



PAT FRANK  
Clerk of the Circuit Court  
13th Judicial Circuit

**COUNTY AUDIT**

**HILLSBOROUGH COUNTY, FLORIDA**

**AFFORDABLE HOUSING SERVICES'**

**NEIGHBORHOOD STABILIZATION PROGRAM**

**REPORT # 248**

**JULY 31, 2013**

July 31, 2013

The Honorable Ken Hagan, Chairman  
The Honorable Kevin Beckner  
The Honorable Victor Crist  
The Honorable Al Higginbotham  
The Honorable Lesley "Les" Miller, Jr.  
The Honorable Sandra L. Murman  
The Honorable Mark Sharpe

Dear Chairman Hagan and Commissioners:

The Audit Team performed an audit of the Neighborhood Stabilization Program administered by Affordable Housing Services. Audit Report #248, dated July 31, 2013. Responses to the Audit Team's recommendations were received from the Director of Affordable Housing Services and have been included in the report after each audit comment and recommendation.

The Audit Team appreciates the cooperation and professional courtesies extended by the Director and personnel of Affordable Housing Services during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE  
Director, County Audit

cc: Mike Merrill, County Administrator  
Bonnie Wise, Chief Financial Administrator  
Paula Harvey, Director, Affordable Housing Services  
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

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## EXECUTIVE SUMMARY

### BACKGROUND INFORMATION:

Affordable Housing Services (referred to as the Department) administers federal and state funding to develop effective affordable housing and community development strategies for the low and moderate income citizens of Hillsborough County. In 2008, as part of the Housing and Economic Recovery Act, the first Neighborhood Stabilization Program (NSP 1) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The Act requires the jurisdictions to target funding to areas in the community with: 1) the greatest percentage of home foreclosures; 2) areas with the highest percentage of subprime mortgages; and 3) areas that are at risk for foreclosures. The activities funded by the NSP 1 include the following:

- financing mechanisms to purchase and redevelop abandoned and foreclosed properties with soft-second loans, loan loss reserves, and shared-equity loans;
- purchasing and rehabilitating abandoned and foreclosed homes to re-sell, rent, or redevelop;
- establishing land banks of foreclosed properties;
- demolishing blighted structures; and
- redeveloping demolished or vacant properties.

Hillsborough County did not receive funding from the second Neighborhood Stabilization Program (NSP 2).

In 2010, the third Neighborhood Stabilization Program (NSP 3) was authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act. It provided \$1 billion to the program to mitigate the negative impact of the nation's economic decline and the housing market collapse. It also provided funding to stabilize and revitalize communities, and to other areas hit the hardest.

In December 2009, the County was awarded \$19.1 million in NSP 1 funding and in March 2011, an additional \$8 million in NSP 3 funds. To provide affordable housing to eligible County residents, the Department works with several not-for-profit organizations referred to as "housing partners." These housing partners typically enter into arrangements with the Department to rehabilitate or renovate existing housing, construct new single-family and multi-family homes, and then market these housing units to new eligible home owners.

### OBJECTIVE:

The primary objective of the audit was to review and evaluate the adequacy and effectiveness of the Department's internal controls and compliance with policies and standards directly related to the NSP 1 and NSP 3.

## **SCOPE:**

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors. Audit procedures included interviewing key personnel, reviewing key documents, conducting fraud risk questionnaires, analyzing mortgages receivable data, analyzing loan management, and performing a risk assessment to identify high risks associated with the Department's administration of the NSP 1 and NSP 3.

The scope of work focused on two areas of the NSP 1 and NSP 3:

1. Mortgage receivables and loan management; and
2. Monitoring of the housing partners.

The initial test period was from July 1, 2011, to June 30, 2012.

## **SCOPE LIMITATION:**

During fieldwork, the County Audit Department's Audit Team identified material weaknesses with the accuracy and reliability of the June 30, 2012, and September 30, 2012, subsidiary schedules used to track and report the NSP 1 and NSP 3 property and rehabilitation mortgages receivable to the Clerk of Circuit Court's County Finance Department. Since the external financial audit firm, Cherry, Bekaert & Holland, LLP (CBH), had identified and communicated a very similar concern in the prior fiscal year, the issue was referred to CBH for further testing and reporting. CBH concluded that, "the errors in the subsidiary schedule ultimately caused land and buildings held available-for sale to reflect a net overstatement of approximately \$1,850,000; and the gross mortgages receivable to reflect an understatement of approximately \$4,400,000." This material weakness was reported to the Board of County Commission on April 17, 2013, in the Hillsborough County, Florida, Comprehensive Annual Financial Report and Financial Summary Report for the fiscal year ended September 30, 2012.

