

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

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300-C Outlet Pointe Blvd.

Columbia, SC 29210

## *Telephonic Board Meeting* JANUARY 26, 2018 AT 10:00 A.M.

- I. Call to Order (10:00 a.m.) NOTE TIME
- II. Freedom of Information Act Statement & Recognition of Guests
- III. Adoption of Proposed Agenda
- IV. Regular Session
  - A. Approval of Minutes of November 15, 2017 and  
December 13, 2017 Chairman Tomlin
  - B. Program Committee
    - 1. Consideration of HTF Award – MERCI Laura Nicholson
  - C. Development Division Update Laura Nicholson
  - D. Homeownership Update Steve Clements
  - E. SC HELP Update Kim Wilbourne
  - F. Reports
    - 1. Chairman Chairman Tomlin
    - 2. Executive Director Robert Wilson
    - 3. Deputy Director for Programs Ed Knight
    - 4. Director of Internal Audit Anastasia Rodriguez
- V. Other Business
- VI. Executive Session
- VII. Any actions, votes necessitated after Executive Session
- VIII. Adjournment

Next Meeting – March 21, 2018



## South Carolina State Housing Finance and Development Authority

300-C Outlet Pointe Blvd., Columbia, South Carolina 29210

Telephone: (803)896-9001

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Donald R. Tomlin, Jr.  
Chairman

Robert S. Wilson, Jr.  
Interim Executive Director

### REGULAR COMMISSION MEETING

The Board of Commissioners of the South Carolina State Housing Finance and Development Authority met on Wednesday, November 16, 2016 at approximately 10:00 a.m., at the Authority's office, 300-C Outlet Pointe Boulevard, Columbia, South Carolina.

The following Commissioners were in attendance:

Donald R. Tomlin, Jr., Chairman  
Robert D. Mickle, Jr., Vice Chairman  
Bradley J. Allen  
Charles E. Gardner  
Chris Goodall  
Kenneth E. Ormand, Jr.  
Sue Ann Shannon  
Mary Sieck

Staff and Guests attending the meeting included the following:

**STAFF:** Robert Wilson, Interim Executive Director  
Ed Knight, Deputy Director of Programs  
Richard Hutto, Deputy Director of Financial Operations  
Tracey Easton, General Counsel  
Del Collins, I.T. Director  
Laura Nicholson, Development  
Steve Clements, Homeownership  
Bonita Shropshire, Executive Assistant

**GUESTS:** Sam Howell, Howell Linkous & Nettles LLC  
Robinson Villa, NHE, Inc.  
Julia Prater, CHAD/Lorick Place  
Chip Shelton, Liberty Solutions  
Robbie Patterson, Liberty Solutions

**Freedom of Information Act Statement**

Chairman Tomlin called the meeting to order and asked Robert Wilson to read into the record the Freedom of Information Statement.

“As required by the provisions of Section 30-4-80(e) of the Code of Laws of South Carolina, notification of this meeting has been given to all persons, organizations, local news media, and other news media which have requested such notifications.”

**Agenda**

Chairman Tomlin presented the agenda and asked if there were any amendments or corrections.

**MOTION** Commissioner Mickle moved to adopt the agenda as amended. The motion received a second from Commissioner Goodall. There being no discussion, all Commissioners voted in the affirmative and the motion carried.

**Minutes**

The Chairman asked if there were any additions or corrections to the minutes of October 25, 2017. There being none, he called for a motion to approve the minutes.

**MOTION** Commissioner Goodall moved to approve the minutes of October 25, 2017 as presented. The motion received a second from Commissioner Shannon. There being no discussion, all Commissioners voted in the affirmative and the motion carried.

**Bond Committee**

Amendment – Pamilla/St. Andrews Gardens

Chairman Tomlin called on Tracey Easton for the Amendment for Pamilla/St. Andrews Gardens. Ms. Easton explained that the Resolution was being presented for consideration to authorize and direct the amendment of the Indenture of Trust and Loan Agreement relating to Pamilla Apartments, a multifamily rental housing revenue bond project. Ms. Easton further reported that the Hampstead Group’s purpose for the amendment is to change the stabilization date from November 1, 2017 to February 1, 2018. She explained that this would not affect the amortization schedule of the bonds. Ms. Easton stated that staff recommended approval of the final resolution to the Bond Committee and deferred to Commissioner Mickle. Commissioner Mickle stated that the Bond Committee had received the request, and recommended approval by the full board.

**MOTION** Commissioner Mickle moved to approve the Amendment as presented. There being no discussion, all Commissioners voted in the affirmative and the motion carried.

**Program Committee****Consideration of Housing Trust Fund Awards**

Chairman Tomlin called upon Laura Nicholson for the Housing Trust Fund (HTF) report. Ms. Nicholson presented the HTF's financial report which included a budget analysis, fiscal year-to-date awards by activity, and the fiscal year cash balance analysis. She stated that the cash balance as of September 30, 2017 was a little over \$22.7 million. Of that amount \$8.8 million is committed to projects previously awarded but not yet funded and \$2 million are in project recommendations for this cycle. Ms. Nicholson noted that the Fund's remaining unencumbered cash balance was approximately \$9,893,941. Ms. Nicholson then presented 23 project proposals with total funds requested of \$1,765,250.

