



State Housing Initiatives Partnership Audit - #769

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the State Housing Initiatives Partnership (SHIP) program. The SHIP program is a state program that provides funds to local governments as an incentive to produce and preserve affordable homeownership and multifamily housing. The SHIP program is designed to serve very low, low and moderate income families. The program is administered by the City's Housing and Community Development Division.

What CAO Recommends

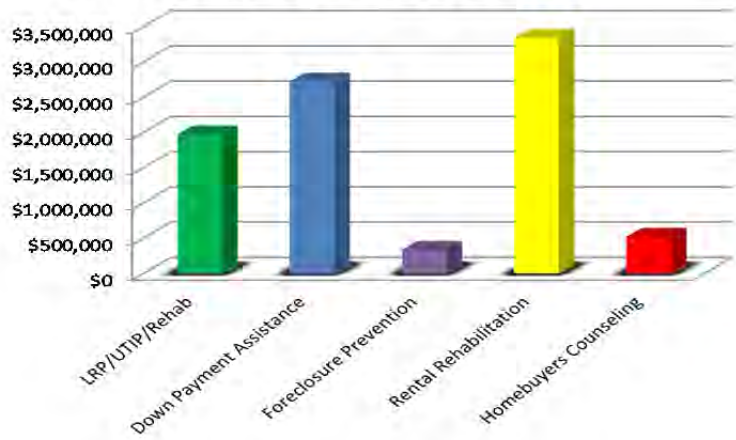
We recommend the Housing Division create a checklist for the SHIP files to ensure that all required documentation is properly retained. To prevent future conflict of interest problems, we recommend the Administration investigate whether disciplinary action is warranted with the Program Manager and whether action should be taken against the two not-for-profit entities with which the Housing Division has contracts. Additionally, the Housing Division should work with the City's Procurement Division to provide a more independent selection of potential bidders and ensure that the proper number of quotes is obtained. We also recommend the Housing Division record mortgages at the full amount with the Clerk's Office in the event of a default and that contractors are held accountable when projects are not completed timely. Finally, the Housing Division should ensure that all mortgages are recorded in The Mortgage Office System in order to properly track the mortgages.

What CAO Found

As part of the audit, we reviewed recipient eligibility, contractor requirements and the accounting of mortgages. Overall we found the following:

- For one of the five SHIP programs we tested, there appeared to be a conflict of interest in that two of the not-for-profits had officers that also owned construction companies that were selected to complete the projects with the knowledge of the Division Program Manager.
- For one of the five SHIP programs we tested, based on missing documentation, we were unable to determine if recipients met the criteria to receive SHIP funding.
- There were numerous instances of missing documentation in our testing of the Division's contractor files.
- It appears that the SHIP projects were completed. However, because of missing documentation, we were unable to verify whether projects were completed in accordance with all provisions of the SHIP contract.
- Mortgage payments were not always properly recorded in the Division's mortgage subsidiary ledger.

SHIP Program Expenditures for Fiscal Years 2009-10 through 2011-12





Council Auditor's Office

State Housing Initiatives Partnership Audit

April 25, 2014

Report #769

Released on: September 23, 2015

EXECUTIVE SUMMARY

AUDIT REPORT #769

INTRODUCTION/BACKGROUND..... - 1 -
STATEMENT OF OBJECTIVES - 2 -
STATEMENT OF SCOPE AND METHODOLOGY - 2 -
REPORT FORMAT..... - 2 -
SUGGESTED ADDITIONAL AUDIT WORK..... - 3 -
STATEMENT OF AUDITING STANDARDS - 3 -
AUDITEE RESPONSES - 3 -
AUDIT CONCLUSIONS - 3 -
AUDIT OBJECTIVE #1..... - 5 -
AUDIT OBJECTIVE #2..... - 6 -
AUDIT OBJECTIVE #3..... - 7 -
AUDIT OBJECTIVE #4..... - 15 -

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



April 25, 2014

Report #769

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION/BACKGROUND

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the State Housing Initiatives Partnership program. The State Housing Initiatives Partnership (SHIP) program is a state program that provides funds to local governments as an incentive to produce and preserve affordable homeownership and multifamily housing. The SHIP program was designed to serve very low, low and moderate income families and is administered by the City's Housing and Community Development Division (the Division) of the City's Planning and Development Department.

