



November 28, 2018

To: Melanie Gaboardi, Community Development Services Director

From: Alice Garner, Internal City Auditor *Alice Garner*

Re: SHIP Compliance Audit - Project No. 2018-07

We have conducted an audit of the State Housing Initiatives Partnership (SHIP) program, managed by the Community Development Services department, as scheduled per the FY 2018 Internal Audit Plan. The objective of the audit was to determine whether the City is meeting the needs of its qualified citizens through effective management of the SHIP program. The audit was conducted by Alice Garner.

To accomplish our objective, we inquired with department staff, reviewed outreach efforts examined expenditures and program income, reviewed policies and procedures, inspected applicant files, reviewed staff training, and tested applicant documentation for completeness.

Our audit included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our audit period was July 1, 2016 through March 31, 2018. However, transactions, processes and situations reviewed were not limited by the audit period.

During the course of our audit, we noted several aspects of the operations that were working effectively including:

- Outreach efforts are adequate and comparable to other government entities.
- The methodology used to allocate investment related revenues is reasonable and likely prevents errors.
- Program expenses are for eligible projects and are posted to the proper period.
- State distributions are being spent timely in accordance with SHIP requirements.
- Project files are well structured and organized.
- Staff are adequately trained in meeting the needs of the program.

Based on our work performed, we conclude that except for the needed improvements as noted in the report, the City is meeting the needs of its qualified citizens through effective management of the SHIP program.

We appreciate the cooperation and assistance provided by the Community Development Services department staff and also other entities contacted during the course of our audit.

Cc: Ocala City Council Members  
John Zobler, City Manager  
Bill Kauffman, Assistant City Manager  
Ken Whitehead, Assistant City Manager  
Sandra Wilson, Deputy City Manager

## **BACKGROUND:**

According to the City of Ocala website, “The Community Development Services department manages a broad range of initiatives that are intended to promote quality of place and increase Ocala's standing as an economic hub.... Our Economic Development division can arrange financial incentives and provide contract management. The Community Development [Programs] division manages Federal and State funds and improvement grants. The Office of Homeless Prevention works to assist homeless persons in securing the services they need.” The website further states that “The Community Programs division of Community Development Services focuses on administering federal and state funding to assist homeowners and to ensure Ocala maintains safe and affordable housing for lower income persons. This funding includes Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) funds provided by the U.S. Department of Housing and Urban Development (HUD).” The State of Florida provides funding through the Florida Housing Finance Corporation under the State Housing Initiatives Partnership (SHIP) program.

The SHIP program provides funds to eligible local governments as an incentive to create partnerships that produce and preserve affordable homeownership and multi-family housing. The program was designed to serve very-low, low, and moderate income families. The Community Programs division invests these funds on behalf of eligible citizens through the management of two programs: Housing Rehabilitation and Purchasing Assistance. A small amount of the funds is also used as rental assistance for homeless persons.

The Housing Rehabilitation program assists eligible citizens with home repairs to eliminate life, safety, and health hazards. The Purchase Assistance program provides eligible citizens help with down payment and closing costs on their first home. Interested citizens inquire with the Community Programs division. The process starts with a preliminary approval process to determine potential eligibility. If the citizen is determined to be potentially eligible, they are required to complete an application and provide supporting documentation, including proof of residency and household income. Staff review the application information, verify the supporting documentation, and make a determination as to whether the applicant is eligible for an award. Upon award, staff ensure that the necessary contractual documents are prepared and retained and the assistance requested begins, whether it is providing rehabilitation repairs to an existing home or down payment and closing cost assistance for the purchase of a home. Typically, the applicant is required to maintain the home as a primary residence for a specified length of time and a mortgage is filed against the homeowner. Based on the terms of the contract, a mortgage may be repaid, partially forgiven over time, or forgiven at the end of the term. For the period of July 2016 through March 2018, \$372,856 of SHIP funds was allocated to the Housing Rehabilitation program and \$32,709 was allocated to the Purchase Assistance program.



## **OPPORTUNITIES FOR IMPROVEMENT:**

Our audit disclosed certain policies, procedures and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. **SHIP records are not stored in a secure location.** During our audit work, we observed that the SHIP files for awards are stored in filing cabinets that are not locked after business hours. In fact, department staff cannot locate the keys. Additionally, the records for pre-application non-awards are stored in an employee's desk. According to department staff, the office entry doors are not locked so that the cleaning staff can enter the premises. These records include confidential information and documents, including social security numbers, copies of birth certificates, disability letters, and bank statements of the applicants. Because these records are easily accessible, cleaning staff and other persons could gain access to applicant's personal information. It is the department's responsibility to ensure that these records are stored securely.

