

**SEMINOLE COUNTY
AUDIT OF THE
STATE HOUSING INITIATIVES PARTNERSHIP
(SHIP) PROGRAM**

REPORT NO. 111005

November 2005

Prepared by:
Internal Audit Division
Clerk of the Circuit Court

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**Seminole County
Planning and Development Department
Comprehensive Planning Division
Review of State Housing Initiatives Partnership (SHIP) Program**

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a review of the county's State Housing Initiatives Partnership (SHIP) Program under the management and administration of the Community Development Division.

PURPOSE

The purpose of the audit was to determine if the administrative controls over the SHIP Program are adequate and operating as intended in compliance with applicable laws, regulations and Seminole County policies and procedures; to evaluate conditions noted on previous internal and verify that management has implemented corrective actions.

BACKGROUND

On July 7, 1992, the governor of the State of Florida signed the William E. Sadowski, Affordable Housing Act, and Chapter 92-317 of the Florida Sessions Laws. This law authorized the State of Florida to allocate a portion of documentary stamp taxes on deeds to local government for the development and maintenance of affordable housing. Documentary stamp taxes are those taxes paid to the county to record the sale of any real property. The documentary stamp tax monies are collected by county governments and remitted to the State of Florida; a small portion is returned to the county to fund the SHIP program.

Internal Audit has reviewed and evaluated five separate SHIP-assisted programs administered by Seminole County. They are:

- **Down-Payment/Closing Cost Assistance Program** – This program provides loans up to \$40,000.00 to assist first-time homebuyers in the purchase of single-family homes, duplexes, or condominium units. The loan is secured by a mortgage with the county, with no interest, and is forgiven after five or ten years of ownership depending on the loan granted;
- **Rehabilitation/Emergency Repair Program** – This program (which is currently suspended) provides monies to homeowners to make repairs to correct code violations or other types of repairs to make the home livable;

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- **Reconstruction** – This program provides monies for demolition and reconstruction of a home for a home that has deteriorated past the point of no return;
- **Rental Construction and Rehabilitation** – This program provides funds for new construction or rehabilitation of existing rental properties and may be used to assist with financing; and,
- **Special Disaster Home Repairs** – This program provides low income and very low income homeowners with assistance with repair costs as a result of a state of emergency declared by the governor of Florida or the president of the United States.

The Seminole County Community Development Division of the Planning Departments submits a Local Housing Assistance Plan (LHAP) annually to the Board of County Commissioners (BCC) for approval.

During the period from January 1, 2004 to June 30, 2005, payments for program expenditures totaled \$2,747,800.18. The results of the audit are included in the report that follows:

SCOPE OF WORK

The scope of this audit included a review of the administrative controls over the SHIP program and compliance with Seminole County laws and policies. Specifically, the audit included a review of payments made by the county as down payments for first-time homeowners, special disaster repairs costs, rehabilitation expenses and any costs incurred for the SHIP program for the period January 1, 2004 through June 30, 2005. All source documents during this period were subject to our review.

The audit included:

- Review of procedures being used by Seminole County to ensure compliance with SHIP Program guidelines;
- Interviews with county personnel and the SHIP Program Coordinator;
- Review of Home Ownership Assistance Program files for fullness and completeness;
- Review of the procedures being used to reconcile division records with county financial records and State of Florida annual reporting requirements;
- Review of contracts associated with the SHIP Program; and,

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- Any other procedures considered necessary under the circumstances.

The audit was performed by Gail Joubran and Bill Carroll.

OVERALL EVALUATION

It is our opinion that the administrative controls require strengthening to ensure compliance with the applicable laws, regulations and other Seminole County policies and procedures. We noted that management is continuing to make improvements to the program and some of the conditions noted during previous reviews have been improved. We found the following conditions that require management's further attention:

- Monthly management reporting is verbal in lieu of a formal written presentation;
- Reconciliation procedures still are being developed. As a result, department records are not being balanced to the general ledger on a timely basis;
- Payment checks are cut well before contractors have completed work;
- Qualification reports may or may not include all of the applicant's debts;
- Advisory committee appointed by the BCC is not being effectively utilized;
- Policy and Procedure manual is limited to the Down-Payment Assistance Program; and,
- No requirement for Seminole County to be listed on title insurance.

Findings and recommendations are included in the report that follows.

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FINDING NO. 1

Monthly management reporting is verbal in lieu of publishing a formal written report.

The Community Development Division does not publish a monthly management report **nor is there a requirement** to publish such a report.