The SHIP program was established in accordance with Chapter 420.907 of the Florida Statutes, and under Chapter 555 of the Municipal Code. Eligible activities for SHIP funding are Homeowner Occupied Rehabilitation, Down Payment Assistance, New Construction, Development Subsidy, Foreclosure Prevention/Loss Mitigation, Disaster Mitigation, Home Buyer's Counseling, Multifamily (Rental) Rehabilitation, Multifamily Construction and Rental and Utility Deposits. Funding can be used for some or all of these programs depending on the amount of SHIP funding received from the State.

The eligible activities that were covered in this audit were:

- Homeowner Occupied Rehabilitation (including the Limited Repair Program which allows an eligible homeowner to have repairs made to their homes, and the Utility Tap-In Program which allows an eligible homeowner to replace their septic tank and hook into the sewer lines),
- Rental Rehabilitation which provides funds for the repair of rental homes and multifamily dwellings to those income eligible individuals,
- Down Payment Assistance which allows an eligible individual to make a down payment on a home,
- Foreclosure Prevention which allows an eligible individual to receive funds to bring current their first mortgage and stop the foreclosure process (the funds are sent to the lender), and
- Home Buyer's Counseling, which provides funds for individuals to attend classes to be more informed regarding the process of purchasing a home. The subjects covered in the classes include how different types of mortgages work, how interest rates can affect the mortgages and how to budget and improve personal finances.

In order to receive SHIP funds, an individual has to apply to the Division. If the application is accepted, which is based on income eligibility, the recipient will then have a mortgage on the property that is forgivable if certain conditions are met.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine if the recipients of SHIP funds met the appropriate State and Local criteria to receive SHIP funds.
2. To determine if the Division maintained the required information for its contractors and if the SHIP program contractors maintained the required information for their sub-contractors.
3. To determine if the SHIP projects were completed in accordance with the provisions of the contracts.
4. To determine if the mortgage payments were received on a timely basis and properly recorded in the Division mortgage subsidiary ledger and in the City's General Ledger (the City's accounting system).

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2009 through September 30, 2012. We obtained our population by querying the City's accounting system to determine the expenditures made on the SHIP program for the audit period. We conducted interviews with applicable Housing and Community Development Division personnel and reviewed supporting documentation relating to the SHIP projects overseen by the Division. We reviewed the project files for the documentation required per SHIP and Housing guidelines, as well as payments made to the contractors and/or the Not-for-Profit entities. We reviewed the files to ensure the mortgages were properly prepared and recorded with the Clerk of the Court's Office. We also reviewed the mortgage system software maintained by the Division to ensure the mortgages and any payments received were entered in the mortgage system and the City's accounting system accurately and in a timely manner.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where

management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

SUGGESTED ADDITIONAL AUDIT WORK

In limiting the scope of this audit, we did not pursue the following area, and as such it should be considered for future audit work:

- How many residential properties the City owns and how often they are used in rent to own transactions as part of the Division's rehabilitation and repair programs.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Housing and Community Development Division, via Laura Stagner, Director of Finance for the Housing and Community Development Division, in a memorandum dated September 15, 2015.

AUDIT CONCLUSIONS

By Objective:

1. In four of the five SHIP programs that we tested, it appears that the recipients met the criteria to receive SHIP funds. However, because of numerous issues with missing documentation in the Foreclosure Prevention program, we were unable to determine whether recipients selected for testing for this program met the criteria to receive SHIP funds.
2. Although we noted some instances where required documentation for the SHIP program contractors was maintained, we found numerous instances of missing documentation in our testing of the Division's contractor files.

3. Based on our testing, overall it appears that the SHIP projects were completed. However, because of missing documentation, we were unable to verify whether projects were completed in accordance with all provisions of the SHIP contract.
4. Based on our testing, it appears that mortgage payments were recorded in the Division's mortgage subsidiary ledger on a timely basis. However, we did find numerous mortgages that were never entered into the Division's mortgage subsidiary ledger.

