

Internal Audit Department

Clerk of the Circuit Court • County Court • Board of County Commissioners

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March 28, 2011

Ms. Dottie Keedy, Director
Community Services Department
Post Office Box 7800
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Ms. Keedy:

As scheduled per the Clerk's Annual Internal Audit Plan, we have performed a follow up audit of BCC 2008-13, SHIP Program, dated January 9, 2009. Twenty audit findings were contained in the original report.

Based on our follow up audit work and discussions with Housing division staff, we are closing all of the original audit findings. Our follow up audit indicated that these original findings have been addressed and adequate corrective changes have been implemented. During our audit we found three additional findings for your consideration that are attached in our final report, BCC 2011-01 – Follow Up to BCC 2008-13 SHIP Program Audit.

We appreciate the cooperation and assistance provided by the Housing division and also other local county and governmental entities contacted during the course of this internal audit.

Sincerely,

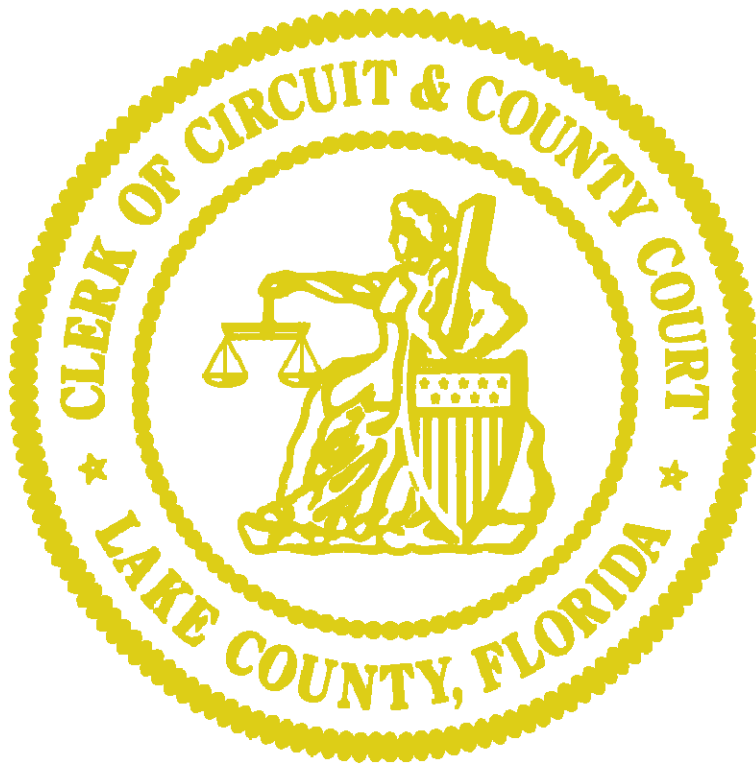
Jeremy Martin, CPA
Internal Audit Director

JM/cm

cc: Honorable Neil Kelly, Clerk of Circuit & County Court
Commissioner Jennifer Hill, Chairman
Commissioner Sean Parks
Commissioner Jimmy Conner
Commissioner Leslie Campione, Vice Chairman
Commissioner Welton Cadwell
Darren Gray, County Manager
Cheryl Howell, Housing Services Director

Neil Kelly

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**Internal Audit Department
BCC 2011-01
Follow Up to BCC 2008-13 SHIP Program Audit

Lake County Board of County Commissioners
March 28, 2011**

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EXECUTIVE SUMMARY

OVERVIEW

As requested by the Interim County Manager and scheduled as part of the Annual Audit Plan, an internal audit was performed of the State Housing Initiatives Partnership (SHIP) program of the Housing division of the Community Services department. This was a follow-up audit to Audit Number BCC 2008-13, SHIP Program.

The State Housing Initiatives Partnership (SHIP) program provides funding for down payments, closing costs, rehabilitation, and replacement of primary residences for low and moderate income households. The amounts remitted to Lake County are based on a percentage of documentary stamp collections. The State of Florida did not allocate any Affordable Housing/SHIP funds to any county for FY 2009-10 forward. However, in 2009, State funding was provided under the Florida Homebuyers Opportunity Program (FHOP) to first time homebuyers eligible to receive the federal first time homebuyer tax credit established through the American Recovery and Reinvestment Act of 2009.

Since the original audit report issued in January 2009, the SHIP program has undergone downsizing, turnover, and organizational changes. The tornado and hurricane programs ended and the related staff was eliminated. The Department Director and the Division Director retired in June, 2009. A new Housing Director started in June, 2009 then transferred to another area in August, 2010. The current Housing Director was hired in August, 2010.