**Owner-Occupied Rehabilitation**

Project No. 13918	Berean CDC	\$89,000
Project No. 14018	Blackville CDC	\$66,750
Project No. 14118	Community Development & Improvement Corp.	\$44,500
Project No. 14218	Core Academy	\$89,000
Project No. 14318	Greenwood Area Habitat for Humanity	\$44,500
Project No. 14418	Lighthouse Learning Center	\$44,500
Project No. 14518	New America Corporation	\$44,500
Project No. 14618	Pageland Community Housing Org.	\$89,000
Project No. 14718	Parnell's CDC	\$89,000
Project No. 14818	Ridgeville CRC	\$44,500
Project No. 14918	SC Uplift Community Outreach	\$89,000
Project No. 15018	Southern Carolina Regional CDC	\$66,750
Project No. 15118	Tri-City Visionaries	\$66,750
Project No. 15218	Tri-Development Center of Aiken County	\$44,500
Project No. 15318	Williamsburg Enterprise Community Commission	\$89,000
Project No. 15418	Zion Community Action Agency	\$89,000

**Group Homes for the Disabled**

Project No. 15518	Bamberg Co. DSN Board	\$85,000
Project No. 15618	Disability Board of Charleston County-Hallsford	\$100,000
Project No. 15718	Disability Board of Charleston County-Pinewood	\$100,000
Project No. 15818	Sumter Co. DSN Board-Hartwell	\$90,000
Project No. 15918	Sumter Co. DSN Board-Pheasant	\$100,000
Project No. 16018	United Cerebral Palsy-Sumter	\$100,000

**Multifamily Rental**

Project No. 16118	MIRCI	\$100,000
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Ms. Nicholson stated that Staff recommended approval of the HTF Budget and Project Awards to the Program Committee at a meeting earlier that day. Commissioner Mickle stated the Program Committee had reviewed the staff's request and recommended approval of the HTF Budget and Awards by the full Board.

**MOTION** Commissioner Mickle moved to approve the HTF Budget and Project Awards. There being no further discussion, all Commissioners voted in the affirmative and the motion carried.

### Tax Credit Update

Ms. Nicholson continued her presentation before the Board with a Tax Credit Update. In her report, Ms. Nicholson advised the Board that a public hearing was held at the Authority on October 19, 2017 to take comments on the proposed technical changes to the 2017-2018 QAP and Tax Credit Manual. She then outlined the proposed changes of the QAP and Tax Credit Manual. Ms. Nicholson reminded the Commissioners that Governor Haley signed and approved the current two year QAP in 2016 and that staff plans to provide Governor McMaster with copies of the final technical changes for informational purposes.

Chairman Tomlin then asked Ms. Nicholson to outline the proposed Small Rental Development Program. Ms. Nicholson outlined the program to include the minimum and maximum number of affordable housing units (8-24), the three proposed funding sources and an anticipated schedule that would be necessary to get the Program approved due to the federal funding sources. The Board accepted the report as information and asked for a copy of the draft Program Manual before giving additional comments. The Chairman asked for a Telephonic Board meeting in December to discuss the program further and to allow for appropriate time to meet the projected deadlines.

### Homeownership Report

Mr. Clements presented the mortgage production update highlighting loan volume, mortgage rates, origination fees, and down payment assistance data. He then provided updated loan reservation figures for the SC Mortgage Tax Credit, Palmetto Heroes, and the conventional loan program.

### SC HELP Update

The Chairman asked Kim Wilbourne to provide the SC HELP update. Ms. Wilbourne reported that the program continues to be in its final stages of wind down and issuance of commitments. According to Ms. Wilbourne, the program's application portal will be closed at the end of November and staff will continue to review applications through March of 2018. She then provided program figures including the total number of applicants, funds committed, and funds expended to date.

### Reports

#### Executive Director

The Chairman asked Mr. Wilson to provide the Executive Director's report. Mr. Wilson began by informing the Board that he would be joining other HFA Executive Directors at an upcoming NCSHA meeting in Washington, D.C. on December 3 – 5, 2017. He also mentioned that he would be attending the HOME Workshop the following day so that he could meet more of our Development partners. Mr. Wilson then announced that Phase 1 of the agency's website redesign was launched that week and encouraged commissioners to visit the website and provide feedback.

Commissioner Gardner asked for a status of the requested agency survey. Mr. Wilson deferred to Bonita Shropshire for response. Ms. Shropshire reported that the survey questions

had all been entered into a survey template and would be forthcoming to the Commissioners for review once she confirmed some very detailed information included within some of the questions. Chairman Tomlin encouraged staff to put forth a scope of questions that would allow for relevant responses and that would be reviewed by the Commissioners prior to release.

### **Director of Internal Audit**

The Chairman asked Anastasia Rodriguez for the Internal Audit report. Ms. Rodriguez reported that Internal Audit was continuing to monitor communications and responses with the Office of Special Inspection General for the Troubled Asset Relief Program (SIGTARP). Ms. Rodriguez also reported that Internal Audit staff had just completed a review to ensure that the agency was in compliance with the Fair Labor Standards Act and that an official report would be provided to the Executive Director by the following week.

### **Other Business**

The Chairman asked if there was any other business that needed to come before the Board.

### **Executive Session**

The Chairman called for a motion to enter executive session for purposes of receiving legal advice pursuant to SC Code Section 30-4-70(2) and to discuss a personnel matter pursuant to SC Code Section 30-4-70(1).

**MOTION** Commissioner Mickle moved to enter executive session for the stated purposes. The motion received a second from Commissioner Shannon. There being no discussion, all Commissioners voted in the affirmative and the motion carried.

[EXECUTIVE SESSION]

### **Any Actions, Votes Necessitated After Executive Session**

Upon exiting the Chairman confirmed that no votes or actions had been taken during executive session. Chairman Tomlin then asked for any motions that were needed as a result of discussions during executive session.

**MOTION** Commissioner Shannon made a motion to create a qualified non-profit organization established for the purpose of furthering construction lending capacity and engaging in other eligible activities in support of advancing affordable housing. The motion received a second from Commissioner Mickle. There was no additional discussion, all Commissioners voted in the affirmative and the motion carried.