Overall Finding *Missing Documentation in SHIP Files*

Housing Rehabilitation guidelines require that the following documentation be obtained from the contractor for Repair programs (Limited Repair/Utility Tap-In and Rental Rehabilitation programs):

- proof of insurance,
- a current profit and loss statement and balance sheet,
- a certificate of competency from the State of Florida,
- a copy of the Articles of Incorporation (if incorporated),
- proof that the contractor abided with the Equal Opportunity provisions of the Civil Rights Act, and
- a builders resume`

Recipient files should include proof of verification of income, property tax and insurance status (recipients should be current on both), and verification of any liens or judgments on the property.

We noted numerous instances of missing documentation from the SHIP project files for the various programs. Specific instances of missing documentation are detailed below under the applicable objectives.

Recommendation to Overall Finding

The Division should create a documentation checklist for the files to ensure that all required documentation is acquired. The Division personnel could sign-off on the list attesting to the fact that all documentation has been received and is in the files.

Auditee Response to Overall Finding

Agree Disagree Partially Agree

Prior to the initiation of this audit, the Division had already identified several areas where improved policies and procedures were needed. This audit reinforced many of those areas and improvements previously identified. In addition to staff-initiated process improvements, the Division worked with a U.S. Housing and Urban Development (HUD) consultant for three years on improved policies, procedures and workflows. While the focus of that engagement was the efficient and effective delivery of HUD programs, the resulting improvements impact all of the

Division's activities, including those covered in this audit. Many of the recommendations suggested in this audit were in the process of being implemented in conjunction with this effort.

The HUD consultant had three main areas of focus: the development of an enhanced policy and procedure manual, the realignment of staff and program responsibilities (including cross-training), and the implementation of the Division's new software solution, Community Development Manager (CDM). This software solution will dramatically improve the way that the Division processes and retains data related to programs, projects and recipients and will greatly reduce the opportunity for error in the Division's processes. The software is in the early implementation stages.

The Division has created a number of documentation checklists for its various programs. In addition, the Division has developed a number of checklists to be completed in conjunction with each recipient or contractor's pay request. These checklists are intended to assure that all required pre-conditions to payment are met.

AUDIT OBJECTIVE #1

To determine if the recipients of SHIP funds met the appropriate State and Local criteria to receive SHIP funds.

Finding 1 – 1 *Missing Documentation to Determine Eligibility*

For the Foreclosure Prevention Program, we noted numerous instances of missing documentation. As a result, we were unable to determine whether all recipients that we tested were eligible for SHIP funding based on the required state and local criteria. There were two vendors who provided foreclosure assistance under the SHIP program per contracts with the City. From those two vendors, we selected 35 recipients' files of SHIP funding for Foreclosure Prevention (out of a population of 55). Per SHIP guidelines and the contracts, there are certain documents that are required to be kept by the vendors as well as the Division. In our testing of the documentation in these files, we found that out of the 35 files reviewed:

- Thirty-two (91%) did not have documentation in the files indicating the applicant's property was current both on the property taxes and homeowner's insurance.
- In 18 files (51%), there was no documentation in the files indicating that the applicant for Foreclosure Prevention actually lived at the property's address listed on the application.
- Fifteen (43%) files did not have supporting documentation as to whether all sources of income were verified for the recipients of the program.
- Twelve (34%) files reviewed did not have a copy of a hardship letter in the file. (The hardship letter is to be written to demonstrate that the nonpayment of the applicant's mortgage is due to extenuating circumstances and no fault of the applicant.)
- Two (6%) files did not have supporting documentation showing that ownership of the unit belonged to the applicant.

Recommendation to Finding 1 – 1

The Division should create a documentation checklist for the files to ensure that all required documentation is acquired. The Division personnel could sign-off on the list attesting to the fact that all documentation has been received and is in the files.

Auditee Response to Finding 1 – 1

Agree Disagree Partially Agree

Foreclosure Intervention is no longer a funded SHIP activity. If, in the future, the decision is made to provide funding for this activity, then the policies and procedures will include a documentation checklist, based upon the deliverables outlined in the program contract, to be signed by the recipient and/or staff to the fact that all documentation has been received and is in the files.

AUDIT OBJECTIVE #2

To determine if the Division maintained the required information for its contractors and if the SHIP program contractors maintained the required information for their sub-contractors.

