



# **Internal Audit Department**

## **Interim Report 2011 – 5A**

**Housing, Human & Veteran Services**

**Disaster Recovery Initiative  
Property Review: 3404 Seminole Ave**

**September 2011**

**Dwight E. Brock**  
Clerk of the Circuit Court

3299 Tamiami Trail East  
Suite #402  
Naples, FL 34112-5746

[www.collierclerk.com](http://www.collierclerk.com)

**Prepared by:** Allison Kearns, Internal Auditor

**Report Distribution:** Board of County Commissioners  
Leo Ochs, Jr., County Manager  
Marla Ramsey, Administrator, Public Services Division  
Kim Grant, Interim Director, Housing, Human & Veteran Services  
Frank Ramsey, Housing Development Manager  
Tammar Hammer, Home Rehabilitation Specialist

**Cc:** Dwight E. Brock, Clerk of the Circuit Court  
Crystal K. Kinzel, Director of Finance & Accounting

**Table of Contents**

Background.....2

Summary.....2

Scope.....2

Observations, Recommendations and Responses.....3

Conclusion.....10

Additional Management Comments.....11

## **BACKGROUND**

On April 19, 2011, initial pay requests for partial completion of renovations for a Disaster Recovery Initiative (DRI) grant property located at 3404 Seminole Ave in Naples from A. Martinez Construction, Inc. (the Contractor) were submitted by Housing Human and Veteran Services (HHVS) to Clerk's Finance. The property is owned by Anne Delva (the Homeowner); renovations to the property were initiated as a result of the Homeowner's request for repairs due to damages sustained during Hurricane Wilma in 2005.

Finance began review of the file and noted that the Homeowner was recently (January 6, 2011) listed as the joint owner of another property; however, the intake forms for the grant application had not disclosed this asset. This prompted the Finance grant reviewer to look further into the records and request the assistance of Internal Audit to complete the review.

Internal Audit performed a physical inspection of the home to document the current condition and any work performed by the Contractor in accordance with the contract. To-date, the rehabilitation of the home is incomplete and the home is currently vacant.

## **SUMMARY**

After completing a field visit to the property and comparing the pay requests to the work completed on the home, the following issues were noted:

- The Contractor's invoices are not dated.
- One payment request appears to be based on a vendor quote and not an actual invoice. This quote was approved by HHVS staff for payment.
- Trusses and lumber purchased by the Homeowner prior to receiving the rehabilitation grant that were to be used by the new Contractor were directed to be removed by County Code Enforcement before work commenced. Code Enforcement had initiated the removal due to the lack of a valid building permit. As a result, a change order was approved which included \$2,670 for new trusses and \$4,500 for new lumber and plywood.
- The permit application submitted by the Contractor for the renovation used a lower value than the amount awarded in the contract.
- The Contractor submitted invoices for incomplete work stated to be 100% complete.
- HHVS staff approved pay requests for incomplete work while attesting to 100% completion.
- The Engineer signed affidavits of completion for several levels of plumbing work that were not completed.
- The home is infested with bees and though not an audit observation, it is a safety issue and should be addressed by HHVS.

HHVS staff submitted signed payment requests to the Clerk's office for rehabilitation work on this property without having first performed a thorough site inspection, which is an integral control in the payment approval process. In addition, inspections were not completed for certain permit items as required by the Building Code. As a consequence, the Contractor would have been paid in full for incomplete work if Internal Audit had not inspected the property and found the discrepancies between the invoices submitted and the actual work completed.

## **SCOPE**

The interim review consisted of the following tasks:

- Compiling files and information from county Housing staff, the Clerk's Finance Department and documents available in county public records;
- Site visits on 6/15/2011 and 7/20/2011 to the property including photo documentation;
- Interviewing county Housing staff, the Homeowner and the Contractor on multiple occasions;

- Reviewing the grant application and related documents for the Homeowner;
- Comparing details of work within bid specifications to actual work performed by the Contractor;
- Comparing work performed by the Contractor to pay request details;
- Reviewing video of the 7/26/2011 BCC meeting related to the discussion about this property in conjunction with item 10E (see Interim Audit Report 2011-5B).

**An interim audit report is issued for the purpose of making management immediately aware of issues cited by Internal Audit so that measures can be taken to promptly address the audit observations. Further findings may be discovered and incorporated into a subsequent final audit report.**

## **OBSERVATIONS**

### **1) The Contractor's invoices are not dated.**

Upon reviewing invoices submitted by the Contractor for approval by HHVS, it was noted that dates were missing from the invoices. When asked by Internal Audit (on 7/6/2011) why the dates were not included, the Contractor stated it was at the direction of the Project Manager that dates weren't necessary. The Contractor attested that this was new and that they had always included dates on their invoices for previous work done with the county; this was verified as accurate by Internal Audit.

