the same political party. The members of the MHDC appointed by the governor serve terms of four years. Each member of the MHDC appointed by the governor is entitled to compensation of fifty dollars per diem plus reasonable and necessary expenses actually incurred in discharging their duties.



MHDC members and expiration of their terms as of June 30, 2008 were:

<u>Name</u>	<u>Position</u>	<u>Term Ends</u>
Claudia L. Oñate Greim	Chairman	October 2009
Richard F. Baalman, Sr. (1)	Vice Chairman	October 2009
Cale Bradford	Secretary-Treasurer	October 2011
Matt Blunt, Governor (2)	Member	No term limit
Peter Kinder, Lieutenant Governor (3)	Member	No term limit
Jeremiah W. (Jay) Nixon, Attorney General (4)	Member	No term limit
Sarah Steelman, State Treasurer (5)	Member	No term limit
Loren Cook II (6)	Member	October 2008
Robert C. Fulp (7)	Member	October 2008
Bill Luetkenhaus (8)	Member	October 2011

- (1) Richard F. Baalman, Sr. resigned from the commission in May 2009. Timothy Joyce was appointed to this position in June 2009.
- (2) Jeremiah W. (Jay) Nixon was elected governor and assumed office on January 12, 2009.
- (3) Peter Kinder was re-elected Lieutenant Governor and assumed office on January 12, 2009.
- (4) Chris Koster was elected Attorney General and assumed office on January 12, 2009.
- (5) Clint Zweifel was elected State Treasurer and assumed office on January 12, 2009.
- (6) Loren Cook continued to serve as commissioner until December 2008 since a replacement appointment had not been made. However, Commissioner Cook formally resigned from the Commission in December 2008 and the position remains vacant.
- (7) Allen Shirley was appointed by Governor Matt Blunt to replace Commissioner Fulp. However, Governor Jeremiah W. (Jay) Nixon rescinded that appointment in January 2009. Troy Nash was appointed to this position in February 2009. His term ends in October 2012.
- (8) Bill Luetkenhaus resigned from the commission in January 2009 and the position remains vacant.

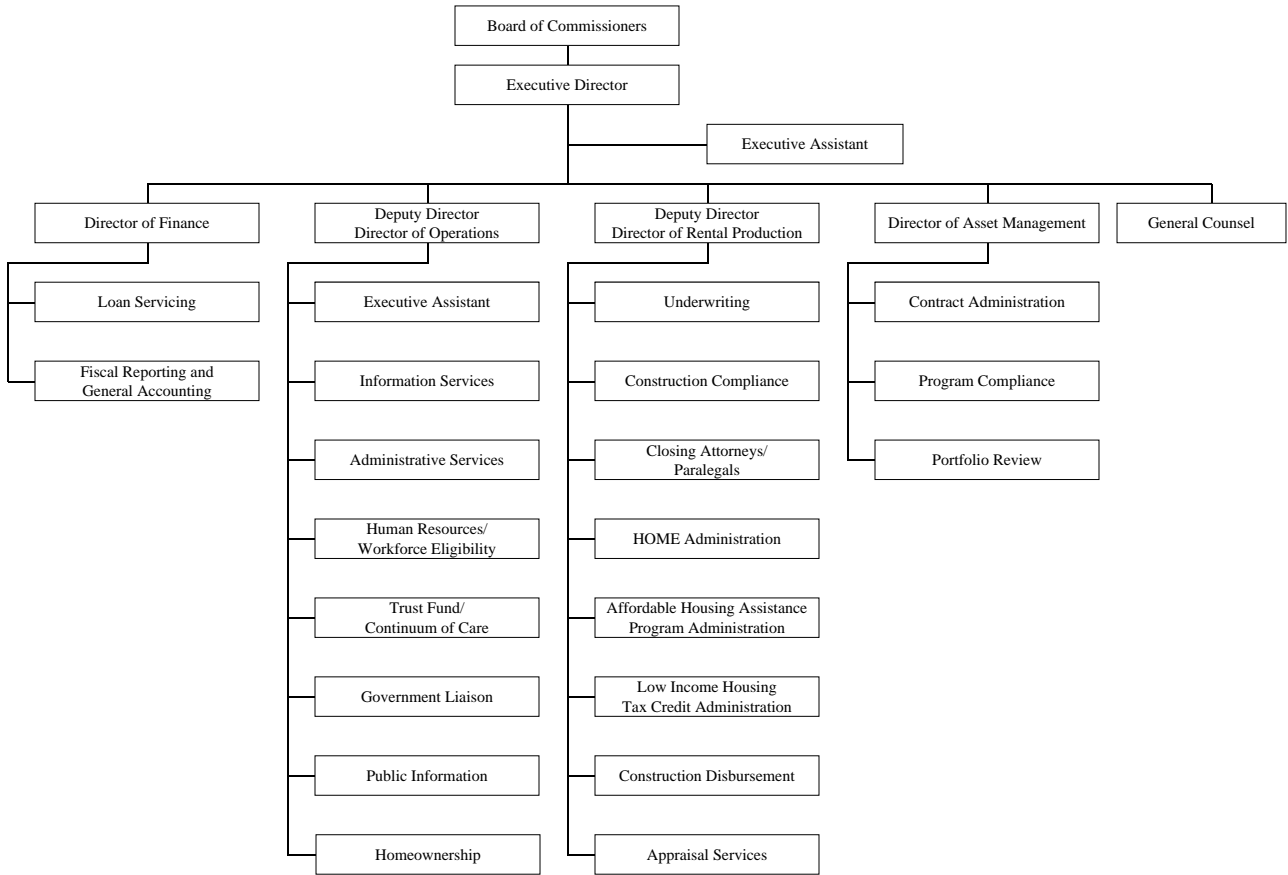
The MHDC appointed Thomas "Pete" Ramsel as Executive Director in June 2007. Mr. Ramsel had served as Acting Executive Director since October 2005, replacing Erica Dobreff. Other top administrative staff serve the MHDC and are responsible for various duties/functions. The individuals who served in these positions and their annual salaries as of June 30, 2008 were as follows:

<u>Name</u>	<u>Position</u>	<u>Annual Salary</u>
Thomas "Pete" Ramsel	Executive Director	\$ 109,412
Mary Helen Murphy	Director of Operations	89,977
Marilyn Lappin	Director of Finance	93,194
Debra Giffin	Director of Asset Management	85,692
Janell Thome	Director of Rental Production	89,977
Bramwell Higgins	General Counsel	90,000

The MHDC's executive operations are located in Kansas City, Missouri, while asset management operations are located in St. Louis, Missouri. As of June 30, 2008, there were 116 full-time and 5 part-time employees.

A summary of the MHDC's financial activity is presented in the following appendixes and MHDC's organization chart is presented below:

MISSOURI HOUSING DEVELOPMENT COMMISSION  
 ORGANIZATION CHART  
 JUNE 30, 2008



**Missouri Housing Development Commission**  
**Balance Sheet**  
**June 30, 2008**  
**(In Thousands)**

**Assets****Current Assets**

Cash and temporary cash investments	\$	2,757
Investments		24,694
Mortgage investments		4,295
Accrued interest receivable		2,218
Accounts receivable – other		272
Prepaid expenses		50
		<hr/>
Total current assets		<hr/> 34,286 <hr/>

**Noncurrent Assets**

## Restricted assets

Cash and temporary cash investments		52,926
Investments		295,380
Mortgage investments		1,711,254
Accrued interest receivable		8,802
Deferred financing charges		12,195
Accounts receivable – other		43
		<hr/>
Total restricted assets		2,080,600

Investments		80,161
Mortgage investments, net of current portion and allowances for loan losses of \$42,796		79,350
Capital assets, less accumulated depreciation of \$1,563		771
		<hr/>
Total noncurrent assets		<hr/> 2,240,882 <hr/>
Total assets	\$	<hr/> <hr/> 2,275,168 <hr/> <hr/>

**Missouri Housing Development Commission**  
**Balance Sheet (continued)**  
**June 30, 2008**  
**(In Thousands)**

**Liabilities and Net Assets****Current Liabilities**

Bonds and notes payable	\$	515
Accounts payable		777
Deferred revenue		892
		<hr/>
Total current liabilities		2,184
		<hr/>

**Current Liabilities – Payable From Restricted Assets**

Bonds and notes payable	80,249
Accrued interest payable	27,294
Escrow deposits	64,931
Rent subsidies and other payables	793
Accounts payable	834
	<hr/>
Total current liabilities – payable from restricted assets	174,101
	<hr/>