Finding 2 – 1 *Missing Documentation Related to Contractor Files*

Limited Repair/Utility Tap-In (LRP/UTIP) Program

We selected 71 recipients of SHIP funding for the LRP/UTIP programs (out of a population of 216). There were 28 different contractors chosen to work on those repairs for the 71 projects. In our testing of these recipients and contractors, we found:

- For 18 of the 28 (64%) contractors, the Division did not have a contractors file containing the required documentation per Housing Rehabilitation guidelines.
- For the 10 LRP/UTIP contractor files that were on file at the Division, four of the 10 (40%) contractor files did not have the contractor’s proof of insurance in the files.
- For the 10 LRP/UTIP contractor files that were reviewed, four of the 10 (40%) contractor files did not contain documentation that the contractor had a current City of Jacksonville Occupational License required to have a business in Duval County.
- For the 10 LRP/UTIP contractor files reviewed, none of the files appeared to have supporting documentation that the contractor abided with the Equal Opportunity provisions of the Civil Rights Act.

Rental Rehabilitation Program

We selected nine recipients of SHIP funding for the Rental Rehabilitation program (out of a population of 13). There were five different contractors chosen to work on those nine projects. In our testing of these recipients and contractors, we found:

- For all five of the Rental Rehabilitation contractor files reviewed, none of the files had supporting documentation showing the required proof of insurance coverage, a current City of Jacksonville Occupational License, nor proof that the contractor abided with the Equal Opportunity provisions of the Civil Rights Act.
- Four out of five (80%) of the Rental Rehabilitation contractor files reviewed did not have a current Profit and Loss Statement, Balance Sheet, current builders resume or a list of sub-contractors.
- For three out of five (60%) of the Rental Rehabilitation contractor files reviewed, the contractor did not have a Certificate of Competency from the State of Florida.
- For three out of five (60%) of the Rental Rehabilitation contractor files reviewed, the contractor did not include a copy of the contractor's Articles of Incorporation.

Recommendation to Finding 2 – 1

The Division should create a documentation checklist for the files to ensure that all required documentation is acquired. The Division personnel could sign-off on the list attesting to the fact that all documentation has been received and is in the files.

Auditee Response to Finding 2 – 1

Agree Disagree Partially Agree

The Division has created documentation checklists for the Limited Repair Program (LRP) and Utility Tap-In Program (UTIP).

AUDIT OBJECTIVE #3

To determine if the SHIP projects were completed in accordance with the provisions of the contracts.

Finding 3 – 1 *Missing Documentation to Determine Compliance with Contract Provisions*

Based on missing documentation, we were unable to determine if projects were completed in accordance with some of the contractual provisions as noted below for each program:

Limited Repair/Utility Tap-In (LRP/UTIP) Program

- We selected 71 recipients of SHIP funding for the LRP/UTIP programs (out of a population of 216). There were 28 different contractors chosen to work on those repairs for the 71 projects. In our testing of these recipients and contractors, we found: for 32 out of 71 (45%) LRP/UTIP program project files reviewed, there was no supporting documentation that a City of Jacksonville Building/Inspection permit was obtained for the work performed. It should be noted that subsequent work revealed that all permits were obtained even though documentation was not in the file.
- For all 71 (100%) of LRP/UTIP program project files reviewed, the contractors did not provide proper proof of insurance for the project indicating the contractors were fully insured in order to perform the projects as required by SHIP guidelines.
- Three out of 71 (4%) LRP/UTIP program project files reviewed did not have a copy of the executed and recorded mortgage in the project files.

Rental Rehabilitation Program

We selected nine recipients of SHIP funding for the Rental Rehabilitation program (out of a population of 13). There were five different contractors chosen to work on those nine projects. In our testing of these recipients and contractors, we found:

- For six out of nine (67%) Rental Rehabilitation project files reviewed, there was no supporting documentation that a City of Jacksonville Building/Inspection permit was obtained for the work performed. It should be noted that subsequent work revealed that all permits were obtained even though documentation was not in the file.
- For seven of nine (78%) of the Rental Rehabilitation project files reviewed, the contractors did not provide proper proof of insurance indicating the contractors were fully insured in order to perform the projects as required by SHIP guidelines.
- Two out of nine (22%) Rental Rehabilitation files reviewed did not have a copy of a recorded mortgage in the files. Of the two, we found that that one was recorded with the Clerk's Office and the other was not recorded.