It is our opinion that as a result of not having a monthly management report, no one including department management, the county manager, or the BCC can accurately assess where the program stands financially at any one point.

Florida Statute 420.9075 does, however, require the county to submit by September 15th of each year an annual report of its accomplishments through the preceding June 30th. This report is **certified as an accurate and complete accounting** by the chairman of the BCC. In previous internal and external audits, this annual report could not be reconciled to the general ledger and backup was not available to support the submittal to the state. At the time of this audit, the annual report still was being compiled.

Recommendation

Formally publish a monthly management report of all activities relating to the SHIP program. The report should include an analysis of down-payments, foreclosures, status of funding including a statistical analysis.

Management Response

Monthly management reporting is not only verbal. We have a variety of reporting mechanisms in the Department which include the Project Production List report, weekly management meetings, a monthly reconciliation and misc. other reports. (We agree a more formal consolidated report would be a good improvement and we are working on formatting this now).

Audit Comment

A monthly management report will allow management and the BCC an opportunity to assess where the program stands financially on a monthly basis.

FINDING NO. 2

Reconciliation procedures are still in the process of being developed.

There is **no requirement to reconcile** division records with the county's general ledger.

The county's general ledger is in very simple terms a checkbook which lists all the money coming into the county and all the money going out. Like a personal checkbook, it is desirable to know each month what the true balance might be. By not reconciling division records with County Finance's records (i.e. general ledger)

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each month, opportunities exist for some accounts to be inadvertently misstated. Case in point, on March 31, 2005 the SHIP (Equity in Pooled Cash) account FY 02 had a negative balance of (\$215,290.72). In other words, the county had over spent by \$215,290.72. Later on in June 2005, an adjustment for \$215,290.88 was made to this account so that the correct balance was stated at .16 (16 cents).

In the past, Community Development has compiled the SHIP Annual Performance Report (APR), using the records it keeps internally. These records were not reconciled to the general ledger as there was **never a requirement** to do so.

Internal Audit was provided a worksheet FY 2002 for the SHIP APR. The other worksheets for fiscal years 2003 and 2004 are still in the process of being compiled. Once the reports are ready, we will check to see if it is in balance with the general ledger and the department procedure is functioning as intended.

Recommendation

Establish policies and procedures to provide guidance on the verification of the accounting records to the annual reports remitted to the State of Florida. We also recommend that this procedure be in writing and each person's responsibilities be clearly outlined.

Management Response

Reconciliation procedures still are being strengthened ~~developed~~. **We have had monthly reconciliations** and provided some samples (should you need another copy, please let me know).

In addition, we have been working with the new Finance Manager of Planning and the Finance Department to improve reconciliation reports and work out the kinks of the new JD Edwards system and GovMax reports. With the completion of the most recent APR we are switching to a new reporting format which has been provided by the State (I believe a sample was provided).

Audit Comment

As discussed with staff, in order to validate that the records were reconciled, we need to be furnished the reconciliations and all of the back up. At the time of the audit we were informed that the worksheets were still being compiled. Therefore, the finding stands as written.

FINDING NO. 3

Payment checks are cut well before contractors have completed work.

On April 29, 2005, the BCC approved a sub-recipient agreement with the Seminole County Housing Authority (SCHA). This agreement was to rehabilitate the public

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housing units for very low income households, owned and administered by Seminole County Housing Authority. Although we fully understand the need to rehabilitate the housing identified on the agreement, there are many issues of concern.

- In order to qualify for the funding from the State of Florida, rehabilitation needed to be completed, and paid for by June 30, 2005. This schedule only allowed the county and the housing authority two months to schedule the work, complete it and pay for it;
- According to the agreement with SCHA (and consistent with other Seminole County policies) Section 5D of the agreement specifically states that:

"Payment by the County shall only be issued upon receipt from SCHA of an original invoice for materials acquired and services rendered up to but not exceeding the amounts budgeted in Exhibit B". Said invoice must be signed by the party seeking payment and by the Executive Director of SCHA.

The invoice in question was signed by the executive director of SCHA. As this was a time sensitive project, Community Development requested County Finance to cut a check before the materials were delivered and installed and to be held until the project was completed. It is normally the practice of Seminole County for a department representative to validate that the work has been completed; after that, County Finance will cut a check and mail to the contractor for services rendered;

- Within this agreement with the Seminole County Housing Authority, \$67,000 was allocated to install playground equipment. We do not see any verbiage in Chapter 92-317 of the Florida Sessions Laws, the Seminole County Local Housing Assistance Plan (LHAP), or any other BCC approved resolutions that money from this program could be diverted to updating playground equipment. **Therefore, it appears to be an improper use of SHIP monies;** and,
- Seminole County had a written agreement with the company to purchase and install the playground equipment before the project was ever authorized by the City of Oviedo (the site for the installation). Thus, this money was at a risk of loss.

