

**SEMINOLE COUNTY
DEPARTMENT OF COMMUNITY SERVICES
COMMUNITY ASSISTANCE DIVISION**

**AUDIT OF THE
NEIGHBORHOOD STABILIZATION PROGRAM**

REPORT NO. 060410

JUNE 2010

Prepared by:
The Office of the
Clerk of the Circuit Court



MARYANNE MORSE
Clerk of the Circuit Court
Seminole County

June 4, 2010

The Honorable Bob Dallari
Chairman
The Board of County Commissioners
Seminole County, Florida
1101 East First Street
Sanford, FL 32771

Dear Mr. Chairman:

I am very pleased to present you with the attached full scope audit report of the *Neighborhood Stabilization Program*.

The audit found conditions that warrant management's attention. These conditions and management's corrective action plans are included in the report that follows.

I would like to personally thank the Community Services Department personnel for their assistance throughout the course of this audit. Their assistance was deeply appreciated. With warmest personal regards, I am

Most cordially,

Maryanne Morse
Clerk of the Circuit Court
Seminole County

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**Seminole County
Department of Community Services
Community Assistance Division**

Audit of the Neighborhood Stabilization Program

EXECUTIVE SUMMARY

In December 2009, the Clerk's Internal Audit department conducted a limited review of nine (9) payment vouchers in connection with the *Neighborhood Stabilization Program (NSP)*. The limited review resulted in seven (7) findings which precipitated the need to ensure adequate controls were in place over the NSP grant. As a result, a full scope audit was initiated.

This report presents the results of our audit of the *NSP* grant agreement between Seminole County, Community Services Department-Community Assistance Division (the "County") and the U.S. Department of Housing and Urban Development (HUD). Our objective was to evaluate whether the County has established adequate controls over the *NSP* properties acquired to date.

In addition to the findings observed from the limited review, we noted the findings below and concluded that:

- Insurance policies for NSP acquired properties were not obtained from developers;
- Insurance policies for resale properties should be for longer periods;
- Administrative dollars allocated for program management and monitoring should be used for such purpose;
- Energy audits should be conducted as required by the Scope of Services;
- Building permits should be obtained for rehabilitation work that requires permits;
- Certificate of final inspection of rehabilitation work should be maintained for houses rehabilitated; and
- Signed income qualification documentation should be retained in tenants' files.

We have included specific recommendations following each of our findings in the Findings and Recommendations Section of this report.

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PURPOSE and SCOPE

This audit was performed as a direct correlation of the findings and observations from the limited review of the NSP. The purpose of the audit was to evaluate the adequacy of internal controls over the NSP acquired properties to date.

METHODOLOGY

To accomplish our objectives, we:

- Interviewed Community Services Department personnel.
- Reviewed:
 - Agreements with developers;
 - Work estimates and work orders for rehabilitation work;
 - Inspection reports by independent inspectors;
 - Independent appraisals of NSP properties acquired;
 - Tenant lease agreements for rental properties;
 - Vouchers submitted by developers;
 - Recording of Restrictive Use Covenants;
 - Property taxes and insurance policies;
 - Final inspections of rehabilitation work; and
 - Tenant files for leased properties.

The audit was performed by the Clerk's Internal Audit Department.

BACKGROUND

The Neighborhood Stabilization Program (NSP) was created under the Housing and Economic Recovery Act of 2008. It was established for the purpose of stabilizing communities that have suffered from rising residential foreclosures and property abandonment. The NSP permits States and local governments to purchase foreclosed homes at a discount and rehabilitate or redevelop them in order to respond to rising foreclosures and falling home values.

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In November 2008, the County submitted the 2008-2009 substantial amendment One-Year Action Plan for the Neighborhood Stabilization Program (the "Plan"). In the Plan, the County identified the geographic areas of greatest need based on the number of home foreclosures between August 1, 2007 and September 2008.

Due to the number of foreclosures in the County, HUD deemed the County to be an entitlement county, which allowed the County to contract directly with HUD for the NSP funding. The NSP funds allocated to the County was based on the percentage of home foreclosures; the percentage of home financed by sub-prime mortgages and the percentage of homes in default or delinquent. The amount allocated to the County was **\$7,019,514**. The County has eighteen (18) months (June 30, 2010)¹ to spend or obligate the funds; however, the program's end date is December 31, 2013.

In March 2009, the County sought Request for Proposals (RFP) from entities to acquire abandoned or foreclosed properties for resale or rental to low, moderate and middle income qualified households. Qualified organizations would provide the following activities:

- ***Acquire; Rehabilitate and Resale the property to income qualified individuals.***
- ***Acquire; Rehabilitation and Rent the property to income qualified individuals.***

The County retained an appraisal company to determine the market value of the properties. The County acquired the properties discounted from the appraised value on behalf of the developer. In addition to acquiring the property, the County pays the rehabilitation costs and a developer's fee for that property.