Respectfully submitted,

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Robert S. Wilson, Secretary

Approved: January 17, 2018

By: \_\_\_\_\_  
Donald R. Tomlin, Jr.  
Chairman



## South Carolina State Housing Finance and Development Authority

300-C Outlet Pointe Blvd., Columbia, South Carolina 29210

Telephone: 803.896.9001 TTY: 803.896.8831

**SCHousing.com**

Donald R. Tomlin, Jr.  
Chairman

Robert S. Wilson, Jr.  
Interim Executive Director

### TELEPHONIC COMMISSION MEETING

The Board of Commissioners of the South Carolina State Housing Finance and Development Authority convened a telephonic meeting on Wednesday, December 13, 2017 at 10:00 a.m., at the Authority's office, 300-C Outlet Pointe Boulevard, Columbia, South Carolina.

The following Commissioners participated in the call:

Donald R. Tomlin, Jr., Chairman  
Robert D. Mickle, Jr., Vice Chairman  
Bradley J. Allen  
Charles E. Gardner  
Chris Goodall  
Kenneth E. Ormand, Jr.  
Sue Ann Shannon  
Mary Sieck

Staff and Guests attending the meeting included the following:

**STAFF:** Robert Wilson, Interim Executive Director  
Ed Knight, Deputy Director of Programs  
Richard Hutto, Deputy Director of Financial Operations  
Tracey Easton, General Counsel  
Del Collins, Information Technology Director  
Anastasia Rodriguez, Internal Audit Director  
Laura Nicholson, Development Director  
Chris McMillan, Development  
Bonita Shropshire, Executive Assistant

**GUESTS:** No Guests

Chairman Tomlin called the meeting to order and asked Robert Wilson to read into the record the Freedom of Information Statement.

"As required by the provisions of Section 30-4-80(e) of the Code of Laws of South Carolina, notification of this meeting has been given to all persons, organizations, local news media, and other news media which have requested such notifications."



**Agenda**

The Chairman presented the agenda for approval. Staff asked that the agenda be amended to reflect the removal of the Tab IV. A - Foundation Update.

**MOTION** Commissioner Allen moved to adopt the agenda as amended. The motion received a second from Commissioner Sieck. There being no discussion, all Commissioners voted in the affirmative and the motion carried.

**Small Rental Assistance Program Discussion**

The Chairman began with a brief explanation of his understanding of the proposed program. He then asked Ed Knight, Deputy Director of Programs and Laura Nicholson, Director of Development for additional information on the program.

Mr. Knight explained that staff developed the Small Rental Assistance Program concept from discussions held at the 2017 Board of Commissioners Retreat. He explained that the program is designed to expand the production of affordable rental housing in SC by creating smaller (8-24 unit) mix-income developments. Mr. Knight went on to describe the three proposed funding sources: HOME, State Housing Trust Funds, and National Housing Trust funds and the estimated funding availability from each source. According to Mr. Knight, the maximum amount for Total Development Cost per unit cannot exceed \$175,000 and that a portion of the funds may be repayable in the form of a loan over a 20-30 year affordability period.

Ms. Nicholson then provided an overview of the projected program Performa as well as the necessary action plan schedule detailing the public notice date, public comment period and public hearing. According to Ms. Nicholson the action plan is due to HUD by February 15, 2018.

After a very in-depth discussion, the Board had no objections with staff proceeding with the Small Rental Assistance Program as outlined.

**Other Business**

There being no additional business to come before the Board, Chairman Tomlin adjourned the meeting.

Respectfully submitted,

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Robert S. Wilson, Secretary

Approved: January 17, 2018

By: \_\_\_\_\_

Donald R. Tomlin, Jr.  
Chairman

**Division:** Development

**Subject:** Housing Trust Fund Award Change  
MIRCI- HTF #16118

At the November 15, 2017 Board Meeting, staff recommend and the Board approved a \$100,000 State Housing Trust Fund award for MIRCI. The award was for the construction of a multifamily proposal of a ten bedroom dwelling that would provide housing for unaccompanied young men between the ages of 17-24 to be located in Columbia, Richland County. The State Housing Trust Fund award was being combined with a \$500,000 National Housing Trust Fund award. Unfortunately, during conversations with HUD it was determined the proposed development would not be eligible for National Housing Trust Funds and the Authority had to rescind its commitment of National Housing Trust Funds.

After reviewing the proposal as presented, it was determined that the project would fit in the State Housing Trust Fund's Supportive Housing activity. This activity can provide up to \$300,000 in funding. Based on the fact the Authority had already committed \$100,000 in funding and in order for MIRCI to be able to continue to move forward in meeting their construction timelines with their lending partners as well as the City of Columbia, staff has brought this proposed funding increase to you outside of the normal quarterly funding cycle.

MIRCI's Board and the SC Department of Mental Health have both provided additional funding to make the project financial feasible if the Authority's Board will increase the State Housing Trust Fund award. Therefore, staff would appreciate the Board's consideration and approval to increase the \$100,000 State Housing Trust Fund award to \$300,000.

**Division:** Development

**Subject:** Development Programs Update

**Tax Credit Program:**

Final technical changes to the 2107-2018 Qualified Allocation Plan and Tax Credit Manual were provided at the November 2017 Board meeting. Since Governor Haley signed and approved a two year Qualified Allocation Plan in 2017, Authority staff provided Governor McMaster, for informational purposes, a copy of the final technical changes to the Qualified Allocation Plan. These technical changes will govern the 2018 tax credit program.

The tax credit application workshop is scheduled for January 24, 2018 at the Embassy Suites on Greystone Blvd in Columbia. Staff will review changes specific to the 2018 program as well as the application process, forms and exhibits. Applications for funding are due March 5-9, 2018.