#### **Recommendation:**

- For payment requests to be properly approved by HHVS and legally paid by the Clerk, invoices must be dated to properly reflect the period of work and tasks performed by the Contractor.
- It is important that when invoices are received by HHVS they are promptly date stamped, reviewed and submitted to Finance for payment in order to be in compliance with the Florida Prompt Payment Act.

#### **Management Response:**

Agree with recommendations. HHVS Staff and management have been re-trained to only accept dated invoices, and to date stamp them the date they arrive in the HHVS office. In addition, the director has recently instituted a new HHVS tracking report to track all invoices from the date submitted to HHVS to the date submitted to Finance in order to improve the timeliness of that process.

### **2) One payment request was based on a quote from a vendor, not an actual invoice.**

During the detailed review of invoices submitted by the Contractor for approval by HHVS, it was noted that one of the Contractor's invoice amounts was based on a quote from a vendor, Raymond Building Supply, and not an actual invoice that was paid by the Contractor for the goods submitted for payment. The quotes were included as supporting documentation for A. Martinez Construction invoice 5A for \$7,170: New Trusses, Lumber & Plywood.

#### **Recommendation:**

- For payment requests to be properly approved by HHVS and legally paid by the Clerk, invoices must be used as backup documentation to prove that the goods or services were paid for by the Contractor; quotes and estimates do not provide sufficient evidence for payment.

**Management Response:**

For payment requests based upon items contained and detailed in the awarded bid specification, HHVS will continue with the current practices. For any work subsequently identified and not contained in the awarded bid specification, HHVS will ensure a proper invoice and appropriate supporting materials are received from the Contractor.

**Internal Audit Response:**

It is our understanding that for work performed within the original bid specifications, the Contractor submits an invoice for that particular item without further detailed supporting invoice documentation being required by Finance. However, for items added to the rehabilitation via change order, the Contractor is required to submit invoices that support all labor and materials for the work. Estimates and quotes, regardless of whether in the original bid specs or in a change order, are never considered sufficient for the Clerk to issue payment.

**3) County directed removal of certain building materials to be used in the renovation.**

During the period between the bid walk-through on 10/22/2009 with potential contractors and the time the Contractor proposed an estimate for new trusses, lumber and plywood on 9/9/2010, the materials previously purchased by the Homeowner were removed at the direction of Collier County Code Enforcement. This action was taken due to the expiration of a building permit and the Homeowner's failure to apply for another permit in a timely manner.

Since the trusses were still on site at the time HHVS was performing a review of the rehabilitation work to be performed on the property, they were considered an item that would not be required to be purchased by the bidding contractors, as stipulated in bid specification #3. Code Enforcement was apparently not aware of the active rehabilitation contract with the Homeowner at the time the trusses and lumber were removed from the site in January 2010. HHVS staff contacted Code Enforcement on 3/18/10 to notify them of the Homeowner grant award for rehabilitation of the property and that they would be correcting any outstanding violations within 3-4 months. However, it was not in time to stop the removal of the materials by Code Enforcement.

**Recommendation:**

- Measures should be taken to safeguard assets used for Federal, State and County grant programs to avoid damage and/or loss of usable materials. Property should be secured, and any loss, theft or change should be documented through a report to the Sheriff's Office or other law enforcement or regulatory authority.
- Better communication between departments can mitigate the potential for taxpayer funds to be expended for purchases of items already available.

**Management Response:**

Agree with the first recommendation and for properties owned and/or assets acquired to be used for grant programs, appropriate measures are taken to avoid damage and/or loss of materials. Any thefts will be promptly reported to appropriate authorities. Periodic staff visits to all properties and photo documentation will be maintained to demonstrate these efforts.

However, Collier County did not own, or acquire through a grant, the assets in question on this finding, nor the property. Actions noted in this finding concerning materials removed were strictly between the Code Enforcement Department and the homeowner.

Regarding the second recommendation, HHVS has regular communication with the Code Enforcement Department respecting properties owned by Collier County and related to HHVS grant programs.

**Internal Audit Response:**

Bid specifications developed by HHVS included the use of materials already on the property. By citing the use of the available materials, contractors adjusted their bids on that line item accordingly. Based upon the inclusion in the bid specifications, it is evident that HHVS was aware the materials were on site and that there was a failure to secure the materials or communicate with Code Enforcement. The removal of the materials resulted in higher job costs, as seen in one of the change orders, which is relevant to this audit. We are pleased to hear that you now have regular communication with Code Enforcement and unique situations such as this can be avoided in the future.

