



Internal Audit Department

Report 2011 – 4

Housing, Human & Veteran Services

Housing Opportunities Made for Everyone (H.O.M.E.)

February 2012

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The files and draft versions of audit reports remain confidential and protected from public records requests during an active audit under *Nicolai v. Baldwin (Aug. 28, 1998 DCA of FL, 5th District)* and Florida Statute 119.0713. Workpapers supporting the observations noted within this report are public record and can be requested upon release of the final audit report.

BACKGROUND

Effective September 23, 2008, the County entered into an Acquisition/Rehabilitation/Resale Subrecipient Agreement for \$427,473 with Housing Opportunities Made for Everyone, Inc. (H.O.M.E.), a 501(c)(3) non-profit organization. The purpose of the agreement was to allow H.O.M.E. to purchase approximately 12 foreclosed properties, rehabilitate them using the Community Development Block Grant (CDBG) and privately donated funds, and then sell them to low and very low income families.

Effective January 13, 2009, the Board of County Commissioners (BCC) entered into a second agreement with H.O.M.E. to further support the activities of the organization by granting an additional \$150,000 of State Housing Initiative Partnership (SHIP) funds. During 2009 and 2010, properties were purchased, rehabilitated and sold, utilizing revenues from sales for purchases, renovations and other expenditures for subsequent properties. In November 2010, H.O.M.E. filed articles of dissolution with the State of Florida and subsequently in March 2011, the Vice President of H.O.M.E. recorded deed restrictions to 11 rehabilitated properties and related debt instruments with Collier County.

On June 17, 2011, the Clerk's Office issued a Management Alert in reference to the distribution of final assets received from H.O.M.E. as well as several other potential grant compliance issues related to this agreement. Since the issuance of that report, Internal Audit has been working with Housing, Human & Veteran Services (HHVS) staff as well as the Vice President of H.O.M.E. (the "Subrecipient"), to gather all records necessary to complete our review. On December 6, 2011, H.O.M.E. furnished additional records requested by the Clerk's Office for 11 of the 13 properties rehabilitated by H.O.M.E.

SUMMARY

The following audit observations were generated during the review:

- Unable to fully reconcile program generated income.
- Ineligible program expenditures noted.
- Unable to validate the distribution of final assets which was accepted by HHVS and subsequently deposited.

Other findings noted during the audit:

- Grant close-out procedures did not include coordination of deed restriction transfers to the county; liens recorded for properties by H.O.M.E. to Collier County without the prior knowledge of HHVS staff.

The audit observations indicate a lack of proper documentation, process coordination and compliance with the requirements of the grants. Obligations for reporting program generated income, supporting documentation for expenditures, record retention, related inspections, and program close-out procedures were all stated in the agreed upon contract between H.O.M.E. and the BCC (HUD Grant #B-08-UC-12-0016 dated September 23, 2008).

SCOPE

The audit review consisted of, but was not limited to the following tasks:

- Compiling files and information from HHVS staff, H.O.M.E., the Clerk's Finance Department and documents available in county public records;
- Meetings with HHVS staff and the VP of H.O.M.E.;
- Reviewing CDBG and SHIP grant program guidelines;
- Reviewing contract between the Subrecipient and the BCC;

- Reviewing the bid and award documentation for the rehabilitation contract;
- Reviewing invoices and canceled checks for program expenditure validation;
- Comparing H.O.M.E. bookkeeping records to HUD closing statements and HHVS program generated income reconciliation;
- Reviewing all intake files for SHIP loan awards.

The objective of the audit was to determine whether the Subrecipient is in compliance with grant, contract and program requirements. The following are considered scope limitations and therefore audit observations may not encompass all potential issues: 1) having expenditure records for only 11 of 13 properties rehabilitated by H.O.M.E., 2) inability to review all grant approval files for the CDBG loans and 3) inability to review intake and grant approval file for one of the SHIP loans.

OBSERVATIONS

1) Unable to reconcile program generated income.

Without the ability to tie H.O.M.E bookkeeping records to HUD closing statements for all 13 properties rehabilitated by the Subrecipient, program generated income (PGI) can only be estimated. Two of the properties were said to be paid for 100% with private funds, but by comingling funds from the sales of the other 11 properties which are subject to program income reporting requirements, it makes the reconciliation of PGI difficult and does not comply with reporting guidelines.