**National Council of State Housing Authority's Recommended Practices for Tax Credits:**

The National Council of State Housing Agencies (NCSHA) recently published an updated recommended practice guide for state Housing Finance Agencies in the administration of the Low Income Housing Tax Credit Program. A task force appointed by the NCSHA Board of Directors worked on this project over 18 months, collaborating with Housing Finance Agency executive directors and their staff. NCSHA also sought comments from numerous organizations and businesses involved in the Housing Credit industry, including national advocacy associations and developer, syndicator, consultant, investor, and other stakeholder groups.

The new guidelines respond to current program challenges and opportunities by updating and expanding both NCSHA's existing Recommended Practices in Housing Credit Allocation and Underwriting and Recommended Practices in Housing Credit Compliance Monitoring. The recently published final report is a consolidation of these two sets of practices, covering the state's program administration responsibilities. The report significantly strengthens existing recommended practices and includes 13 new practices. A copy of the Recommended Practices is included with your Board book.

The Authority will look to include the new practices into the 2019-2020 Qualified Allocation Plan and Tax Credit Manual.

**National Housing Trust Fund Program:**

The Authority initially awarded two (2) developments under this program- (1) The Preserve at Logan Park, an existing 113 unit elderly development in Greenville and (2) MIRCI- Transitional Housing for Youth and Young Adults, a 10 unit new construction development in Columbia. However, due to guidance received from HUD based on project specifics, HUD determined that MIRCI's project was not an eligible activity under the National Housing Trust Fund program and the Authority had to rescind the award. Therefore, for the 2016 National Housing Trust Fund funding cycle the Authority made one award totaling \$700,000.

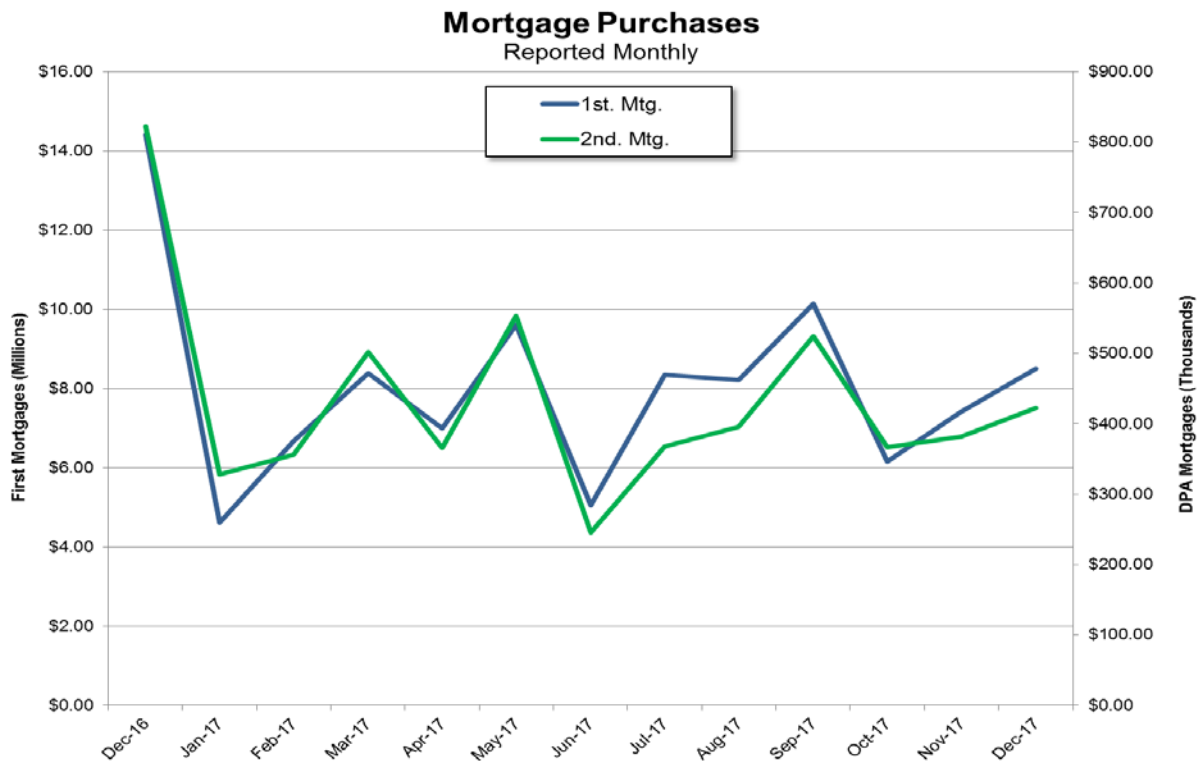
## Division: Mortgage Production

### Mortgage Production Update

For the month of December 2017 mortgage production totaled \$3.6 million in new reservations (net of cancelations). First mortgage loan purchases for the month totaled \$8.49 million with an additional \$422,167 in Down Payment Assistance provided.

SC Housing’s interest rate for FHA loans is currently 4.125% and 4.625% for Conventional loans. Current market rates are approximately 4.25% for FHA loans and 4.75% for Conventional loans.

For the Month of December the total SC Mortgage Tax Credit (MCC) production totaled approximately \$74,304 in new reservations and \$2.7 million in MCC approvals.





January 17, 2018

## Division: SC HELP

### SC HELP Update

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The SC HELP program continues in its final stages of wind down and issuance of commitments since we closed the application portal on December 1, 2017. SC HELP staff will continue to review and decision applications until March of 2018.