Foreclosure Prevention

For the Foreclosure Prevention Program, we noted numerous instances of missing documentation. As a result, we were unable to determine whether all recipients that we tested were eligible for SHIP funding based on the required state and local criteria. There were two vendors who provided foreclosure assistance under the SHIP program per contracts with the City. From those two vendors, we selected 35 recipients' files of SHIP funding for Foreclosure Prevention (out of a population of 55). Per SHIP guidelines and the contracts, there are certain documents that are required to be kept by the vendors as well as the Division. In our testing of the documentation in these files, we found that out of the 35 files reviewed:

- In 18 (51%) files, there were no copies of the mortgages and promissory notes in the files. Therefore, it could not be determined if the mortgages and promissory notes were properly prepared and recorded. One out of the remaining 17 files reviewed had a copy of

the mortgage without a stamp from the Duval Clerk of the Court indicating that the funds disbursed were not secured and recorded as required.

- Twenty-two (63%) files did not have supporting documentation from the mortgage lender confirming acceptance of the funds and documenting that the mortgage was no longer in default.
- Twenty-seven (77%) files were missing the HUD-1 closing statement that is prepared for real estate transactions. (A HUD-1 closing statement lists any fees and charges applicable to the recipient at the loan closing. This document is required by the Federal Government).
- There was no supporting documentation (i.e. copy of check or ACH information) showing evidence of payment to the lender to prevent the homeowner's foreclosure for all 35 (100%) files reviewed. Due to this missing documentation, we could not verify the amount paid to the lender. Although it is not a requirement that this documentation be obtained from the third party non-profit entities who handle this program, it would provide further support that the third party entities are properly managing the program.

Down Payment Assistance

For the Down Payment Assistance program, we chose a sample of 64 recipients (out of a total population of 124). In our testing, we found that two of the files reviewed had no supporting documentation showing the Division's approval for the funds to be paid to the borrower's lender.

Homebuyers Counseling

The Division contracted with four vendors to provide Homebuyer Counseling services to individuals. The Division did not have supporting documentation on file that supported the payments made to the vendors. The only support provided to the Division from the vendors was invoices with the number of individuals that attended a particular counseling class and the amount due from the Division.

Recommendation to Finding 3 – 1

The Division should create a documentation checklist for the files to ensure that all required documentation is acquired. The Division personnel could sign-off on the list attesting to the fact that all documentation has been received and is in the files.

Auditee Response to Finding 3 – 1

Agree Disagree Partially Agree

As stated in the Division's response to Finding 1-1, the Foreclosure Intervention Program is no longer funded through SHIP. Should the activity be funded in the future, the policies and procedures will require the use of a document checklist. Please refer to the Division's response to Finding 2-1 as it relates to LRP and UTIP.

Finding 3 – 2 *Conflict of Interest for Rental Rehabilitation Work*

For Rental Rehabilitation programs, the City awards funds to not-for-profit entities (NFP) in order to rehabilitate multi-family housing units. It is then the responsibility of the NFP's to receive quotes from different contractors for the rehabilitation work. The number of quotes needed is based on the amount of the funds awarded (see Finding 3-3).

We discovered that in four out of nine Rental Rehabilitation project files reviewed, the owners of two different construction companies that were chosen to do the rehabilitation work were also officers of two of the NFP's that had been awarded the funds for the projects. In one instance, for three of the four projects, the person that was the president of the construction company was also the vice president of the NFP. As president of the construction company, this individual submitted a quote for the rehabilitation work to the president of the NFP. As vice president of the NFP, this individual received competing quotes for the same construction project, therefore having full knowledge of what the competing quotes were. In a separate second instance for the fourth project, an individual who was the president of another NFP receiving the funds to rehabilitate a rental unit was also the president of the construction company that submitted a quote for the project. One other quote was received, however the president of the NFP's construction company was awarded the project. In both instances, the construction companies that were owned by the individuals who were also officers in the NFPs were awarded the contracts to rehabilitate the rental units. This appears to be a significant conflict of interest. It also appears that the Program Manager for the Rental Rehabilitation programs had knowledge of this conflict of interest and did nothing to stop this from occurring, as all of the records we reviewed were from the files maintained by the Program Manager.