The objective of the original audit was to determine whether internal controls were adequately designed and operating effectively. An internal control system consists of many policies and procedures designed to provide management with reasonable assurance that organizational goals and objectives will be achieved. Please note that management is responsible for establishing and maintaining an effective system of internal control. Internal Audit is one of many monitoring tools available to assess the effectiveness of internal controls.

The courtesies and cooperation extended by the employees of departments contacted during the audit were sincerely appreciated.

SCOPE

Management desired to know if the management action plans agreed to in the original audit were implemented. Management also desired to know if the most recent report submitted to Florida Housing was accurate and agreed to the accounting system. The time frame of this audit was October 1, 2009 through June 30, 2010.

OBJECTIVES

The audit objectives were to:

1. Verify that the management action plans agreed to in the original audit were implemented effectively.
2. Determine if there have been any major changes to the program or organization since the audit and the effect of such changes.
3. Determine that the reporting process is accurate, timely, and agrees to the MUNIS accounting system.
4. Determine that the other portions of the SHIP Program not included in the previous audit are meeting their objectives.

OVERALL EVALUATION

During the course of the audit, we found the Housing employees to work well together and be focused on their duties. We were met with a spirit of camaraderie, openness, and enthusiasm. When items arose during the audit, the employees were responsive and worked quickly to correct them. The personnel are actively managing projects in order to encumber and expend the remaining SHIP funds within the provided timeframe. They are very focused on serving the residents of Lake County through this program. Management has addressed all significant areas where improvements were recommended in the original audit and we commend them for doing so. The controls implemented are essential to improved accountability over the division's operations.

OPINION

Based on the results of our audit testing, the SHIP program management has effectively implemented recommended changes and generally met program objectives. Additionally, except as noted in our findings, reported financial information was substantially accurate and timely. We have included some additional areas for improvement in our audit findings and recommendations.

AUDIT BY:

Jeremy Martin, CPA, Internal Audit Director
Cindy McLaughlin, CPA, CIA

SUMMARY OF ORIGINAL AUDIT FINDINGS

The following chart summarizes the Action Plans of the original Findings and Observations at the completion of the follow up audit. Any new Findings and Observations can be found in the Findings and Recommendations section of this report.

Issue Number	Subject	Status	Comments
1	Specifications Too Open and Deviations from Scope of Work	Closed	The specifications have been revised and enforcement enhanced.
2	SHIP Program Wait List Management Duties Not Segregated	Closed	Due to funding levels, there currently is not a wait list to be managed. The list of applicants is maintained on a shared department drive.
3	Claims of Preferential Treatment (Potential Conflict of Interest)	Closed	Employees are required to disclose and get approval in cases where a potential conflict of interest is present.
4	Lack of Effective Project Monitoring	Closed	The in-house inspector has responsibility to conduct on-site monitoring as needed.
5	Licenses and Permits not Adequately Monitored	Closed	The in-house inspector ensures contractors are adequately licensed and permits are obtained.
6	Incorrect Determination of Tornado Funding Awarded	Closed	An application form has been created for emergency assistance.
7	Duplicate Files Maintained	Closed	The files have been consolidated.
8	No Prior Decision Made on Structural or Safety of Project	Closed	An internal practice has been communicated that in some instances an applicant cannot be assisted if they reject home replacement.
9	Construction Projects not Started or Completed Timely	Closed	The projects tested were started and completed timely.
10	Inconsistent Response to Temp Storage/Quarters Needs	Closed	A list of available vendors has been created and will be reviewed for cost-effectiveness.

11	Eligibility Requirements not Consistent	Closed	Issues of inconsistency were resolved via technical assistance received from the Florida Housing Coalition.
12	No Threshold Established for Owned Property	Closed	Staff received training on the income qualification process.
13	LHAP not Specific in Determining Accountability of Past Assets	Closed	The inclusion of past assets is neither a standard nor a required practice of the program.
14	Inconsistent Application of BCC Policy	Closed	The projects tested used the four-draw payment request system, consistent with BCC policy.
15	Use of Non-Conventional Construction Payment Process	Closed	The final inspection is conducted and checklist items completed before the final payment. The contractor is required to warrant the work.
16	Not Following Standard Procurement Policies	Closed	Administrative purchase orders were being utilized for the projects tested.
17	Payments Made Very Timely	N/A	No action required
18	Reviewed Fixed Asset Accountability	N/A	No action required
19	Reviewed Vehicle Usage	N/A	No action required
20	Reviewed Cellular Phone Usage	N/A	No action required

NOTE: An Open Action Plan is defined as a finding that needs additional corrective action and a Closed Action Plan is a finding for which corrective action has been completed to the auditor's satisfaction or management has accepted the risk associated with the finding.