### SC HELP Program Performance Data

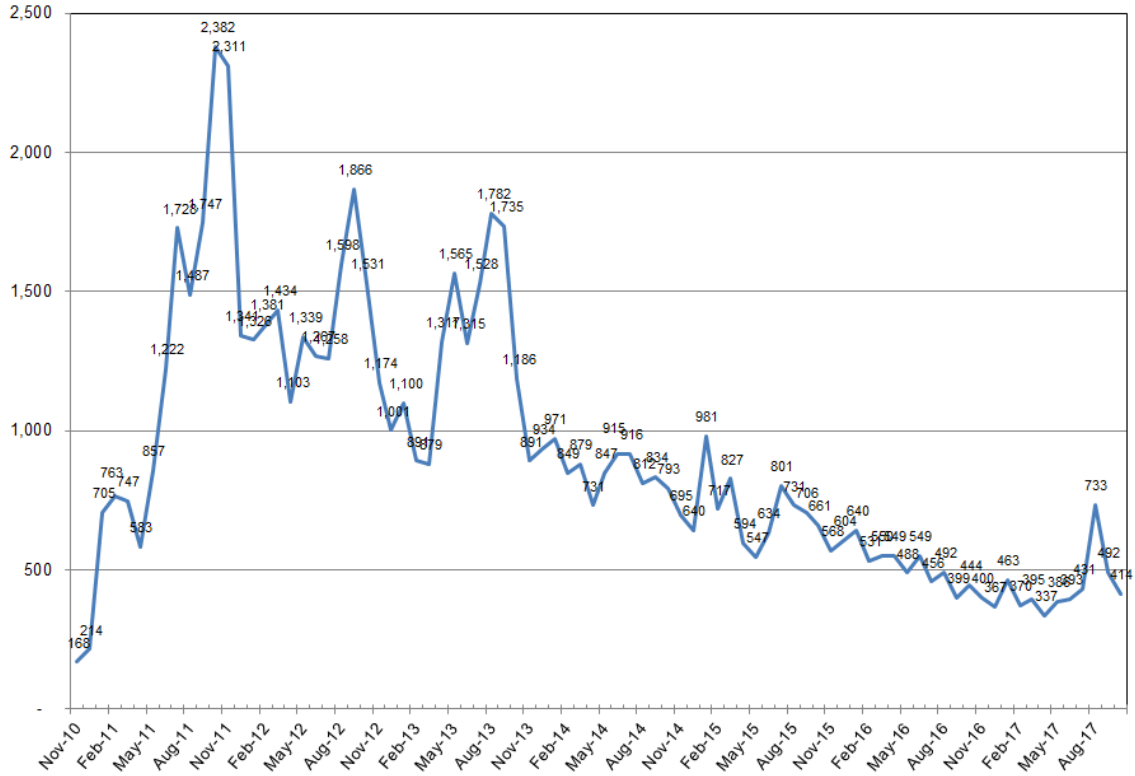
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Production as of December 31, 2017:

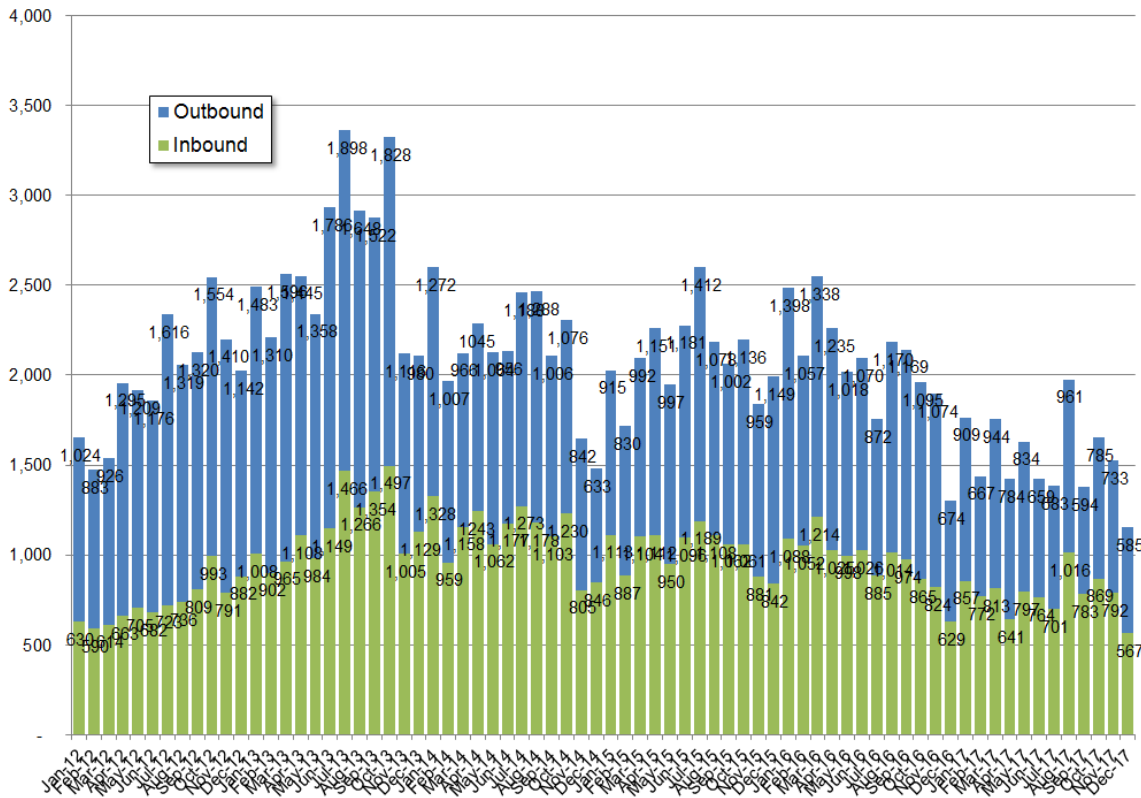
Homeowners Approved & Funded	13,023
Homeowners Approved - Pending	136
Programs Funds Disbursed	\$223,937,810
Additional Funds Committed	\$33,616,335
Total Program Funds Disbursed & Committed	\$257,554,145
Available Program Funds	\$3,597,151
Neighborhood Initiative Properties Acquired	806
Neighborhood Initiative Properties Demolished	353
Neighborhood Initiative Funds Disbursed	\$8,849,757