Section 12.15 (Conflict of Interest) of the Rental Rehabilitation Program Grant Agreement between the City of Jacksonville and the NFP states, "The parties hereto shall follow the provisions of Section 126.110, Jacksonville Ordinance Code, with respect to required disclosures by public officials who have or acquire a financial interest in a bid or contract with City, to the extent the parties are aware of the same. No person who is an employee, agent, consultant, officer, or elected official or appointed official of the City, or of any designated public agencies, or contractor or subcontractors which are receiving Grant funds or who exercise or have exercised any functions or responsibilities with respect to Program activities or who are in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from the activity, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties during their tenure or for one year thereafter. In addition, in the procurement of labor, supplies, equipment, construction and services by Grantee or by any general contractor, subcontractor, materialman, laborer or other persons working on the Improvements, the conflict of interest provisions of any applicable federal, state or local law, rule, regulation or policy shall be adhered to by the same."

Finding 3 – 3 *Improper Number of Quotes for Rental Rehabilitation Projects *

For all nine Rental Rehabilitation files reviewed, the NFPs did not appear to follow the agreement with the City in regard to the number of written quotes to be received on the projects.

All nine Rental Rehabilitation projects only received quotes from two prospective contractors. Based on the Rental Rehabilitation Program Grant Agreement, eight of the projects should have received four written quotes and one should have received three written quotes.

Recommendation to Findings 3 – 2 and 3 – 3

We recommend that the Administration investigate and determine whether any disciplinary action of the Program Manager would be warranted for allowing this conflict of interest to occur. Also, the Division should work with the Office of General Counsel and the Procurement Division to determine whether the contract violations committed by these two not-for-profit entities would warrant removal from the City’s approved vendor list, barring them from engaging in any future City contracts, as well as canceling any current contracts.

In addition, in order to provide greater oversight and transparency, the Division should work with the Office of General Counsel to amend the contract to require the Division follow the Procurement Code, which would utilize the buyers within the Procurement Division to solicit quotes from contractors for project costs over \$2,500. (See Finding 3-8). This would help to protect against any future conflict of interest problems that have occurred in the past and utilize the expertise of the Procurement Division.

Auditee Response to Findings 3 –2 and 3 – 3

Agree Disagree Partially Agree

We acknowledge the information regarding Finding 3 – 2, Conflict of Interest for Rental Rehabilitation Work. We are currently pursuing disciplinary action against this employee which may include up to termination.

Additionally, while program contracts have always contained the appropriate procurement thresholds, staff agrees that using the buyers within the Procurement Division to solicit bids for construction exceeding \$2,500 would provide additional assurance that no actual or perceived conflicts exist. The Division has begun meeting with legal counsel and the Procurement Division to develop a new procurement process to be implemented as soon as possible.

Finding 3 – 4 *Possible Backdating of Mortgages for LRP/UTIP Projects*

At the beginning of a LRP/UTIP project, the contractor and the homeowner sign a contract agreeing on the work to be performed, cost of the project, and the start date of the project. At that time, the homeowner also signs a mortgage, held by the City, for the cost of the project. This mortgage is subsequently filed at the Clerk of the Court’s Office. If the cost of the project changes after the initial contract and mortgage is signed, a change order is completed by the contractor and signed by the homeowner as well as Division personnel. Then, lien addition or reduction forms are filed with the Clerk of the Court’s Office indicating either an increase or decrease of the initial mortgage amount. The mortgage is officially recorded with the Clerk of the Court’s Office in the event that the recipient defaults on the contractual provisions and is required to pay back the project amount.

For 22 out of the 71 (30.9%) LRP/UTIP project files reviewed, it appeared that the mortgages were being signed and backdated after all of the expenditures had been incurred. For the 22 mortgages, the start date of the project and the executed date of the mortgage were the same date. However, the amount stated in the mortgage document and the total amount paid on the project, which includes change orders, was the same amount.

Recommendation to Finding 3 – 4

The Division should follow normal operating procedure and prepare the mortgage and have it signed and notarized at the same time the contract is signed and notarized. If the dollar amount for the project changes, then the Division should prepare a lien addition and/or reduction amending the mortgage and have it recorded with the Clerk of Court’s Office.

Auditee Response to Finding 3 – 4

Agree Disagree Partially Agree

Prior to the initiation of the audit, management had identified this issue and was working to implement policy revisions in this area. The findings of this audit reinforced the need for these improvements and this recommendation has been made part of the policy and procedures over all of the Division's housing programs. These new policies and procedures were implemented beginning with the 2013 program year and require the recording of a mortgage for the estimated amount of construction and the further recording of a mortgage modification or partial lien release, as needed.