## **OVERALL EVALUATION:**

The Department was responsive to the Audit Team's inquiries and provided thorough information when requested. Staff members provided data and other information in a prompt and courteous manner. The Audit Team found knowledgeable and dedicated employees who were receptive to the recommendations made during fieldwork.

The audit test results indicate that:

- NSP 1 funds were expended by the March 3, 2013, deadline, while the NSP 3 funds are anticipated to be expended by its March 10, 2014, deadline.
- Risks to the Department are identified and addressed.
- The Department proactively monitors its housing partners.

- Some housing partners did not fully comply with the terms of their *Housing Partner and Community Redevelopment Services Agreement* and the U.S. Department of Housing and Urban Development (HUD) requirements.

The following table summarizes the audit comments and corresponding cross references to the page number where the audit comment details can be found in the report.

AUDIT COMMENT	DESCRIPTION	PAGE REFERENCE
1	Property and rehabilitation files contain errors and omissions.	See page 4 of this report.
2	Some housing partners did not fully comply with the terms of their services agreements.	See page 7 of this report.

**OPINION:**

Based on test results, internal controls related to the NSP 1 and NSP 3 funds are, for the most part, adequate. The Department has implemented a proactive monitoring process of the NSP housing partners. The controls over the property and rehabilitation loan management areas could be improved to enhance overall operations.

The Audit Team's recommendations, if implemented, will improve the internal controls used to carry out the Department's administration of the NSP 1 and NSP 3 activities.

The exit conference was conducted on June 6, 2013.

**AUDIT BY:**

Peggy Caskey, Director, County Audit  
Steve Hooper, Audit Manager  
Margaret Brown, Senior Internal Auditor  
Brenda Tyler, Auditor  
Benjamin Everett, Auditor

## AUDIT COMMENT & RECOMMENDATION

### Mortgages Receivable/Loan Management

**Control Activities:** Listed below are areas that represent opportunities for Affordable Housing Services (referred to as the Department) to strengthen the internal controls related to mortgages receivable and loan management operations. For each audit comment, a recommendation has been included.

#### AUDIT COMMENT 1

##### **Property and rehabilitation files contain errors and omissions.**

Per Barron's Law Dictionary, a satisfaction (of a debt) is "*a discharge and subsequent release of an obligation by the payment thereof.*"

For properties acquired by the Department under the Neighborhood Stabilization Program, title to that property is transferred to a housing partner for rehabilitation and eventual resale to a home owner. At the time of title transfer, the Department records, with the Clerk of the Circuit Court's Official Records, a deferred payment mortgage against the property. Hillsborough County is listed as "lender" and the housing partner is listed as "borrower."

The housing partner then submits a rehabilitation proposal to the Department. A second deferred payment mortgage amount is recorded with Official Records for the proposed rehabilitation amount (typically referred to as the "rehab" loan/mortgage). The Department reimburses the housing partner as rehabilitation work progresses on the property.

Any change order that occurs and results in an increase or decrease in rehabilitation costs requires an official modification to the rehabilitation's deferred payment mortgage. This modification is also recorded with Official Records. When the housing partner sells the property, both mortgages (property acquisition and rehabilitation) are satisfied. Satisfactions are also recorded with Official Records.

During fieldwork, the Audit Team identified discrepancies in six of the ten files reviewed (60%):

1. Satisfactions of mortgage were not completed for two of the properties.
2. Evidence of insurance was missing from one property file.
3. Two property files did not contain evidence of satisfaction of mortgage. It was determined that the mortgages on these two properties had been satisfied but evidence of their satisfaction was not in the files. After discussion with management, corrective action was taken and copies of the satisfactions were placed in the files.

4. A change order was completed for one property reflecting an increase in rehabilitation costs. A modification to the mortgage was not completed to reflect this increase.
5. One property sold for less than its appraised value, resulting in a \$500 loss.
6. A satisfaction of mortgage for one property was completed for the incorrect amount.