*NOTE: Production (applicant and disbursement) numbers are NOT reconciled as of the date of this report. Final reconciled production numbers are provided on the Quarterly Production and Quarterly Financial Reports.*

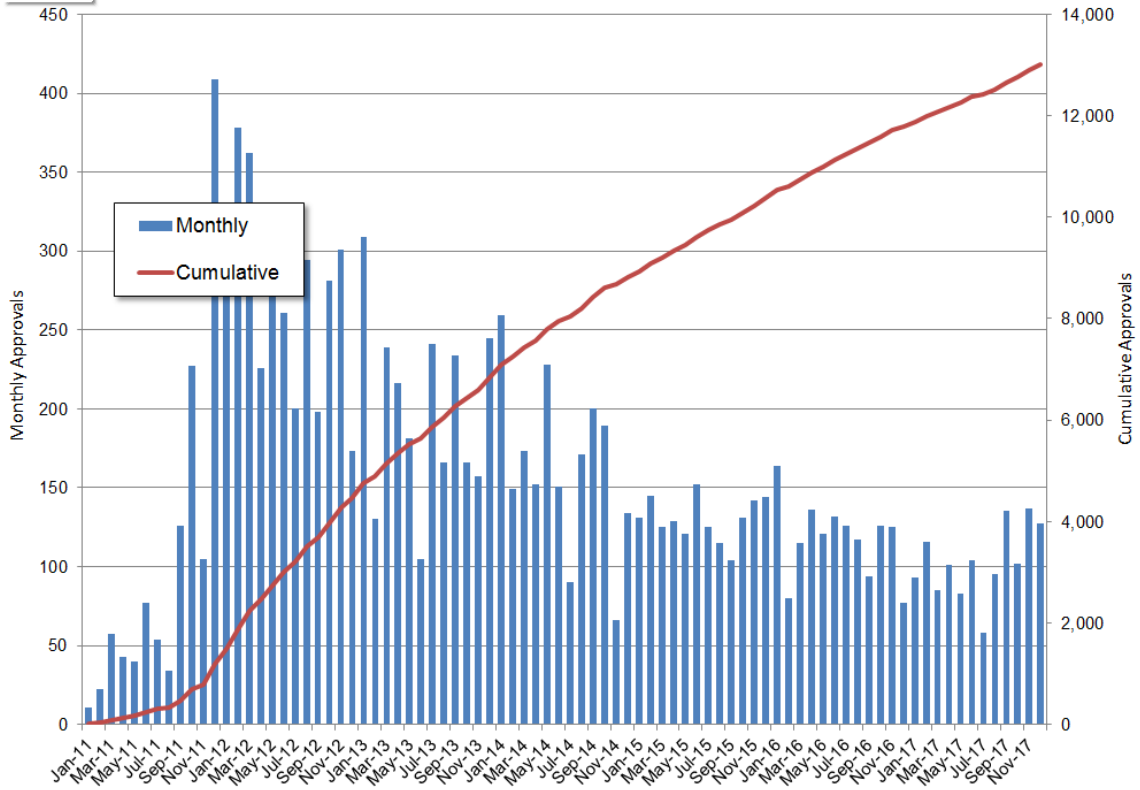
### SC HELP New Account Registrations



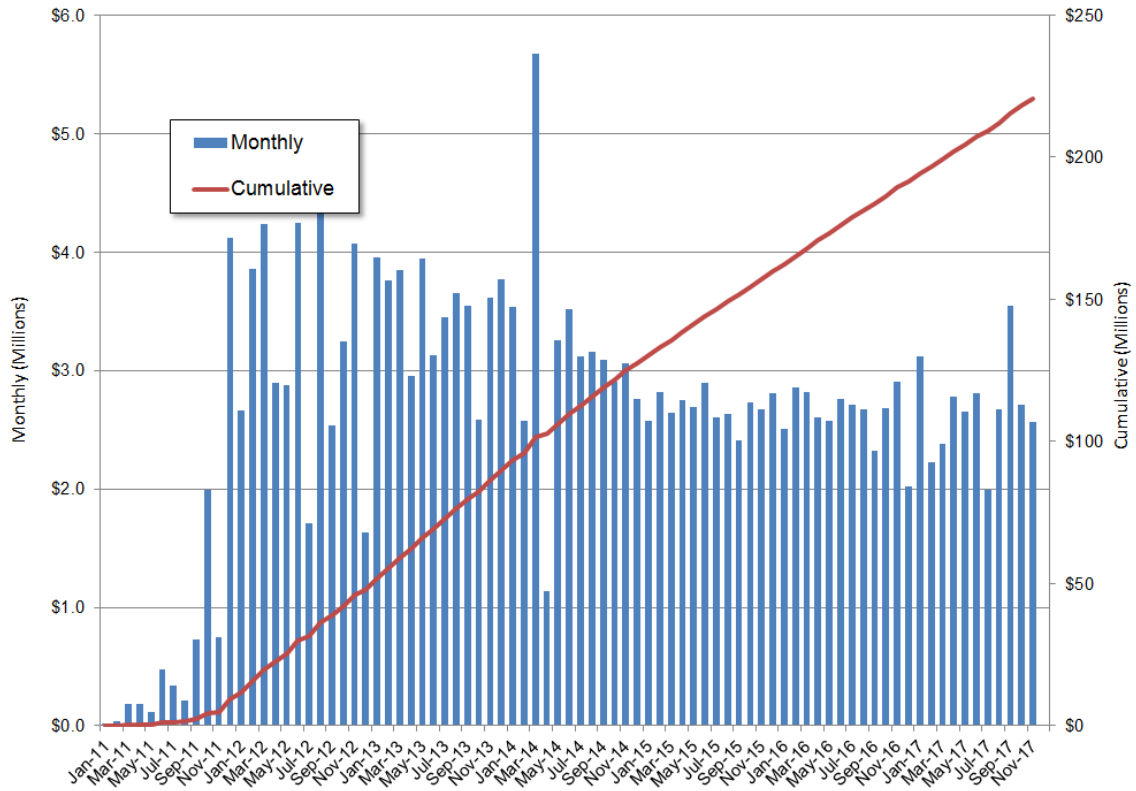
### SC HELP Client Relations Call Volume



