



**Council Auditor's Office**

**Follow-Up on State Housing Initiatives Partnership Audit**

**Report #769A**

**Released on: July 14, 2021**

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



July 14, 2021

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Honorable Members of the City Council  
City of Jacksonville

The purpose of this report is to document our follow-up review of our past report #769, State Housing Initiatives Partnership Audit and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards. The initial audit report can be found on our website.

We sent a follow-up letter to the Chief Administrative Officer on July 7, 2020, inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses. Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

<b>Types of Issues</b>	<b>Original Number of Issues</b>	<b>Issues Cleared</b>	<b>Remaining Issues</b>
Internal Control Weaknesses	1	0	1
Findings	12	10	2
Opportunities for Improvement	1	1	0
<b>Total</b>	<b>14</b>	<b>11</b>	<b>3</b>

The following is a brief summary of the remaining issues with responses from Bryan Mosier, Director of Neighborhoods that we received on July 12, 2021.

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

At the beginning of a Limited Repair Project/Utility Tap-In Project (LRP/UTIP), 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.

In our original audit, we found that for 22 out of the 71 LRP/UTIP project files reviewed, it appeared that the mortgages were being signed and backdated after all 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 in the mortgage document and the total amount paid on the project including change orders were the same amount. We recommended that the Housing Division should prepare the mortgage and have it signed and notarized at the same time the contract is signed and notarized. In addition, if the dollar amount for the project changes, we recommended that the Housing Division prepare a lien addition and/or reduction amending the mortgage and have it recorded with the Clerk of Court's Office.

The Department's follow-up response stated that all mortgages are now executed and recorded prior to the commencement of any construction. If actual construction costs exceed that amount, a mortgage modification is prepared and recorded. If costs are less than anticipated, a partial lien release is prepared and recorded.

In our follow-up review, we found that while the mortgages no longer appear to be backdated, we did note that for 1 out of 5 LRP project files and 4 out of 5 UTIP project files, the mortgages were not signed or notarized on the same date as the contract. As a result, SHIP funds could have been expended without the project being secured should the recipient default.

We recommend that the Housing Division continue their efforts to ensure that the mortgage is signed and notarized at the same time the contract is signed and notarized, and that this is done prior to the commencement of any construction.

***Neighborhoods Department Response to the Follow-Up of Finding 3-4***

Agree                       Disagree                       Partially Agree

*Policy changes have been instituted to ensure the UTIP mortgages are now signed and notarized the same date as the Pre-Construction Conference. Additionally, the Housing Division will continue to monitor and improve the LRP process to guarantee that all mortgages are executed and recorded in a timely manner.*

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

In our original audit, we found that the mortgage amount did not agree with the total amount paid for the project for 11% (8 of 71) of LRP/UTIP files reviewed. We recommended that the Housing 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 Court's Office.

The Department's follow-up response stated that all mortgages are now executed and recorded prior to the commencement of any construction. If construction costs exceed that amount, a mortgage

modification is prepared and recorded. If costs are less than anticipated, a partial lien release is prepared and recorded.

In our follow-up review, we found that for 1 out of 5 LRP project files, the mortgage amount did not equal the amount paid to the contractor. The difference appears to be due to a change order that was for additional work that needed to be performed and a mortgage modification was not recorded. As a result, SHIP funds were expended without the project being fully secured should the homeowner default.

We recommend that the Housing Division continue their efforts to ensure that all change orders are applied to the mortgage amount by preparing lien additions or reductions amending the mortgage as needed and recording these with the Clerk of Court's Office.

***Neighborhoods Department Response to the Follow-Up of Finding 3-5***

Agree                       Disagree                       Partially Agree

*The Housing Division added an additional step to the LRP process. The Affordable Housing Assistant Administrator will review/approve and create an electronic record to ensure the file is complete and the mortgage modification is recorded for the correct amount.*

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

In our original audit, we found that the Mortgage Office System used by the Division to track mortgage receivables, was not being reconciled with the City's accounting system on a timely basis. Per the Housing Division, reconciliations were only performed once a year at the end of each fiscal year. We had recommended that the Housing Division perform a reconciliation between the City's accounting system at the time and the Mortgage Office System at least on a quarterly basis.

The Neighborhoods Department, stated in their initial follow-up response that the lack of regular reconciliations was a result of chronic staffing shortages, although they indicated the systems were reconciled at least annually in conjunction with the annual audit. However, in our follow-up review, we were not able to verify whether the Mortgage Office System was being reconciled to the City's accounting system (either the previous accounting system or the new accounting system) due to the Housing Division staff not being able to provide us with any documentation of the reconciliations.

We continue to recommend that the Housing Division perform a reconciliation between the City's accounting system and the Mortgage Office System at least on a quarterly basis.

***Neighborhoods Department Response to the Follow-Up of Internal Control Weakness 4-1***

Agree                       Disagree                       Partially Agree

*The Housing Division hired new finance staff, which are familiar with ICloud and currently undergoing training for the Mortgage Office Software. Once proficient, staff will begin conducting quarterly reconciliation of the MOS and ICloud systems. The first quarterly reconciliation will be completed at the end of the current quarter.*

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We would like to thank the Neighborhoods Department for their cooperation in conducting this follow-up review.

Respectfully submitted,

*Kim Taylor*

Kim Taylor, CPA  
Council Auditor