**4) Permit application for renovation valued differently from contract value.**

Documentation provided by HHVS included the initial permit application completed by the Contractor. As of 2/28/2011, the value placed in the application for the permit was \$50,000; the contract for the rehabilitation was valued at \$84,230 as of 1/12/2011 as signed by the Project Manager and Contractor on 1/31/2011. At this time, it is unknown why the permit application value of the rehabilitation was inconsistent with the final contract value.

**Recommendation:**

- The contract value on a permit application should reflect the actual final contract amount to be in compliance with County requirements. Measures should be taken by the Project Manager to ensure contractors have accurately applied for permits.

**Management Response:**

We understand the intent of the recommendation, however, we assert there has been no failure regarding this item and there has been no adverse effect.

The "job cost" on a permit application represents estimates as provided by the applicant. An estimated value of construction can only be calculated by staff for new construction per the Florida Building Code. The permit fees for this rehabilitation project were based on the scope of work, not the cost or permitted amount of the job. Remodeling and rehabilitation projects for single family detached homes do not take into consideration the value of materials in fee calculations rather the scope of work is used to calculate the number and type of trade reviews required to meet the conditions of the Florida Building Code. Projects that consist of a like for like replacement below \$1,500 do not require a permit per Collier County Ordinance 2009-59. Consequently, the total value of the permitted job was immaterial in the fees, the reviews or the inspections performed.

Further, per the award documents with the general contractor it states that "It is the contractors responsibility to ensure that all required permits ... are obtained ... and copies must be provided to the Collier County Housing & Human Services." In this case the permit was applied for, issued, and the contractor provided a copy for HHVS records.

**Internal Audit Response:**

Collier County Building Permit Application Instructions state in reference to this issue that "contracted cost" should be used for the cost of the job. We agree that the fee paid for this particular application would not have changed if the proper amount had been used in the Contractor's application.



## 5) The Contractor requested payment for incomplete work.

The following items were stated to be 100% complete by the Contractor and were requested for full payment and approved by HHVS staff without the work having been completed, as observed during physical inspection of the property by Internal Audit:

### a) Demolition \$5,000

- **Per bid specification #1:** Demo the remaining roof and trusses. Demo the 4'x10'8"x18' of wood wall that was the carport. Demo the interior walls, kitchen, baths, and clean out all trash, i.e. appliances, insulation, garbage, etc.
- **Per physical inspection:** An overflowing dumpster and debris in the yard was observed to be on site.
- **Per Contractor (7/6/2011):** This is the 4<sup>th</sup> dumpster that has been on site and all the trash is "[due to] the county" placing items in the dumpster.



### b) Block Wall \$5,390

- **Per bid specification #2:** Lay block in 4'x10'8"x18' in place of existing wood walls. Lay block with 4 window opening per drawing. Pour tie-beam, attaching new walls to existing walls. Stucco new walls and repair any stucco damage to existing building.
- **Per physical inspection:** All new stucco work and repairs incomplete.
- **Per Contractor (7/6/2011):** Agreed that the block work was done but not the stucco. The Project Manager apparently gave the Contractor the impression that it was acceptable to bill for the whole bid line item as long as the rest of the work was done by the time the payment was issued.



### c) Interior Framing \$1,800

- **Per bid specification #9:** Interior frame 14 walls per drawing per FBC. Walls can be framed with wood or metal framing. Install Deadwood in kitchen for cabinet install. In bathrooms for future grab bar install and towel bar & toilet paper install. In closet areas for shelving and closet rod install, and utility room for shelving install.
- **Per physical inspection:** Deadwood [support strips] not installed (kitchen area shown below). No permit inspection sign-off found for Framing even though work had been billed as complete.



**d) Plumbing \$5,750**

- **Per bid specification #11:** The contractor's bid price shall reflect all plumbing installation to meet applicable codes. Plumbing hardware replacement: replace all plumbing hardware in 2 bathrooms, kitchen and utility room with new, mid-grade quality fixtures. Lavatory will have new pop up drain stop and shower will have new diverter valve, spout and shower head. Owner shall have choice of hardware with either single lever/flow type faucet or individual hot/cold handled hardware.
- **Per physical inspection:** No fixtures, faucets or other plumbing trim installed, not possible at this early stage of construction due to items such as cabinets and vanities not being installed yet.