### SC HELP Homeowner Approvals



### SC HELP Program Disbursements



**DIVISION:** Chairman  
**SUBJECT:** Board Report



**DIVISION:** Executive Director  
**SUBJECT:** Board Report

**DIVISION:** Deputy Director for Programs  
**SUBJECT:** Oral Report

**DIVISION:** Internal Audit

**SUBJECT:** January Board Meeting Reports

- 1.) Human Resources FLSA Final Report
- 2.) Penetration Test Results and Information Technology Update



South Carolina State Housing Finance and Development Authority  
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Donald R. Tomlin, Jr.  
Chairman

Robert S. Wilson, Jr.  
Interim Executive Director

January 2, 2018

Robert S. Wilson, Interim Executive Director  
Tracey C. Easton, General Counsel  
South Carolina State Housing Finance and Development Authority  
300-C Outlet Point Boulevard  
Columbia, SC 29210

Mr. Wilson and Ms. Easton,

This is the final report related to the Internal Audit Department's work regarding the agency's compliance with the Fair Labor Standards Act of 1938 and its subsequent revisions. Please review and respond to this report within 90 days of receipt. Thank you for your staffs' assistance and cooperation with our review.

**Executive Summary:**

Based on a review of agency risk, the Internal Audit Department (IA) conducted an audit of the Human Resources policy on employee exemption status as defined by the Fair Labor Standards Act of 1938 (FLSA). The scope of the audit included a review of current FLSA rules, inspection of current Employee Performance Management System (EPMS) documents, reconciling job duties from the EPMS with FLSA exemption options, and discussing recommendations with HR staff.

In conclusion, IA found that approximately 55% of SC Housing (Agency) employees who currently have exempt status should have non-exempt status as defined by FLSA. IA recommends that HR change the exemption status for employees who do not meet the executive, administrative, professional employee, or computer related occupation tests. IA also recommends consistency among employees within the same class title. Further, IA identified personnel, Human Resources in consultation with Legal, should review to ensure that they have the correct classification and FLSA exemption status.

**Background:**

The [Fair Labor Standards Act \(FLSA\)](#) guarantees a minimum wage for all hours worked and limits to 40 hours per week the number of hours an employee can work without additional compensation. There are 3 tests that must be passed in order to exempt an employee from overtime eligibility. The tests are as follows: (1) the employee must be paid a predetermined and fixed salary that is not subject to reduction because of variations in the quality or quantity of work performed (the "salary basis test"); (2) the amount of salary paid must meet a minimum specified amount (the "salary

level test”); and (3) the employee’s job duties must primarily involve executive, administrative, or professional duties as defined by the regulations (the “duties test”).

In the 2004 Final Rule, the salary level necessary to meet the “salary level test” was increased from \$155 per week to \$455 per week. The 2004 rule also created an exemption for Highly Compensated Employees earning at least \$100,000 for which a minimal “duties test” is required as well as regulatory carve outs for specific occupations including computer based employees.

In July of 2015, the Department of Labor published a proposal to update the FLSA salary level requirements to \$913 per week for a full-year worker and \$134,004 for Highly Compensated Employees. This rule was set to go into effect on December 1, 2016. However, a temporary injunction was issued in November of 2016 and the rule was officially struck down on August 31, 2017. During this time, there was much confusion over the appropriate interpretation of FLSA rules. SC Housing updated employee exemption status once on November 2, 2016 and again on June 17, 2017. Because of concerns related to the change made on June 17, 2017, IA planned and performed an audit of the Human Recourses policy on employee exemption status as defined by the current FLSA rules.

### **Scope and Procedures:**

IA determined the scope of the audit to include reviewing current FLSA rules, inspection of current employee EPMS documents, and testing of the FLSA exemption status of each employee. Testing was followed by discussions with the Human Resources and Legal departments to discuss the more subjective aspects of determining the correct exemption status. The most objective determinant of FLSA exemption status is compensation; however in the current environment, the more subjective duties tests including the executive, administrative, professional, and computer based exemptions are important considerations for determining exemption status. As such, it is important to ensure that job descriptions in the EPMS are correct and applied uniformly to the FLSA exemption tests. Organizational chart considerations are also important as the consistent application of exemption status to employees with similar job class titles and place within the organizational hierarchy are important to reduce HR compression issues related to FLSA exemption status.

The review of current FLSA rules included gathering documentation such as the [Fair Labor Standards Act \(FLSA\)](#) Fact Sheets provided by the Department of Labor (DOL), and DOL Wage and Hour Division [Field Operations Handbook](#).

IA held meetings with HR staff to walk through current HR FLSA policy. Understandably, due to the federal policy changes and reversals, the Agency has been through several iterations of FLSA policy and exemptions status. Most recently, in June of 2017, the Agency made the determination that all employees were exempt from the minimum wage and maximum hour requirement of the FLSA. Based on the current exemption status of all employees and our knowledge of the FLSA rules, IA performed a review of all employee job descriptions and documented the recommended exemption status as well as the support for the conclusion.