A lack of adequate departmental communications contributed to these errors and omissions.

Unsatisfied mortgages could hamper the new home owner's ability to obtain property title insurance. It may prevent the property owner from selling the home if the property shows a partial lien or a full mortgage being held by Hillsborough County. Proper recording in the Clerk's Official Records is necessary.

**RECOMMENDATION:**

Consideration should be given to:

1. Reviewing NSP property sales to ensure that all mortgages have been satisfied and recorded for the correct amounts. As a due diligence, the Department should consider extending its review to other programs' files where mortgages are held and routinely satisfied; and
2. Ensuring all required documents are in the files prior to converting them into an electronic record.

**CLIENT RESPONSE:**

1. *Concur*
2. *Concur*

**CORRECTIVE ACTION PLAN:**

1. *The Department will continue to review all program files, including the noted NSP files, to insure required documentation is available in each file. It should be noted that a HUD audit conducted in June and our annual external firm financial audit conducted in April of this year verified this office's file management as complete.*
2. *All hard copy files for First Time Homebuyer Down Payment Assistance and files for Homeowner Rehabilitation maintained by Affordable Housing since 1985 have been scanned into the DocuVantage Electronic document management system. As files are scanned, they are checked to insure completeness and correct order of documentation. This same process will be followed with the NSP single and multi-family project files as well as the public service and public infrastructure project files.*

***TARGET COMPLETION DATE:***

1. *December 31, 2013*
2. *June 30, 2014*

## AUDIT COMMENT & RECOMMENDATION

### Monitoring

**Non-Compliance:** Listed below are areas where the audit team noted a lack of compliance with agreements, contracts, laws, rules, regulations, policies, or procedures. Non-compliance rests with the housing partners not the Department. For each finding, a recommendation has been included.

#### AUDIT COMMENT 2

##### **Some housing partners did not fully comply with the terms of their service agreements.**

Non-compliance to any HUD program may place the housing partner, and the County, at risk of findings by HUD resulting in termination of future funding.

The Department proactively monitors its housing partners for compliance to service agreements and HUD requirements. Monitoring activities include visiting the housing partner's business office, examining their files and backup documentation, visiting property locations during and after rehabilitation, reviewing marketing attempts, documenting any concerns in writing, and then communicating those concerns with the housing partner in a formal letter.

The Audit Team reviewed the monitoring files for five housing partners and identified instances of non-compliance with the HUD grant agreement and/or the *Housing Partner and Community Redevelopment Services Agreement* (Agreement). Based upon the Audit Team's review, it appears that the Department also identified the three concerns listed below during its monitoring activities:

1. A housing partner paid late fees on utility bills. Penalties on late payments are not allowable costs per OMB Circular A-87 and the HUD grant agreement.
2. Three housing partners were not proactively marketing their NSP properties.
3. Two housing partners did not comply with insurance requirements.
  - One housing partner's insurance lapsed on its NSP properties.
  - One housing partner failed to provide proof of insurance on one of its NSP properties. The Department later learned that this housing partner failed to maintain insurance on additional properties.

Per Article XXIII of the Agreement, the housing partner is required to: obtain and then maintain insurance throughout the term of the Agreement and name the County and the Board of County Commissioners as additional insured parties. This includes auto liability, general liability, and all other insurance coverage required by the Agreement. It is important to note that if the housing partner does not comply with

the insurance requirements and the property is damaged or destroyed, the HUD will rely on Hillsborough County to replace either the housing unit or the grant funds.

After numerous attempts to enforce compliance, the Department was unable to obtain the housing partner's compliance to the service agreement.

**RECOMMENDATION:**

Consideration should be given to obtaining legal counsel regarding the Department's recourse in holding housing partners responsible for meeting their contractual requirements.

**CLIENT RESPONSE:**

*Concur*

**CORRECTIVE ACTION PLAN:**

*If needed, the Department will consult with the County's legal counsel in support of contract compliance as recommended.*

*All single family homes owned by the non-profit housing partners have been sold to homeowners or are under contract for sale. For any future single family home purchases in the NSP program, the Department will consider past performance of housing partners for property management before assigning any property over to a housing partner for management and sale.*

**TARGET COMPLETION DATE:**

*March 31, 2014*

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