One of the properties, where records were not provided for review, was sold to a trust and given a SHIP loan of \$3,000 used for an air conditioning system. SHIP program requirements stipulate that properties must be purchased by individuals who will occupy the home as a primary residence, therefore disqualifying legal entities such as trusts. The guidelines further specify that the loans must be repaid if the residents occupy the home for less than 20 years; the trust “flipped” the property within 9 months at an apparent profit (the property was purchased from H.O.M.E. for \$84,000 and later sold for \$100,000; it is unknown as to whether the owner made additional investments in the property before the subsequent resale). The organization did repay the SHIP loan; however, the transaction is considered a violation of program guidelines.

BCC Office of Management and Budget (OMB) staff performed a reconciliation after it was requested in the Management Alert issued by Internal Audit in June 2011 using the information provided by H.O.M.E. at the time. Since the reconciliation did not utilize supporting documentation for donations, expenditures or sales of all 13 properties, the full amount and allocation of PGI cannot be determined.

Recommendations:

- Subrecipients should be held to their contractual requirements for reporting program income. HHVS should monitor Subrecipients and ensure reporting and accounting obligations are met before funds are authorized and awarded.
- Transactions that do not comply with grant requirements should be fully segregated from other grant funded activities. If the intent of the Subrecipient was to only utilize grant funds and program income in 11 homes, the other 2 properties should have been tracked separately, including having a separate bank account to ensure private and public funds were not comingled.

Management Response:

Management agrees that subrecipients should be held to their contractual requirements and should be educated on the responsibility they have in properly operating within the framework of their agreement. Management is committed to providing oversight and monitoring for subrecipients.

It is relevant for the reader to note this program was a one-time endeavor and an unusual one. It is highly unlikely we would undertake such a program in the future, especially one that involves private contributions to the project.

2) Ineligible program expenditures noted.

Attempts to review records supporting program activities were ongoing with the Subrecipient for nearly 6 months. The contract with the Subrecipient clearly stated the record retention and audit guidelines. After documentation was provided in December 2011, ineligible and/or unsupported CDBG program expenditures of \$40,291 were noted by Internal Audit.

Personal donations from private citizens appear to have been made to H.O.M.E. in the amount of \$100,000. Since the private donations appear to exceed the amount of ineligible program costs, the questioned costs are seemingly offset. However, proper document retention that provides for an audit trail is a requirement for all grant recipients. Subrecipients agree to certain record retention and inspection standards in their grant contracts; failure to comply with those stipulations is considered a violation of the grant agreement. Additionally, use of grant funds for any ineligible cost is not allowed. From the records maintained, it is difficult to determine the use of funds, consequently, grant funds could have been used and then replaced with donations, which would constitute a violation of the grant award and contract.

Recommendation:

- HHVS staff is required to monitor the activity of Subrecipients for grant compliance, therefore a periodic review of expenditures for eligibility under the specific grant guidelines is considered necessary. Should ineligible costs be noted, Subrecipients should be made aware of why the costs are disqualified in order to prevent noncompliance in the future. Grant funds cannot be used for ineligible costs and then later replaced by donations. Funding sources should be clearly accounted for and easily identifiable by segregating private and grant funds.

Management Response:

Management agrees that regular oversight and monitoring of subrecipients is an important component of successful grant administration, of which the segregation of funds is an important aspect.

Internal Audit Response:

Oversight and monitoring are required, as stated in the contract between the Subrecipient and BCC under Section VIII (A) “*Financial Management*” and (B)(2) “*Documentation and Record-Keeping*”, respectively:

“The SUBRECIPIENT agrees to comply with OMB Circular A —110 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and other Non-Profit Organizations) and agrees to adhere to the accounting principles and procedures required therein, utilize adequate internal controls, and maintain necessary source documentation for all costs incurred.”

“All reports, plans, surveys, information, documents, maps, and other data procedures developed, prepared, assembled, or completed by the SUBRECIPIENT for the purpose of this Agreement shall be made available to the COUNTY by the SUBRECIPIENT at any time upon request by the COUNTY or HHS. Upon completion of all work contemplated under this Agreement copies of all documents and records relating to this

Agreement shall be surrendered to HHS if requested. In any event the SUBRECIPIENT shall keep all documents and records for three (3) years after expiration of this Agreement.”

3) Unable to validate the distribution of final program assets.

HHVS staff deposited a check for \$644.37 as acceptance of the distribution of final assets (as of June 14, 2011) from H.O.M.E. even after HHVS communicated to Finance that the check would be held until the figure could be validated.