**Noncurrent Liabilities**

Bonds and notes payable	1,000
Deferred revenue	7,441
Payable from restricted assets	
Bonds and notes payable	1,605,891
	<hr/>
Total noncurrent liabilities	1,614,332
	<hr/>
Total liabilities	1,790,617
	<hr/>

**Net Assets**

Invested in capital assets	771
Restricted	219,566
Unrestricted	264,214
	<hr/>
Total net assets	484,551
	<hr/>
Total liabilities and net assets	\$ 2,275,168
	<hr/> <hr/>

*Note: The MHDC retroactively changed its method of accounting for certain loans, loan origination fees and costs, and mortgage-backed securities, which increased the beginning of the year restricted net assets by \$92,209,000, net and unrestricted net assets by \$3,707,000. The financial statements from prior years were not restated to reflect the effects of the accounting changes.*

*Source: Excerpt from the MHDC's audited financial statements.*

---

**MISSOURI HOUSING DEVELOPMENT COMMISSION**


---

**BALANCE SHEET**

Page 1 of 2  
(In Thousands)

**Assets**

	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Current Assets</b>		
Cash and temporary cash investments	\$ 1,890	\$ 4,242
Investments	25,631	27,066
Mortgage investments	37,652	22,217
Accrued interest receivable	1,849	1,645
Accounts receivable - other	1,021	336
Prepaid expenses	55	45
	<hr/>	<hr/>
<b>Total Current Assets</b>	<b>68,098</b>	<b>55,551</b>
	<hr/>	<hr/>
<b>Noncurrent Assets</b>		
Restricted Assets		
Cash and temporary cash investments	42,124	42,786
Investments	383,407	405,961
Mortgage investments	1,425,307	1,199,504
Accrued interest receivable	9,733	8,792
Deferred financing charges	48,833	39,687
	<hr/>	<hr/>
<b>Total Restricted Assets</b>	<b>1,909,404</b>	<b>1,696,730</b>
	<hr/>	<hr/>
Investments	40,980	35,269
Mortgage investments, net of current portion and allowances for loan losses (\$21,596 in 2007 and \$21,150 in 2006)	68,299	76,207
Capital assets, less accumulated depreciation	917	1,098
	<hr/>	<hr/>
<b>Total Noncurrent Assets</b>	<b>2,019,600</b>	<b>1,809,304</b>
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 2,087,698</b>	<b>\$ 1,864,855</b>
	<hr/> <hr/>	<hr/> <hr/>

---

**MISSOURI HOUSING DEVELOPMENT COMMISSION**


---

**BALANCE SHEET**

Page 2 of 2  
(In Thousands)

**Liabilities and Net Assets**

	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bonds and notes payable	\$ 525	\$ 525
Accounts payable	962	861
Deferred financing and commitment fees	872	792
<b>Total Current Liabilities</b>	<b>2,359</b>	<b>2,178</b>
<b>Current Liabilities - Payable From Restricted Assets</b>		
Bonds and notes payable	34,319	27,868
Accrued interest payable	25,472	21,870
Escrow deposits	62,077	73,121
Rent subsidies and other payables	1,643	1,735
Accounts payable	1,326	853
Deferred financing and commitment fees	1,066	1,210
<b>Total Current Liabilities - Payable From Restricted Assets</b>	<b>125,903</b>	<b>126,657</b>
<b>Noncurrent Liabilities - Payable From Restricted Assets</b>		
Bonds and notes payable	1,603,181	1,403,149
Deferred financing and commitment fees	18,480	16,128
<b>Total Noncurrent Liabilities - Payable From Restricted Assets</b>	<b>1,621,661</b>	<b>1,419,277</b>
<b>Total Liabilities</b>	<b>1,749,923</b>	<b>1,548,112</b>
<b>Net Assets</b>		
Invested in capital assets	917	1,098
Restricted by the Commission, bond resolution and state statute	308,728	291,977
Unrestricted	28,130	23,668
<b>Total Net Assets</b>	<b>337,775</b>	<b>316,743</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,087,698</b>	<b>\$ 1,864,855</b>

Source: Excerpt from the MHDC's audited financial statements.