**e) HVAC \$3,800**

- **Per bid specification #12:** Central heat and A/C: Install minimum of 2.5 ton, 16 SEER, R410A, central heating (8 kw heat) and cooling system to include all duct work. Includes all electrical, digital thermostat, condensing unit, drains, refrigeration piping, air handler and grilles. All grilles vented to all living areas and all equipment necessary to complete a new system. New system will be adequate for all living areas to be cooled/heated. Condenser secured on cement pad, include pad in price. System will be installed to manufacturer specs. No exposed interior ductwork. Warranty info: units must have 10-year warrantee on compressor, coil, condenser parts, evaporator coil and air handler parts. 1-year labor on entire system.
- **Per physical inspection:** A/C compressor, drains and trim not installed and not possible at this early stage of construction. No permit inspection sign-off found for Mechanical Rough A/C even though work had been billed as complete.
- **Per Contractor (7/6/2011):** Agreed that the compressor has not been installed yet.



**f) Electrical and Low Voltage \$4,100**

- **Per bid specification #13:** Follow Electrical drawing per FBC. Install 200 amp service to the home. Install wiring, switches, outlets, interior lighting and exterior lighting. Bathroom light and exhaust fans, ceiling fans and light kits. Install GFI outlets in bath and kitchen per FBC. Install new panel box and



reconnect and test electrical system, mark new panel breakers. Install electric for over stove and microwave. Install 7 new UL approved smoke detectors. Install cable, computer and phone.

- **Per physical inspection:** Switches, circuit breakers, outlets, interior, exterior lighting, bathroom light, exhaust fan, ceiling fans with light kits and smoke detectors not installed and not possible to complete at this early phase of construction. No permit inspection sign-off found for Electrical Rough or TV/Telephone Rough even though work had been billed as complete.
- **Per Contractor (7/6/2011):** Cannot pass the rough electrical inspection yet until the windows are installed; the Project Manager told the Contractor to stop work on the house so the windows are currently being stored with the vendor awaiting installation.



### **Recommendations:**

- Contractors should be made clearly aware that billing for incomplete work can be construed as a fraudulent act and can put them in jeopardy of losing the ability to be awarded future jobs with the county, losing their contractor's license and/or criminal prosecution.
- Building inspections are required by law and therefore Project Managers should be aware of any sign-offs pending before work is considered completed by a Contractor. It is recommended that HHVS review the status of permit items is completed before payment requests are approved.
- Work must be completed prior to billing according to the bid specifications and the contract terms.

### **Management Response:**

Agree with recommendations. HHVS management will meet with all contractors involved and make them clearly aware that billing for incomplete work will no longer be tolerated. Accordingly, HHVS will take additional measures to assure that work is completed prior to billing and that it is according to the bid specifications and the contract terms. The primary procedural change is to require photos of the components of work being invoiced. Finally, we agree to add a new component in our review of invoices to assure that appropriate inspections for the work being invoiced have been completed. Also, it is standard practice for the HHVS Project Manager to only present the final payment request when a Certificate of Occupancy or Certificate of Completion (CO or CC) has been granted by the building department for the property. Granting of the CO or CC provides assurance that all required inspections have been completed to the standards of the Collier County building official. We intend to continue to rely upon this practice for certification that all building codes have been met.

Please note we disagree with finding 5a) regarding the dumpster. We agree there were still dumpsters on-site when the photos were taken, however the dumpsters associated with the demolition have been removed as per the bid specs and the demolition was completed. We have confirmed with code enforcement that as long as there is an active building permit, it is permissible to have dumpsters on site.

### **Internal Audit Response:**

To add to your response, the CO may provide assurance that all required inspections have been performed and are compliant with codes, but it does not ensure all work required to be performed by the contractor has been completed; HHVS staff must also perform their inspections in addition to any building code reviews in order to be thorough.

We contend that at the time of our site visit, the dumpster in question still contained materials from the demolition and not all demolition involving the structure had been completed, making the Contractor's invoice for 100% completion of the demolition bid spec invalid. We agree that a dumpster is allowed to be on site during active rehabilitation of the homes.

### **6) County Housing Staff approved payments for incomplete work.**

The HHVS Project Manager and Housing Development Manager both signed affidavits attesting to 100% completion of all work submitted by the Contractor.

- The Project Manager indicated that she personally inspected the property.
- The Contractor stated that the Project Manager walked the property with them in mid-June 2011 to review the progress of the work; no one had a camera with them at that time.

The observations noted by Internal Audit during our inspections of the property clearly have concluded that the work billed was incomplete, indicating either a lack of an inspection or a poor inspection by the Project Manager. As indicated on one of the forms required by HHVS for payment authorization, "This Disbursement Authorization certifies that the above referenced Vendor is a participant in Collier County's affordable housing program and has performed rehabilitation work as specified in the attached invoice. A site inspection was conducted and payment is approved for the following project."