There were indications that personal property was purchased, due to observing depreciation expenses on the profit and loss statement of the organization. If equipment or other property had been purchased with grant funds, it should have been turned over to the county upon termination of the grant agreement. However, due to the size of the personal donations made to the organization, it appears unlikely that the value of the property would exceed the remaining ineligible cost threshold of approximately \$60,000 (see Observation #2).

Recommendation:

- The distribution of final program assets should have been validated by HHVS staff during the grant closeout procedures to ensure proper amount of cash and other assets were turned over to the county in accordance with the Subrecipient’s contract.

Management Response:

Management agrees that proper close out procedures, including the distribution of any final program assets, is an important component of successful grant administration.

Internal Audit Response:

Closeout procedures are required, as stated in the contract between the Subrecipient and BCC under Section VIII (I) “*Grant Closeout Procedures*”:

“SUBRECIPIENT’s obligation to the COUNTY shall not end until all closeout requirements are completed. Activities during this closeout period shall include, but not limited to; making final payments, disposing of program assets (including the return of all unused materials, equipment, unspent cash advances, program income balances, and receivable accounts to the COUNTY), and determining the custodianship of records.”

OTHER RECOMMENDATIONS

4) Grant close out procedures not coordinated between HHVS and Subrecipient.

On March 17, 2011, the Vice President of H.O.M.E. recorded deed restrictions to 11 properties that were acquired with CDBG funds to the county. HHVS staff did not have prior knowledge of this transaction and did not communicate with Finance about this action until June 30, 2011. The county now has the full responsibility to monitor the future sales of these homes to ensure the properties remain in the affordable housing pool.

Recommendation:

- During grant closing procedures, actions such as assignments of mortgages or recording deed restrictions should be coordinated between the Subrecipient and HHVS so that any ongoing monitoring requirements can be

planned for and executed properly; subsequent communications to grant accountants in Finance about such events is necessary for the proper recording of transactions.

Management Response:

As noted, the actions described within this observation were undertaken without the knowledge of Management and, therefore, had no means of preventing this action. However, as already stated herein, management recognizes the need for improved oversight of all grant related activities.

CONCLUSION

Prior to awarding grant funds, HHVS staff should ensure that subrecipients have a clear understanding of program and fiscal requirements; the subrecipient should be able to demonstrate their comprehension and ability to properly perform program, fiscal and closeout requirements of the grant.

It is suggested that HHVS grant coordinators review the procurement practices and expenditures of subrecipients on an on-going basis for eligibility. HHVS should verify and monitor the reconciliation and reporting of program income of subrecipients for compliance to grant requirements. Proper supporting documentation should be retained by the subrecipient (or HHVS if a subrecipient is unwilling or unable to retain the documents) in order to facilitate an efficient audit when necessary.

The Clerk’s Office hopes that by management implementing the recommended controls, the process of auditing subrecipient grant awards can be much more expeditious for all parties in the future.

Additional Management Comments:

Management is at once, thankful for the important recommendations designed to help HHVS be more successful at grant management, and puzzled by the internal audit of a program that ended some time ago. We agree with the recommendations and continue to improve our operations, including improved focus on monitoring activities over subrecipient agreements.

Internal Audit Response:

As stated in the “Background” section of this report, records requested in March of 2011 were not received until December 2011 despite several attempts by Internal Audit to obtain the information from both HHVS and the Subrecipient. A timeline of the audit activities has been included in the Appendix to this report.

As stated in the contract between the Subrecipient and the BCC under Section VIII (G) “Audits and Inspections”:

“5. The SUBRECIPIENT shall maintain all contract Records in accordance with generally accepted accounting principles, procedures, and practices which shall sufficiently and properly reflect all revenues and expenditures of funds provided directly or indirectly by the County pursuant to the terms of this contract.

6. The SUBRECIPIENT shall maintain all Contract Records that document all actions undertaken to accomplish the “Scope of Services” outlined in Attachment A in this contract.

7. The SUBRECIPIENT shall ensure that the Contract Records shall be, at all times, subject to and available for full access and review, inspection, or audit by County and federal personnel and any other personnel duly authorized by the County.”

This precluded a timely completion of the audit; again, with the cooperation of Staff and subrecipients, we hope to avoid such delays in the future.

Internal Audit anticipated the inclusion of action plans within the responses from Management since the time taken to respond to the report exceeded four weeks (*draft issued to Staff: 3/28/2012; response received by Internal Audit: 4/27/2012*); however, no plans were outlined to prevent such observations from recurring.