**Missouri Housing Development Commission**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended June 30, 2008**  
**(In Thousands)**

<b>Operating Revenues</b>	
Interest and investment income	
Income – mortgage investments	\$ 83,803
Income – investments	18,027
Net increase in fair value of investments	<u>26,164</u>
Total interest and investment income	127,994
Administration fees	6,945
Other income	9,621
Federal program income	<u>120,811</u>
Total operating revenues	265,371
<b>Operating Expenses</b>	
Interest expense on bonds	78,792
Bond debt expense	365
Compensation	8,097
General and administrative expenses	3,852
Provision for loan and real estate owned losses	745
Rent and other subsidy payments	1,667
Housing Trust Fund grants	4,266
Federal program expenses	116,727
Total operating expenses	214,511
<b>Change in Net Assets</b>	50,860
<b>Net Assets, Beginning of Year, as Previously Reported</b>	337,775
Adjustments applicable to prior years	<u>95,916</u>
<b>Net Assets, Beginning of Year, as Restated</b>	<u>433,691</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 484,551</u></u>

*Note: The MHDC retroactively changed its method of accounting for certain loans, loan origination fees and costs, and mortgage-backed securities, which increased the beginning of the year restricted net assets by \$92,209,000, net and unrestricted net assets by \$3,707,000. The financial statements from prior years were not restated to reflect the effects of the accounting changes.*

*Source: Excerpt from the MHDC's audited financial statements.*



**MISSOURI HOUSING DEVELOPMENT COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**

(In Thousands)

	<b>For The Years Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Revenues</b>		
Interest and investment income		
Income - mortgage investments	\$ 78,590	\$ 65,975
Income - investments	17,687	16,328
Net increase (decrease) in fair value of investments	4,755	(46,586)
<b>Total Interest And Investment Income</b>	<b>101,032</b>	<b>35,717</b>
Administration fees	6,381	6,978
Financing fees and other	10,980	12,133
Federal program income	121,679	124,649
<b>Total Operating Revenues</b>	<b>240,072</b>	<b>179,477</b>
<b>Operating Expenses</b>		
Interest expense on bonds	70,931	60,658
Bank miscellaneous bond debt expense	5,578	4,567
Compensation	7,951	7,431
General and administrative expenses	3,750	3,235
Provision for loan and real estate owned losses	600	1,075
Rent and other subsidy payments	3,261	2,299
Housing Trust Fund grants	5,224	5,808
Federal program expenses	121,745	124,793
<b>Total Operating Expenses</b>	<b>219,040</b>	<b>209,866</b>
<b>Change in Net Assets</b>	<b>21,032</b>	<b>(30,389)</b>
<b>Net Assets, Beginning of Year</b>	<b>316,743</b>	<b>347,132</b>
<b>Net Assets, End of Year</b>	<b>\$ 337,775</b>	<b>\$ 316,743</b>

Source: Excerpt from the MHDC's audited financial statements.

**Missouri Housing Development Commission**  
**Statement of Cash Flows**  
**Year Ended June 30, 2008**  
**(In Thousands)**

<b>Cash Flows From Operating Activities</b>	
Interest received on mortgage investments	\$ 87,372
Fees, charges and other	16,408
Principal repayments on mortgage loans	220,869
Disbursements of mortgage loans	(347,052)
Federal revenue	120,811
Federal expenses	(116,727)
Collection of tax credit fees	1,619
Cash payments for compensation, administrative and other costs	(8,097)
Other operating payments	(10,371)
	<hr/>
Net cash used in operating activities	(35,168)
	<hr/>
<b>Cash Flows From Noncapital Financing Activities</b>	
Retirement of principal on bonds	(212,966)
Proceeds from issuance of bonds	267,323
Interest paid on bonds	(80,114)
Deferred financing charges paid	(1,853)
Change in escrow deposits	2,854
	<hr/>
Net cash used in noncapital financing activities	(24,756)
	<hr/>
<b>Cash Flows Used In Capital And Related Financing Activities</b>	
Payments for capital assets	(204)
	<hr/>
<b>Cash Flows From Investing Activities</b>	
Purchases of investments	(703,140)
Proceeds from maturities and sales of investments	803,670
Interest received on investments	18,027
Increase in purchased security agreements to resell	(46,760)
	<hr/>
Net cash provided by investing activities	71,797
	<hr/>
<b>Net Increase in Cash and Cash Equivalents</b>	11,669
<b>Cash And Cash Equivalents, Beginning of Year</b>	44,014
	<hr/>
<b>Cash and Cash Equivalents, End of Year</b>	\$ 55,683
	<hr/> <hr/>