FINDINGS AND RECOMMENDATIONS

The certification of the SHIP annual reports was not timely filed.

Criteria: Under F.S. 420.9075(10), a report of the housing program and certification by the county's chief elected official is due by September 15.

Condition: The report was submitted and received on September 15. The request for approval of the report and the Chair's signature on the certification was placed on the agenda for the Board of County Commissioners meeting on October 5. As a result, the certification was not received by the Florida Housing Finance Corporation until October 11, 2010.

Effect: A report certification that is not timely filed reflects negatively on Lake County's SHIP program.

Recommendation: It is recommended that the approval of the annual report be placed on a meeting agenda prior to September 15 so that the report and the certification can be timely filed on or before September 15.

Management Comments: The Clerk of the Circuit Court has completed its audit of the SHIP Program as a follow up to the previous year's audit. The previous year's audit was troubled in many areas with more than twenty findings. Our office has made tremendous strides in addressing the findings from the previous audit and has placed control mechanisms in place to reduce the administrative risks. During the current audit, there are three findings and recommendations for change. The Housing Division submitted the electronic copy of the SHIP annual report to the Florida Housing Finance Corporation by the report deadline of Sept. 15, but was unable to submit the Board-Approved copy until the following month. This reporting breakdown resulted from a change in personnel and outstanding tracking issues with the SHIP program. Our office is confident that the report will be submitted timely to the Board of County Commissioners for approval well before the annual report deadline.

Mortgages are not being recorded in accordance with the LHAP and Florida Housing guidelines.

Criteria: The Local Housing Assistance Plan (LHAP) states that a mortgage will be placed on the unit repaired or the replacement home for the amount of assistance provided. Additionally, Florida Housing instructs "to always file an updated security instrument when the final cost of repairs is actually less than initially anticipated."

Condition: During the audit, it was noted that all the mortgages for the home replacement projects reviewed were recorded at the full project amount available but were not revised when the project was completed at a lesser amount. Historically, the mortgages on the projects, whether replacement or rehabilitation projects, have been recorded at the full project amount available.

Effect: A mortgage amount overstated in public records may have an adverse effect on the recipient's credit due to the overstatement of the liability.

Recommendation: In order to be in compliance and to fairly state a recipient's liability, we recommend that, going forward, a modified mortgage be recorded for the actual amount of the assistance provided once a project is complete. We also recommend that all mortgages recorded in the current open SHIP periods, from FY 2008 to 2010, be modified to record only the actual amount of assistance and that modified mortgages be recorded for prior periods upon request of the recipients.

Management Comments: During the audit it was also noted that all the mortgages for the home replacement projects were recorded at the full project amount. The auditors are recommending a modified mortgage be recorded for the actual amount. The County Attorney's office is in conflict with this finding and we are awaiting a response from Florida Housing Finance Corporation. At which time, we will take the necessary steps to comply with the recommendations of the Florida Housing Finance Corporation.

Some terms of the current LHAP do not follow recommendations of the Florida Housing Coalition.

Criteria: The Florida Housing Coalition suggests that a rehabilitation lien not be any longer than the useful life of the repair.

Condition: One strategy in the LHAP is home rehabilitation, which can include projects such as roof replacements, plumbing repairs, and replacement of the HVAC system for qualified recipients. Under the current LHAP, the standard mortgage term for all home rehabilitation projects is 30 years and may be substantially greater than the useful life of the repair. However, the Florida Housing Coalition suggests that a rehabilitation lien not be any longer than the useful life of the repair. Monitoring of the recipients' compliance to the terms of these mortgages is required under the current LHAP for the length of the mortgage with limited program funding available to provide such monitoring. Additionally, for those mortgages that are repaid prior to the 30 years, the repaid funds may be used for a new project, which would start a new 30 year monitoring period of these funds. Although a portion (5%) of the repaid funds can be used for administrative costs, monitoring becomes an administrative burden as the county still has the obligation to monitor the projects until all mortgage terms have ended, even after all the state funds have been utilized.

Effect: Recording a mortgage for a period longer than the useful life of the repair extends the period of time that monitoring is required and future program funding may not be adequate to comply with the extended monitoring requirements.

Recommendation: It is recommended that the term of the mortgage for a rehabilitation project, and subsequently the length of the monitoring period, be reviewed and adjusted to coincide with the useful life of the benefit provided. Additionally, we recommend that a long term strategy for funding the ongoing monitoring of SHIP funds be developed and implemented by the department.

Management Comments: With respect to the length of the mortgage liens, our staff is currently conducting data comparison to make recommendations to the Board of County Commissioners to cap the years of the mortgage lien to the useful life of the work completed.