Since the property is acquired in the Developer's name a restrictive use covenant is recorded restricting use of the property to provide housing for low, moderate or middle income households for a period of twenty (20) years from the recording date.

In an effort to assess the established controls over the NSP, the Clerk's Internal Audit Department performed an audit of the NSP properties acquired through January 31, 2010, to ensure NSP funds are spent pursuant to the terms of the Plan submitted to HUD as well as the executed agreement with the developers.

¹ An extension has been granted thru September 30, 2010.

The following were observed based on discussions with the Community Services Department (the "Department") staff.

- *Approximately \$3 million will be used to acquire, rehabilitate and **resale homes** to low, moderate and middle income qualified families.*
- *Approximately \$1.8 million will be used to acquire, rehabilitate and **provide rental** to low, moderate and middle income qualified families.*
- *Approximately \$1.5 million of the NSP funds will be used to provide **soft second mortgages** to low, moderate and middle income qualified families.*
- *Approximately \$702,000 will be used to cover **administrative expenses**.*

As of January 31, 2010, the County acquired 38 properties; 14 properties for re-sales and 24 rental properties.

OVERALL EVALUATION

As of January 31, 2010, the Department incurred expenditures of approximately \$3.3 million in connection with the acquisition, soft second mortgages, rehabilitation costs, developer fees and administrative fees such as: inspection fees, appraisal fees and recording fees. Overall we concluded that although some new procedures have been adopted by the Department since the limited review, internal controls over the NSP need to be strengthened. See our Findings and Recommendations following this page.

FINDINGS and RECOMMENDATIONS

FINDING NO. 1

Insurance policies for NSP acquired properties were not obtained from developers.

We observed that only eight (8) out of thirty-eight (38) NSP acquired properties or 21% had property insurance, while the remaining 79% of the properties were uninsured during the audit. Insurance coverage was not obtained for some of the properties until Internal Audit requested copies of the policies. Three (3) of the eight (8) insurance policies were obtained in January 2010. The remaining five (5) policies were dated subsequent to the closing date of the property.

Current Status

On March 3, 2010, Internal Audit was provided a copy of the insurance policy for a set of duplexes acquired on January 21, 2010, which will be used as rental properties. The policy was effective March 1, 2010 and will expire on March 1, 2011. As such, the percentage of properties insured as of March 3, 2010, was 26% while 74% of the properties remained uninsured or no audit evidence had been provided to verify that those properties are insured.

Recommendation

We recommend the Department require developers to provide proof of insurance prior to or at closing to ensure properties acquired with NSP funds are insured.

Management Response

The Community Assistance Division employees have obtained insurance policies on ninety-nine percent (99%) of NSP Rental and Resale properties; all twenty-four (24) rental properties and thirteen (13) resale properties. One (1) resale property closed before the insurance policy was obtained. Copies of the insurance policies have been filed in each property's project file.

To expand on the response to Finding No. 7 of the January 5, 2010 Limited Review, Community Assistance will ensure developers provide the Community Assistance Office with an insurance policy of all NSP acquired properties.

FINDINGS and RECOMMENDATIONS

FINDING NO. 2

Insurance policies for resale properties should be for longer periods.

We observed during our audit insurance policies for properties acquired to be resold are obtained for three-month terms. Insurance policies for such a short period results in higher premiums. In some instances annual premiums were less than the three-month premium. Since the properties are usually not sold within three months, the developer has to extend the policy for another three-month term which results in higher premiums.

Recommendation

We recommend the Department require developers to secure policies with longer terms since the houses are not being sold within three months and premiums for shorter terms are higher.

Management Response

The Community Assistance Division will ensure all NSP resale properties are insured by the Developers for a minimum of six (6) months. A copy of the insurance policy will be filed in each project file.

FINDINGS and RECOMMENDATIONS

FINDING NO. 3

Administrative dollars allocated for program management and monitoring should be used for such purpose.

According to the 2008-2009 One-Year Action Plan Substantial Amendment the County submitted to the U.S. Department of Housing and Urban Development, approximately \$702,000 of the NSP funds would be used to “pay reasonable program administration costs related to the planning, execution of the activities, staffing for overall program management, coordination; monitoring, reporting and direct and indirect charges.” We observed the Department has taken on additional responsibility with the NSP program without any increase in staffing in connection with monitoring the NSP program.