**Missouri Housing Development Commission**  
**Statement of Cash Flows (Continued)**  
**Year Ended June 30, 2008**  
**(In Thousands)**

**Reconciliation of Increase (Decrease) In Net Assets To  
Net Cash Used In Operating Activities**

Increase in net assets	\$	50,860
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation		350
Net increase in fair value of investments		(26,164)
Amortization of discounts on loans		3,006
Amortization of deferred revenue		756
Income – investments		(18,027)
Provision for loan losses		745
Principal repayments on mortgage loans		220,869
Disbursements of mortgage loans		(347,052)
Interest expense related to bonds		78,792
Change in assets and liabilities:		
Decrease in accounts receivable		706
Decrease in accrued interest receivable		563
Decrease in prepaid expenses		5
Decrease in accounts payable		(577)
		<hr/>
Net cash used in operating activities		<u>\$ (35,168)</u>

*Note: The MHDC retroactively changed its method of accounting for certain loans, loan origination fees and costs, and mortgage-backed securities, which increased the beginning of the year restricted net assets by \$92,209,000, net and unrestricted net assets by \$3,707,000. The financial statements from prior years were not restated to reflect the effects of the accounting changes.*

*Source: Excerpt from the MHDC's audited financial statements.*

**MISSOURI HOUSING DEVELOPMENT COMMISSION**  
**STATEMENT OF CASH FLOWS**

Page 1 of 2  
(In Thousands)

	<b>For The Years Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash Flows From Operating Activities</b>		
Interest received on mortgage investments	\$ 77,633	\$ 65,702
Fees, charges and other	18,964	21,546
Principal repayments on mortgage loans	175,428	200,056
Federal revenue	121,587	124,973
Federal expenses	(121,745)	(124,793)
Purchases of mortgage loans	(407,601)	(375,399)
Cash payments for compensation, administrative and other costs	(19,778)	(17,810)
<b>Net Cash Used In Operating Activities</b>	<b>(155,512)</b>	<b>(105,725)</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of investments	891,217	844,625
Purchases of investments	(866,145)	(892,335)
Interest received on investments	17,500	15,159
Decrease in purchased security agreements to resell	(3,644)	(43)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>38,928</b>	<b>(32,594)</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Retirement of principal on bonds	(200,046)	(274,648)
Proceeds from issuance of bonds	411,084	487,253
Deferred financing charges paid	(14,392)	(12,841)
Change in escrow deposits	(11,044)	4,103
Interest paid on bonds	(71,884)	(63,503)
<b>Net Cash Provided By Noncapital Financing Activities</b>	<b>113,718</b>	<b>140,364</b>
<b>Cash Flows Used In Capital And Related Financing Activities</b>		
Payments for capital assets	(148)	(436)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(3,014)</b>	<b>1,609</b>
<b>Cash And Cash Equivalents, Beginning of Year</b>	<b>47,028</b>	<b>45,419</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 44,014</b>	<b>\$ 47,028</b>

**MISSOURI HOUSING DEVELOPMENT COMMISSION**  
**STATEMENT OF CASH FLOWS**

Page 2 of 2  
(In Thousands)

	<b>For The Years Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Reconciliation of Increase (Decrease) In Net Assets To Net Cash Used In Operating Activities</b>		
Increase (decrease) in net assets	\$ 21,032	\$ (30,389)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities		
Depreciation	329	267
Net (increase) decrease in fair value of investments	(4,755)	46,586
Income - mortgage investments	(78,590)	(65,975)
Income – investments	(17,687)	(16,328)
Amortization of financing charges	5,247	6,701
Provision for loan and real estate owned losses, net of charges-off loans	446	449
Interest expense related to bonds	70,931	60,658
Repayment of principal on mortgage loans receivable	175,428	200,056
Mortgage and construction loans disbursed	(407,601)	(375,399)
Interest received on mortgage investments	77,633	65,702
Change in assets and liabilities:		
Increase in accounts receivable - other	(685)	(68)
(Increase) decrease in prepaid expenses	(10)	65
Increase (decrease) in rent subsidies and other payables	(92)	324
Increases (decrease) in accounts payable	574	(877)
Increase in deferred financing and commitment fees	2,288	2,503
<b>Net Cash Used In Operating Activities</b>	<b>\$ (155,512)</b>	<b>\$ (105,725)</b>

*Source: Excerpt from the MHDC's audited financial statements.*