By not providing sufficient lead times, personnel has the ability to circumvent the County policy and cause a project failure.

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Recommendation

1. Provide sufficient lead times in project schedules to prohibit staff from circumventing the County policy; and,
2. Payment checks should only be cut after contractor has completed work and all appropriate representatives have signed off on the invoice.

Management Response

Payment checks are cut well..... This finding discusses one event yet refers to plural. In the case cited, staff member was disciplined for a serious infraction of internal policy and all staff have been reminded of procedures for payment. If there are other events you came across, I would need to look at them to evaluate the circumstances.

Audit Comment

Another instance of payments processed before services were rendered occurred on September 19, 2005. A payment for \$135,243.05 was made to High Security Alarms Systems, Inc. for installation of a security system for the new Safe House being constructed some time in 2006. We continue to encourage Community Development and County Finance to only pay for services after they become rendered.

FINDING NO. 4

Qualification Reports may or may not include all of the applicants' debts.

Each applicant is required to provide to the SHIP program a completed application with a family budget (including debts), copies of the last three bank statements (although most only had one statement), and a statement from an employer of what the applicant earns on an annual basis. From this information, Community Development determines if the applicant qualifies for down-payment assistance. A copy of the qualification form is included in the file. Internal Audit made a comparison of what was on the qualification form and what type of information was documented in the file. We noted the following:

- Qualification reports are not dated and some files had multiple reports to cover different scenarios;
- Family household budgets and bank statements do not support what is on the qualification reports. For example, one report showed zero "Other Debt Payment" yet the family budget submitted by the applicant had listed an auto loan for \$370.00 and credit card payments of \$59.00. We are not sure whether this applicant cleared those debts prior to Community Development completing the Qualification Report. We found another

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example of an applicant which didn't submit a family budget and the qualification report had no debt listed but the one bank statement had credit card payments of \$106.00, a payment to Friedman's Jewelers for \$365.81, AIG Specialty Auto for \$162.06, Harley Davidson for \$391.52, and Sprint PCS for \$72.06. Another applicant had annotated on the family budget that it had an auto loan payment of \$450.00 yet the qualification report had no "Other Debt Payments". In these particular cases we don't know whether these applicants had cleared these debts prior to Community Development completing the qualification reports. Moreover, one applicant owned a mobile home with \$60,000.00 in equity. She was allowed to keep the mobile home, rent it out, and get \$10,000.00 in down-payment assistance instead of having the applicant sell the mobile home and use the equity from the sale for the down-payment on the new home;

- Other than a few files, most files only have one bank statement not the three that are required by the check list;
- When qualifying an applicant, the division only requires income verification from an employer, it does not require copies of pay stubs, W-2s, federal year end tax returns and any other documentation to support the applicant's income. These documents will substantiate what is reported on the application and correspond to what employers are reporting;
- No requirement to furnish the county a copy of a credit report. A credit report would give the county an opportunity to peruse the report to see what types of debts are outstanding, and whether the applicant had filed for bankruptcy previously, that may not have been reported on the application; and,
- Applicants of Special Disaster Assistance Relief payments **certify their own income** in lieu of remitting to the county copies of pay stubs, W-2s, tax returns, or third party verification. We believe the county is using this option due to the high volume of applicants and the need to process these applications in a timely manner. We noted, however, that there is up to a four month window from the date of application to the payment being processed. There may be sufficient time in the schedule to obtain the 3rd party verification to this program. By documenting the file with dated qualification reports ensures that there is a paper trail of what actions were taken on which dates. Requiring pay stubs, W-2s and copies of credit reports provides added visibility to the county as to what previous credit issues might be outstanding.

Recommendation

1. Date all Qualification Reports so that there is an audit trail as to when the report was prepared. Annotate on the report if the debts on the family household budget were included or considered in the qualification;
2. Require the applicants to submit three months of bank statements as required by the checklist;
3. Require applicants to submit copies of pay stubs, W-2s, federal year end tax returns, and any other documentation to support the applicant's income;
4. Require applicants to furnish the county a copy of their credit report to give the county an opportunity to peruse the report to see what types of debts might be outstanding, and whether the applicant had filed for bankruptcy previously; and,
5. Require applicants of Special Disaster Assistance Relief payments to furnish copies of pay stubs, W-2s, tax returns, and/or third party verification.