**We recommend** management ensure that all SHIP records are stored securely; they should be kept in a locked cabinet when not in use.

**Management Response:** Effective August 15, 2018, cabinets in which program records are stored have been re-keyed and are locked when not in use.

2. **The reconciliation process is inadequate.** It does not ensure that all expenses are accounted for in the SHIP annual report. During our review of revenues and expenses, we compared the transactions posted in the financial system to those that are tracked by the department staff in their expenditure spreadsheet and found that there were two projects that were not accounted for in the expenditure spreadsheet totaling \$11,875. Department staff use the information in the spreadsheet to prepare the SHIP annual report to the funding organization. Therefore, it is important to ensure that the spreadsheet is accurately updated to reflect the actual expenditures incurred. As a result of this oversight, the FY 2015/2016 annual report that was submitted for the period ended June 30, 2017 contained multiple errors and will have to be amended.

**We recommend** management implement a reconciliation process that ensures that staff will capture all revenues and expenses reported in the SHIP annual reports.

**Management Response:** Effective August 15, 2018, rather than performing reconciliations annually (immediately prior to submitting financial reports) reconciliation of work documents to the general ledger will be performed at least quarterly.

3. **Documentation of Projects Needs Improvement.** We reviewed the completeness of supporting documentation for 13 project files completed since July 2016. During our review, we noted the following inconsistencies:

A. Some project files are incomplete or missing documentation. During our review of the project files, we found several instances where the files were lacking adequate documentation as required by the Florida Housing Finance Corporation or the department’s housing rehabilitation procedures. Specifically, we noted the following:

Description	Number of Files Affected
No evidence that a Preliminary Approval process was completed	3 out of 13
No evidence that code violations were searched	2 out of 12
Less than six months of bank statements were reviewed	3 out of 13
No evidence of a fully executed contract	1 out of 13

It is important for staff to ensure that a consistently applied process is used to document the projects.

B. Treatment of additional deposits in calculating household income is inconsistent. During our review of the income calculation worksheets for the 13 projects, we found that there were inconsistencies in the inclusion or exclusion of additional deposits found in the bank statements. According to the Community Programs Manager, staff generally looks for regularly received income, not one-time deposits, when deciding what should be considered additional income. However, during our review of the bank statements, we found that in one project, some additional deposits were included while another deposit was not. In another project, all of the additionally noted deposits, varying in amount, were included in the income calculation. The remaining files did not include any of the additional deposits found. Moreover, the inclusion or exclusion of deposits was not noted in the file for any of the projects. The inconsistent treatment of including or excluding deposits as income could be viewed as discriminating between projects. The lack of

explanatory information lends to an incomplete account of documentation supporting the amount of income the applicant actually received during the period reviewed.

**We recommend management:**

- A.1. Ensure that staff are consistently applying the documentation procedures, including a review that all documentation is obtained and retained in the file.
- A.2. Instruct staff to replace the contract currently in the file for GRNT16-0079 with a copy of the fully executed contract.
- B. Ensure that staff perform a process to investigate additional deposits consistently across all projects and document in the project file the reason for including or excluding a deposit from the calculation of income.

**Management Response:**

- A.1. It had been the practice of the department to send the Rehabilitation Specialist/Inspector to evaluate a home's condition prior to determining if a client was eligible for the program. The prior practice effectively reduced the amount of funding for which the city could be reimbursed. On or about October 1, 2016, in order to improve the fiscal sustainability of the program, a new checklist for preapplication was created to provide a quick analysis of an individual's program eligibility. The checklist had not been adopted as a permanent part of the file until the current Community Programs Manager was hired. Each file is reviewed for completeness by the Community Programs Manager prior to project award and again prior to closing the file. Changes made effective August 15, 2018.
  - A.2. The fully executed contract is on file.
  - B. Effective August 1, 2018 staff researches all deposits, regardless of source. Applicants are expected to explain and provide documentation for any deposits that are not obviously identified as "income".
4. **Management of Projects Could Be Improved.** We examined the supporting documentation for 13 project files completed since July 2016. During our examination, we noted the following issues:
- A. All contracts were not dated and signed prior to issuing a notice to proceed. During our inspection of rehabilitation projects, we reviewed the contract date and compared it to the date the notice to proceed was issued to determine whether the contract was signed

on or before the notice to proceed was issued. Two exceptions were noted. Contract RVS/17-015 was dated February 27, 2017, after the notice to proceed dated February 16, 2017. On the other hand, contract RVS/16-074B was not dated, therefore, we could not determine whether the contract was issued first. Contracts should be signed and dated prior to authorizing any related work to begin to ensure that the requested services are being performed.