A thorough inspection of the property, before the payment requests totaling \$34,840 were approved and submitted to Finance, was required as part of the controls in place to prevent and detect false billing by contractors. Management approval of pay requests without sufficient evidence of work having been properly completed is non-compliant with Federal, State and County regulations and guidelines, acceptable business practices and could potentially be considered a criminal act.

### **Recommendations:**

- Project Managers must thoroughly inspect all work prior to authorizing any payment requests; signing such statements without having performed a sufficient inspection is considered a misrepresentation of facts and falsification of official records.
- Photographic evidence of all items completed to support both the progress of work and payment requests submitted by contractors is highly advisable. The second signatory on the pay requests should, at a minimum, utilize the photos as evidence of work completed or personally inspect the property in order to validly attest to the completion of work.
- The Clerk's office will require evidence of inspections having been performed; photos of completed work being billed by the contractor and HHVS approvals should be included in the documentation submitted to Finance beginning immediately.

### **Management Response:**

Agree with recommendations. Beginning immediately, as was stated above, HHVS will take additional measures to assure that work is completed prior to billing and that it is according to the bid specifications and the contract terms. The primary procedural change is to require photos of the components of work being invoiced. The second signatory will utilize these

photographs and proofs of inspections as evidence on every request for payment, and also, periodically, will perform unscheduled site inspections to further verify. Finally, we agree to add a new component in our review of invoices to assure that appropriate inspections for the work being invoiced have been completed.

#### **Internal Audit Response:**

Per our discussion with Management, to further clarify the “new component” referenced in Management’s response, the inspections are understood to be trade reviews; we feel this is an excellent addition to Housing’s invoice approval process.

#### **7) The Engineer signed affidavits attesting to plumbing completion.**

The Contractor submitted the following documents signed by the Engineer overseeing the construction:

- a) Building Permits by Affidavit
- b) Construction Affidavit
- c) Certificate of Completion by Affidavit
- d) Certificate of Occupancy by Affidavit

None of the forms were dated or sealed and it is clear from the inspection performed by Internal Audit that these affidavits appear to have been signed without the Engineer having performed a thorough inspection of the work. Certificates of Completion and Occupancy typically indicate a level of construction that has been completed for suitable habitation. This home does not currently have doors, windows, toilets, sinks, faucets or running water; it is unknown as to why the Engineer attested to the plumbing being complete and suitable for occupants at this time.

#### **Recommendations:**

- Affidavits submitted by contractors should be verified by Project Managers during their routine inspections of the rehabilitation properties.
- Engineers or architects signing affidavits attesting to certain levels of completion for construction without having performed a sufficient inspection can have the appearance of misrepresenting facts.

#### **Management Response:**

Agree with recommendations. While the process of obtaining inspections is a general contractors and building department responsibility, on which we reasonably relied, we will improve the procedures in the future by not allowing permits by affidavit for these properties, which means the county building inspectors will always do an on-site inspection of all permissible items. Also, we will assure that interim inspections applicable to items being billed have been completed by the appropriate official/inspector.

### **CONCLUSION**

Until line items from the bid specifications are completed by the contractor, inspected by the Project Manager and verified by HHVS management, payment requests should not be approved or forwarded to the Clerk’s Office for payment. The Clerk’s Office cannot process invoices for payment where the work is not verified as completed in accordance with the contract and the bid specifications.

It is the responsibility of management to understand and implement the proper process and procedural controls to limit the risk of fraud and misappropriation of county assets. When these controls are circumvented, it is possible that payment

requests forwarded to the Clerk are not legally sufficient to pay. The Clerk's Office may suggest recommendations in audit reports, but it is the decision of management to formulate compliant ways of implementing those controls.

As a result of the issues noted for this property, the Clerk's Internal Audit Department decided to choose another property from a different grant and with a different Project Manager for further review. By choosing another property as a sample, Internal Audit can attempt to determine whether the issues cited here are systemic or simply a random occurrence. Reference Interim Audit Report 2011-5B for further details.

**Additional Management Comments:**

As soon as these issues were brought to the attention of management, improved controls were implemented to limit the risk of adverse exposure to Collier County. The improved controls were discussed with the internal audit team on the day of their arrival on site for the initial audit review and are consistent with what has been recommended throughout this report. We understand and concur that it is imperative to present requests for payment that represent only work that is complete, and we have assumed a "zero tolerance" for such issues in the future.

We very much appreciate the work of the Clerk of Courts staff and volunteers in performing these audits and bringing these issues to light in order for us take immediate and substantive corrective actions. In addition, we look forward to partnering with the audit and management staff to continue to reinforce and improve the internal controls of the operation.