Finding 3 – 5 *Mortgage Amount Doesn’t Agree with Final Contract Amount for LRP/UTIP Projects*

The mortgage amount did not agree with the total amount paid for the project for eight out of the 71 (11%) LRP/UTIP files reviewed. In total, the final amount paid for the eight projects was \$21,522 more than the amount of the mortgages. As a result, the Division did not fully secure the value of the project amounts in the event the recipient defaulted on the terms of the project.

Recommendation to Finding 3 – 5

The Division should ensure that all change orders are applied to the mortgage amount by preparing lien additions or reductions amending the mortgage as needed and recording it with the Clerk of the Court’s Office.

Auditee Response to Finding 3 – 5

Agree Disagree Partially Agree

Prior to the initiation of the audit, management had identified this issue and was working to implement policy revisions in this area. The findings of this audit reinforced the need for these improvements and this recommendation has been made part of the policy and procedures which require the recording of a mortgage for the estimated amount of construction and the further

recording of a mortgage modification or partial lien release, as needed. These policies were implemented beginning with the 2013 program year.

Finding 3 – 6 *Projects Not Completed Timely Per Contract Terms*

For 25 out of 71 (35%) files reviewed for LRP/UTIP projects and five out of nine (56%) files reviewed for Rental Rehabilitation projects, the actual date the project was completed was later than the completion date listed per the contract. Section 8 of the contract between the homeowner and the contractor allows for the Division to collect liquidated damages from the contractor in the amount of \$15.00 a day for every day the project is late. The Division did not collect any money pursuant to this Section. However, based on the number of days late in the 30 files, the Division could have collected a total estimated amount of \$42,195 that could have been used for other SHIP programs (\$35,835 for LRP/UTIP projects and \$6,360 for Rental Rehabilitation projects).

Recommendation to Finding 3 – 6

The Division should monitor the progress and status of all projects until completion. If the project is completed late, then the Division should collect the liquidated damages per the contract.

Auditee Response to Finding 3 – 6

Agree Disagree Partially Agree

Prior to the initiation of the audit, management had identified that liquidated damages were inconsistently applied. Because the City is only acting as the lender in these transactions between contractors and homeowners, any payments or credits for liquidated damages would be for the benefit of the homeowner, not the Division. Having already identified this problem, staff has implemented new policies and procedures on which require the contractor to discount the amount of the job by the total liquidated damages.

Finding 3 – 7 *Mortgage not Signed, Dated, Notarized or Recorded*

For one out of 64 Down Payment Assistance (DPA) files reviewed, the mortgage copy in the file was not signed, dated or notarized by Division staff or by the borrower, nor was there a recorded copy of the mortgage in the DPA files. Per the Division, this was due to a third party error. However, as a result of not recording the mortgage with the Clerk of the Court's Office, the Division did not secure the value of the project totaling \$14,999 in the event the recipient defaulted on the terms of the project.

Recommendation to Finding 3 – 7

The Division should ensure that all legal documents including mortgages are properly completed, signed, dated, notarized and recorded with the Clerk of the Court's Office.

Auditee Response to Finding 3 – 7

Agree Disagree Partially Agree

The Division acknowledges the finding. The transaction was closed by a third party during the time that the program manager was on vacation. A file close-out checklist was placed in use to avoid situations such as this from occurring in the future.

Finding 3 – 8 *Procurement Division Not Used for Construction Contracts*

The Division was not utilizing the City’s Procurement Division in securing bids for construction contracts. Instead of utilizing the Procurement Division for LRP and UTIP projects, the Division’s staff used a list of approximately ten contractors. The choice of contractor that could submit a quote for an upcoming project was dependent on who was next on this list. Because the contract is between the individual recipient (homeowner) and the contractor, the City is technically not a party to the contract. However, even though it is not required for the Procurement Code to be followed since the City is not a party to the contract, the current practice of allowing the Division to just pick from a list creates an opportunity for favoritism to occur and contracts to be improperly awarded.

Recommendation to Finding 3 – 8

The Division should use the City’s Procurement Division to procure its contract bids pursuant to the Procurement Code in order to obtain the best possible price and to provide a more independent selection of potential bidders.