### **Findings:**

1. After reviewing FLSA documentation and employee job descriptions, IA found that approximately 55% of Agency staff should have non-exempt status. While all employees met the salary base test and the salary level test, many did not meet the duties test. For example, Program Coordinator I employees do not perform administrative or executive duties to the extent that would allow FLSA exemption.
2. IA identified employees who have duties which allow for FLSA exemption. However, the employee class title is inconsistent with that recommendation. IA believes that consistency among class title is a best practice and

should be adhered to whenever possible. For example, there are Program Coordinator I employees who have management duties and are therefore inconsistent with other employees with the same class title.

3. Currently Agency construction inspectors have the class title of Program Coordinator I. IA believes that these employees exercise the discretion and independent judgement required to meet the administrative exemption threshold.
4. The Computer Employee Exemption is difficult to determine given what we know about the FLSA rules and the job duties of computer based employees. It is difficult to determine the exemption status of a computer based employee using EPMS documents.

**Recommendations:**

1. IA recommends that HR change the exemption status from exempt to non-exempt for employees who do not meet the executive test, administrative test, professional employee test, or computer related occupation test. This is necessary to be in compliance with current FLSA rules.
2. IA recommends being consistent with exemption status as it relates to class title. For example, all Program Coordinator I and Accountant/Fiscal Analyst II employees should have non-exempt status. All employees with class titles that have been determined to be non-exempt who meet exemption testing should be reclassified to a higher class title.
3. IA recommends that HR and Legal review job duties related to construction inspectors and consider reclassifying these employees to a title class that allows for exempt status.
4. IA recommends the HR and Legal review the Computer Employee Exemption requirements of IT staff to ensure that IT staff have the appropriate FLSA exemption status. IA recommends working with IT management in their efforts to reorganize the department to ensure that any exempt staff are correctly classified.
5. IA recommends that HR review all policies and procedures related to exempt and non-exempt status to ensure that the handling of issues related to these statuses are in compliance with FLSA rules. These issues include timekeeping, paid time off, and overtime/comp time.
6. IA realizes that adding non-exempt employees to the workforce adds a level of risk related to time and attendance tracking. IA has agreed to assist HR in the development of new policies and procedures related to FLSA exemption status as well as time and attendance tracking.

**Conclusion:**

Based on the audit work performed, IA concludes that with the implementation of the recommendations, the controls and processes necessary for the agency to be in compliance with FLSA will be in place. IA has recommended that personnel needing to be converted to non-exempt status have that conversion completed as soon as possible. At this time Human Resources has a plan in place to have this conversion completed by the end of the first quarter of 2018. IA has requested that management respond to the audit report in writing within 90 days.

Management and IA will work together to monitor implementation of the measures that discussed in this report.



Anastasia Rodriguez  
Director of Internal Audit





SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY  
300-C Outlet Pointe Boulevard Columbia, South Carolina 29210 P: 803.896.9001 SCHousing.com

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## M E M O R A N D U M

**Date:** January 4, 2018

**To:** Robert S. Wilson, Interim Executive Director  
Donald J. Tomlin Jr., Chairman

**From:** Anastasia Rodriguez, Director of Internal Audit  
Del Collins, Director of Information Technology

**Subject:** Penetration Test Results and Information Technology Update

As a members of the Information Technology Governance Committee, the Directors of Internal Audit and Information Technology meet informally on a weekly basis to discuss the ongoing risks and challenges regarding information technology in the agency and the IT department's response to those challenges. This memo serves as an update on these issues.

In early November, SeNet conducted the second annual Security Assessment and Adversarial Simulation engagement for SC Housing. This included a three level penetration test and security assessment of the agency's IT infrastructure and resources. In 2016 when this engagement was last conducted, SeNet found 6000 external findings (a finding is an exploitable vulnerability or hole in the network) and 500 internal findings. This year's engagement only identified 6 external findings and 64 internal findings, which is a significant improvement. Because of the extremely technical nature of some of the items identified, we have summarized the high priority issues below.

**Level one penetration testing:** attempting to gain access from outside the agency was unsuccessful. The agency was able to detect the attempts and prevent penetration. In addition, the state technology office was able to detect the penetration attempt after four days which is an improvement over last year, when it was not detected.

**Level two penetration testing:** attempting to elevate credentials from a regular user to an administrator and gain access to the network (to simulate a potential phishing attack) was unsuccessful. This shows that the IT staff's hard work maintaining and patching network resources has been successful at significantly reducing this risk.

**Level three penetration testing:** attempting to gain access to the complete network with basic administrator access inside the network was successful. While not a positive result, this vulnerability is a significant improvement from the last test and exists because of access to the network that currently exists to test software upgrades before they are pushed into production. This occurred because the agency does not have an appropriate test environment due to a previous lack of resources to make this happen. This has been moved up in priority and will be resolved prior to the end of 2018.

During SeNet's access to the network, they identified potential issues with the security of the old website, the current shared network drive setup within the agency and with the security of software that pushes the patches out to the desktops on the network that prevented the level two penetration from being successful.

IT is working to close these vulnerabilities through the following:

- Replacement of the website, phase one of which has been completed;
- Monitoring of outside service providers who access the agency's network;
- Eliminating the current shared network drive setup with a more secure option later this year after the data classification project completes the next phase and the new backup system needed to support this more secure option is implemented in January/February of 2018; and,
- By separating out the desktop maintenance program to an area on the network where communication is outgoing only, and incoming access cannot be achieved from anywhere else on the network.

Overall, the Information Technology group has made significant strides to improve the overall security of the agency's resources while working with an outdated infrastructure. 2018 will bring a significant upgrade to the infrastructure with replacement of the network switch, backup systems, disaster recovery system, and upgrades to the firewall system. These investments should further secure and reduce the risk to the agency's IT resources. We appreciate everyone's cooperation and patience through the growing pains of these upgrades.