Recommendation

The Department should assess the adequacy of its staffing in connection with the NSP and consider using some of the administrative dollars to retain personnel to effectively monitor the program.

Management Response

The Community Assistance Division’s NSP Administrative dollars are adequately being used to “pay reasonable” program administration costs related to the planning, execution of the activities, staffing for overall program management, coordination; monitoring, reporting and direct and indirect charges. The Community Assistance Division has developed a process to reasonably monitor the NSP Program to ensure program effectiveness.

FINDINGS and RECOMMENDATIONS

FINDING NO. 4

Energy Audits should be conducted as required by the Scope of Services.

We observed as indicated by the developers' contract Scope of Services, "the Developer shall coordinate with the appropriate local utility company to obtain a free-of-charge energy audit. The energy audit shall be the basis for all improvements to increase energy efficiency or conservation, or to provide a renewable energy source or sources for such homes."

While conducting our audit we observed no energy audits were conducted for the homes acquired with NSP funds. In February 2010, Internal Audit was provided five (5) energy audits that were conducted in January 2010. The objective of conducting the energy audits prior to the rehabilitation work being done is to increase energy efficiency or conservation and to provide a renewable energy source for such homes.

Recommendation

We recommend that energy audits be conducted to conform with the scope of services.

Management Response

The Community Assistance Division acknowledges and agrees that Energy Audits have not been conducted according to what is written in the Scope of Service. After meeting with the Developers and Electric Companies the Energy Audits in the Scope should be conducted after the family moves into the home, to accurately determine efficiency or conservation. This free option will be recommended to the homeowner at closing. The NSP Agreements are in the County Attorney's Office to have the Scope of Services amended to include Capital Improvement information that will increase energy efficiency or conservation and to provide a renewable energy source for homes at the time the home is rehabilitated.

FINDINGS and RECOMMENDATIONS

FINDING NO. 5

Building permits should be obtained for rehabilitation work that requires permits.

During our audit we requested the A/C permit for one of the NSP acquired property that required a permit. The permit was obtained and dated after Internal Audit made the request.

Recommendation

We recommend the Department require developers to provide copies of permits obtained for facilities where rehabilitation work will require permits.

Management Response

The Community Assistance Division obtained and provided the Internal Auditor with the one permit requested and omitted from the property file. Community Assistance will ensure all properties requiring a permit for rehabilitation work have a copy of the permit in the project file.

FINDINGS and RECOMMENDATIONS

FINDING NO. 6

Certificate of final inspection of rehabilitation work should be maintained for houses rehabilitated.

As indicated by HUD a Certificate of Final Inspection should be completed for rehabilitation of houses. The purpose of the certificate is to document that the work on the identified property was performed in accordance with the property inspection form and the approved developer's work write-up for the house.

Recommendation

We recommend the Department adopt policies to ensure completed rehabilitation work is inspected/reviewed and such inspection/review be properly documented.

Management Response

The Community Assistance Division will ensure completed rehabilitation work is inspected/ reviewed and documented in each property file.

FINDINGS and RECOMMENDATIONS

FINDING NO. 7

Signed income qualification documentation should be retained in tenants' files.

As of January 22, 2010, ten (10) of the NSP rental properties have been leased to tenants that are apparently income qualified. In order to evaluate the effectiveness of controls of ensuring only income qualified tenants are leased NSP units, Internal Audit requested the ten (10) tenant files on January 22nd. The files were not made available for inspection until February 18th, 2010. The Department informed Internal Audit the tenants' income qualification criteria has been delegated to the respective developer. The length of time it took to provide the tenants' files raises concern about the adequacy of controls the developers have in place to ensure the tenants' are income qualified and appropriate documentation is retained in the files.

Upon examination of the files, we observed several instances where the Tenant Income Qualification form was not signed by the tenants. Some of the files did not have sufficient documentation to assess if the tenant was in fact income qualified. For instance one tenant reported they were unemployed and had no income, but did not attest/certify they were unemployed. Internal Audit questioned how the tenant will be able to make the monthly rent since they had no source of income. The Department was uncertain as to how the management company, acting on behalf of the developer, ensured the developer would be able to collect their monthly rental. In addition, the same tenant reported a gift of \$6,500 without indicating the source of the gift. It would be prudent to document how the management company ascertained the tenant was income qualified and has the ability to make the monthly rental payment.

Recommendation

The Department should implement procedures to verify that developers or their Management Company retain the appropriate documentation for NSP tenants to verify they are income qualified as required by HUD.

Management Response

The Community Assistance Division staff re-trained all contractors and their staff on income certifications on March 10, 2010. Going forward, all income certifications will be approved by the HUD Program Manager before approval.