Management Response

Clarification: Applicants are qualified based strictly upon the Income Certification process and procedures set by the State of Florida SHIP Program. Staff receives updated training from the State on an annual basis to ensure most current guidelines are followed. State monitoring of files has confirmed that guidelines are being appropriately followed.

For your clarification, during the qualification process, multiple statements (as referenced on the check list) are received and reviewed to determine income. However, per State guidance, only the most current statements are retained in the final approved file. Staff has been counseled by the State not to have "extra" paperwork in the final file during monitoring. Regarding W-2s, tax reports, credit reports and other types of information that one would think could be useful, these documents are not requested as the qualification is about an individuals current and future income. The State training requires that the County use information provided by the employer.

As an overall clarification, County staff does not determine the rules by which the qualification of an applicant occurs or what materials are included. At the same time, lenders certainly may and do look at some of the information you mentioned prior to qualifying the applicant for their loan to ensure the applicants capacity to carry a mortgage.

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Audit Comment

Having copies of bank statements, W-2s, and copies of tax returns in the applicants files are not "extra paperwork" as indicated in management's response. With some applicants now receiving up to \$40,000.00 in down-payment assistance, having proper documentation and a complete audit trail ensures that staff has acted with due diligence.

FINDING NO. 5

Advisory committee appointed by the BCC may not have been effectively utilized.

In its October 13, 1992 meeting, the BCC authorized that an advisory committee be established with nine charter members from industry to serve for a two-year term. The committee was formed to establish policy, provide guidance, and to monitor the program to ensure the program is operating effectively.

No evidence exists that this committee has ever been involved with establishing policy or providing any form of oversight to the SHIP program. Thus; the directive from the BCC may have been ignored. Furthermore, Florida Statute (FS) 420.9076 establishes guidelines for advisory committees to advise county management on policies and procedures.

Utilizing the advisory committee as mandated by the BCC ensures that policies and procedures and operating practices are continuously being evaluated for improvements.

Recommendation

We recommend that the BCC **either rescind** the resolution for the advisory committee **or** formally **appoint** an advisory committee as previously resolved on October 13, 1992.

Management Response

An administrative update to the plan needs to and will occur to remove the reference to the Committee which ceased many years ago.

FINDING NO. 6

Policy and Procedure Manual is limited to the Down-Payment Assistance Program.

Although there is **no requirement** to have a comprehensive policy and procedure manual, we believe that comprehensive written policies and procedures provide added insurance that the program is operating consistently each day and employees are complying with all management directives.

Internal Audit was provided by staff with a copy of the Down-Payment Assistance

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Program manual. This manual provides both the applicant and the division a guide as to what documents were needed and also serves to provide staff with an outline as to what is required to complete the file. This set of procedures, however, was limited to only the down-payment assistance program. We have also been provided by staff with the Seminole County Local Housing Assistance Plan (LHAP), Resolutions approved by the BCC and guidelines posted on the county website. We also noted that staff has developed check lists for the special disaster repair program. We did not find, nor, were we presented with any other written in-house procedures relating to other programs such as the special repairs for low and very low income citizens, the rehabilitation program, low income rental construction programs, nor any written job descriptions for each employee.

To ensure that the program operates in accordance with management's wishes, a comprehensive manual should be developed, reviewed by management and published.

Recommendation

Develop written procedures for the Special Disaster Repair Program, the Rehabilitation/Emergency Repair Program and the Reconstruction Program. We recommend that the division follow a format similar to the Down-Payment Assistance Manual.

Management Response

This is an overall administration guide for the program implementation of the SHIP plan to which an update is being prepared to be as specific as the DPA program.

FINDING NO. 7

No requirement for Seminole County to be listed on title insurance.

There is no requirement to have Seminole County listed on title insurance. Almost all of the files processed by the Community Development Division did not have Seminole County listed as the second mortgage holder on the proof of insurance. Title insurance will protect the lender of money against unknown defects in the title to the property under consideration.

Recommendation

Require title insurance companies to include Seminole County's second mortgage interest on proof of insurance.

Management Response

It is accurate that no requirement exists for Seminole County to be listed on title insurance. Staff is reviewing with the County Attorney's office whether this would provide any additional security than we already have.

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