Recommendations are offered for Management to consider as they relate to the overall control environment; they were not intended only for this grant program, but as a concern across other programs and activities. The grantor agency has the authority to audit the grant program for up to three years after the termination of activities; without proper documentation supporting the program income and expenditures, there is a risk that the taxpayers could be required to return improperly reported and/or used funds.

APPENDIX

Audit Timeline

Finance Department requested Internal Audit assistance.	03/08/2011
Meeting with H.O.M.E., HHVS, and the Clerk's Office; records supporting program income and expenditures requested by the Clerk's Office from both H.O.M.E. and HHVS.	03/15/2011
H.O.M.E. records deed restrictions to 11 rehabilitated properties and related debt instruments with Collier County; HHVS staff claims no coordination was done with their department.	03/17/2011
Email from Internal Audit to HHVS requesting records again and offering to have another meeting to discuss if necessary.	03/22/2011
Email from Internal Audit to HHVS requesting records again.	03/29/2011
Email reply to Internal Audit from HHVS indicating that records will most likely be sent by 03/30/2011.	03/29/2011
HUD closing statements for 11 of 13 properties sent to Internal Audit from HHVS.	03/31/2011
Email from Internal Audit to HHVS requesting the additional backup discussed at March 15 th meeting.	05/09/2011
Distribution of all remaining assets according to H.O.M.E. sent to HHVS for deposit. On 06/14/2011, an OMB Grants Coordinator requests deposit to be held by HHVS until the amount can be further verified; however, the check was deposited "inadvertently" by Staff anyway.	06/09/2011
H.O.M.E. related Management Alert report issued by Internal Audit to County Manager and HHVS.	06/17/2011
Meeting with Internal Audit as requested by HHVS (on 06/27/2011) to discuss the Management Alert report. Some additional documentation provided by HHVS via email after the meeting concluded.	06/30/2011
Response to the Management Alert received from Staff.	07/08/2011
Reconciliation of program income using summary ledgers provided to Internal Audit from an OMB Grant Coordinator; however, reconciliation was not generated using detailed supporting	07/11/2011

documentation from H.O.M.E.	
Letter dated 07/18/2011 from Internal Audit to H.O.M.E. requesting documentation to support program income and expenditures for H.O.M.E. County Staff informed of the letter via email.	07/20/2011
Email from H.O.M.E. to County Staff suggesting to disregard the letter sent by Internal Audit.	07/21/2011
Formal letter sent to Dwight Brock from H.O.M.E. responding to the letter from Internal Audit dated 07/18/2011.	07/24/2011
Response from Internal Audit sent to H.O.M.E. via email.	07/25/2011
Follow-up letter from Internal Audit to H.O.M.E. requesting documentation be made available for inspection once again.	08/18/2011
Response from H.O.M.E. to Internal Audit in reference to the latest letter, suggesting a meeting to discuss.	08/21/2011
Letter from H.O.M.E. to Internal Audit via email outlining the position of H.O.M.E.: copies of canceled checks supporting expenditures for 11 of the 13 properties to be provided by H.O.M.E. It is the position of H.O.M.E. that all other relevant documentation has already been provided. A timeline of events as understood by H.O.M.E. also included for informational purposes.	08/22/2011
Meeting with Internal Audit, H.O.M.E. and its legal counsel to discuss availability of records. The attorney for H.O.M.E. suggests the requested documentation be given to Internal Audit to conclude the review.	08/25/2011
Email from the attorney for H.O.M.E. to Internal Audit indicating the records will be dropped off at the Clerk's Office by 09/22/2011.	09/19/2011
Certain H.O.M.E. records hand delivered to Internal Audit by H.O.M.E. representative.	09/22/2011
Emails from Internal Audit to H.O.M.E. requesting backup for some missing information; some records provided via email the same day. More records will need to be provided; emails back and forth scheduling another meeting take place between 11/9 and 11/16/2011.	11/08/2011
Records that H.O.M.E. was willing to share provided via hand delivery to Internal Audit.	12/06/2011
Intake files for the SHIP grant program reviewed by Internal Audit at HHVS (Building H).	02/08/2012
As a follow-up to the intake file inspection, Internal Audit sends email to HHVS requesting documentation on a SHIP loan made to a trust (ineligible recipient). Documentation was never provided.	02/10/2012
Draft Internal Audit Report issued to HHVS management for responses.	03/28/2012
Management responses received from HHVS.	04/27/2012