- B. Mortgage notes were signed after the date that work began. We reviewed the mortgage notes executed for rehabilitation projects and found that in 5 out of 11 projects, the mortgage note was signed after the notice to proceed was issued. According to department staff, it is a practice to issue the notice to proceed on the contract date and have the mortgage note completed within two days of the same date. However, one of the mortgage notes was not completed until 50 days after the contract and notice to proceed were executed, and after the project's final inspection was completed. Also, in another project, the amount for the contract amendment was not recorded until nine months after the note was signed. It is important for staff to execute the mortgage note timely to secure the terms of the homeowner's commitment.
- C. Expired liens have not been released timely. During our audit work, we found that two out of three liens for expired contracts were not released in a timely manner. We considered the lien release to be timely if it was completed within one month of the corresponding contract expiration date. However, one lien was not released until five months after the contract expiration date and another was not released until four months after the contract expiration. It is important for City staff to release the obligation as soon as possible to ensure that the homeowner has a clean title.
- D. Verification of applicant first-time home buyer status is inadequate. The Local Housing Assistance Plan states that the City's Purchase Assistance Program is intended to assist income eligible first-time homebuyers. According to department staff, an applicant is considered a first-time homebuyer if they have not purchased a home during the past three years. We reviewed the supporting documentation for two home purchase assistance projects and found that the evidence supporting whether the applicant purchased another home during the past three years was inadequate. The only evidence found in the files was the Marion County Property Appraiser's report for each applicant. The application for assistance does not require the applicant to provide all home addresses during the previous three years. During that time, it is possible that the applicant could have purchased a home in another county. If it was included, the intake specialist could verify whether another county should be researched. However, this information is not obtained or verified by staff.
- E. Improvement is needed in identifying the sale of a home when a City lien is outstanding. In the event that the homeowner tries to sell the home, typically, the title company is required to give the City notice. Department staff have stated that this is not always done; some title companies sell the home with the lien attached to it. When this occurs, staff



cannot determine whether the balance of the lien should be repaid. Staff should implement a process to minimize this risk. The Marion County Property Appraiser's website has a sales search feature that can be used to create a sales report for a given period, including the parcel number, current owner's name and zoning. This report can be compared to a list of parcel numbers that have a City lien against the property and staff can contact the new homeowner to initiate the eligibility process. Efforts could be made to recover monies from any title company involved.

**We recommend management:**

- A. Ensure that project contracts are dated and signed prior to issuing a notice to proceed.
- B. Ensure that mortgage notes are completed on or before the date the notice to proceed is issued. Mortgage amendments should be processed by the project's completion date.
- C. Ensure that expired liens are released timely, within one month of the contract expiration date.
- D. Request home purchase assistance applicants to provide the home addresses for the previous three years in the application. If there is any indication that the applicant lived in another county, staff should verify that a home was not purchased in that county during that time.
- E. Implement a process to ensure that all homes sold with a City lien are identified. Once identified, staff should make an effort to recover monies due from any title company involved.

**Management Response:**

- A. Effective August 15, 2018, the Community Programs Manager ensures project contracts are dated and signed prior to issuing a notice to proceed.
- B. Effective August 15, 2018, mortgage notes are filed on or before the date of notice to proceed. Mortgage amendments are processed and filed prior to project closeout.
- C. The department uses the EDEN contracts module to track lien expiration dates. This is a process that was adopted within the past year. Any expired, unreleased liens will be identified by December 31, 2018. Complete filing of release of liens by January 31, 2019. Goal is to release future expired/satisfied liens with five days.



- D. Effective August 15, 2018, staff implemented this recommendation and uses the information to determine first-time homebuyer status and to search for any outstanding judgments in other jurisdictions.
- E. Prior to December 31, 2018, staff will develop a lien recovery process that makes sense based on available resources.

5. **The department's outreach efforts are not adequately documented.** We reviewed the documentation supporting the department's outreach efforts and noted that the only evidence is a copy of an advertisement placed in the local newspaper once a year. There is no indication that any other steps were taken to inform eligible residents. However, according to staff, other efforts are made including the following:

- Passing out flyers at local events such as the Home Matters and the Fair Housing Summits
- Attending events hosted by local realtors, banks, and mortgage companies
- Giving flyers to local churches, targeted neighborhoods, and low-income areas.

Staff should maintain a record of all activities that were performed to ensure that all efforts related to outreach are documented.

**We recommend** management document all activities performed to inform residents of the availability of SHIP program funds.

**Management Response:** As of August 15, 2018, outreach efforts are being documented.