Auditee Response to Finding 3 – 8

Agree Disagree Partially Agree

Prior to the initiation of the audit, the Division was in the process of implementing policy changes regarding Section 3 procurement requirements in its larger-scale projects. The auditor's findings in this area emphasized the need to include the smaller-scale projects in the competitive bidding process. This recommendation has been made part of the policy and procedures over all of the Division's housing programs. Management implemented new policies and procedures during the 2013 program year which require competitive bidding be open to all contractors eligible to participate in the program. All bidding opportunities are currently advertised, received and ranked by the Division.

As a further improvement, staff agrees that using the buyers within the Procurement Division to solicit bids for construction projects would provide additional assurance that procurement activities are performed correctly. The Division has begun meeting with legal counsel and the Procurement Division to develop a new process to be implemented as soon as possible.

Opportunity for Improvement #3-1 *Rental Rehabilitation Change Orders Should Be More Descriptive*

The three change orders for one NFP’s rental rehabilitation project were vague in the description of the work to be performed. A more descriptive change order can help the Division determine if the change order is really necessary.

Recommendation to Opportunity for Improvement #3-1

The Division should in the future require all change orders to be more descriptive of the work that will be performed.

Auditee Response to Opportunity for Improvement #3-1

Agree Disagree Partially Agree

Policies and procedures for all construction related activities have been updated to require that any change orders fully describe the work being performed.

AUDIT OBJECTIVE #4

To determine if the mortgage payments are received on a timely basis and properly recorded in the Division’s mortgage subsidiary ledger and in the City’s General Ledger (the City’s accounting system).

Internal Control Weakness 4 – 1 *The City’s Accounting System and The Mortgage Office System Not Reconciled on a Timely Basis*

The Mortgage Office system (TMO) is used by the Division to track mortgage receivables, payments of principal and interest as well as any mortgage amounts still outstanding for each individual mortgage. TMO was not being reconciled with the City’s accounting system on a timely basis. Per Housing, reconciliations were only being performed once a year at the end of each fiscal year. However, it should be noted that at the time of the last reconciliation reviewed, TMO was in agreement with the City’s Accounting System.

Recommendation to Internal Control Weakness 4 – 1

Although we found no discrepancies between TMO’s records and the City’s accounting system, the Division should perform a reconciliation between the two systems at least on a quarterly basis to ensure that any discrepancies are quickly identified and corrected.

Auditee Response to Internal Control Weakness 4 – 1

Agree Disagree Partially Agree

The lack of regular reconciliations was a result of chronic staffing shortages, however, the systems were reconciled at least annually in conjunction with the annual audit. The Division agrees that reconciliations should be performed at least quarterly in order to identify problems in a timely manner. Additional staff members are being trained in the regular reconciliation process so that the impact of staffing turnover is mitigated.

Finding 4 – 1 *Mortgages Missing in The Mortgage Office System*

A review of the mortgages in The Mortgage Office System (TMO) revealed that three out of 71 mortgages (4%) reviewed for the Limited Repair/Utility Tap-In program, one out of 64 (1.5%) mortgages reviewed for the Down Payment Assistance Program, and 15 out of 35 (43%) mortgages reviewed for the Foreclosure Prevention program were not entered in TMO. Therefore, it appears these mortgages are not being tracked by Division Staff.

Recommendation to Finding 4 – 1

The Division should ensure that all mortgages are recorded in the Mortgage Office System in order to properly track the mortgages.

Auditee Response to Finding 4 – 1

Agree Disagree Partially Agree

The Division had already identified this problem area and is adding a section to all check request and contract payment request documents which requires Finance & Compliance section review of each disbursement prior to its approval. In addition to verifying the accounting information, The Mortgage Office (TMO) will be updated for each draw. This additional step will assure that all construction draws are reflected as they are occurring so that mortgage accounts are always up to date.

Additionally, the full implementation of the Community Development Manager software solution will eliminate the possibility that mortgages would not be recorded in the Division's servicing software. The new software is an integrated project management and servicing software - as construction draws are approved, loan balances are updated automatically.

We appreciate the assistance and cooperation we received from the Housing and Community Development Division through the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Kyle S. Billy, CPA
Thomas G. Carter, CPA