



# **Internal Audit Department**

## **Audit Report 2012 – 6**

### **Housing, Human & Veteran Services**

#### **Disaster Recovery Initiative Grant Limited Scope: Applicant Eligibility**

**October 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, 5<sup>th</sup> District)* and Florida Statute 119.0713. Workpapers supporting the observations noted within this report will become public record and can be made available upon request once the final audit report has been issued.

## Objective

The objective of the review was to verify the eligibility of single family applicants and subrecipient activities receiving DRI Grant funds from HHVS prior to June 1, 2012.

## Scope

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

- Reviewing HHVS intake files for a sample of DRI grant recipients;
  - 25% sample of single family recipients (11 of 44);
  - 100% sample of subrecipients (5);
- Reviewing HUD Section 8 Income Limits;
- Meetings with HHVS and Clerk's Finance staff;
- Reviewing Collier County's DRI Administrative Plan and program guidelines;
- Reviewing DEO Disaster Recovery CDBG Award Agreements, Program Action Plans and Monitoring Reports;
- Reviewing The Robert T. Stafford Disaster Assistance and Emergency Relief Act;
- Reviewing HHVS Request For Proposals, Subrecipient Responses, and HHVS Scoring Sheets;
- Examining Subrecipient agreements;
- Reviewing applicable BCC agenda records;
- Reviewing HHVS Policies and Procedures; and
- Reporting the ineligibility of the homeowner at 3404 Seminole Ave. from participating in the DRI Grant Program.

# Background

The Disaster Recovery Initiative (DRI) Grant Program is federally funded by the Department of Housing and Urban Development (HUD) and administered by the Florida Department of Economic Opportunity (DEO). The DRI program allows communities to use grant funds for recovery efforts from natural disasters that involve housing, economic development, infrastructure, and prevention of further damage to affected areas. Activities must meet at least one of three national objectives:

1. Benefit persons of low and moderate income.
2. Aid in the prevention or elimination of slums or blight.
3. Address community needs because existing conditions pose a serious threat to the health and welfare of the community.

Examples of eligible activities include:

- Rehabilitation and Preservation of Housing;
- Water and Sewer Improvements;
- Street Improvements;
- Economic Development Activities; and
- Drainage Improvements.

Collier County has been awarded three separate DRI grants from the Florida DEO since 2005, totaling over \$14 million. Grants #07DB-3V-09-21-01-Z01 and #08DB-D3-09-21-01-A03 were awarded in 2007 and 2008, respectively, as a result of damage caused by Hurricane Wilma (2005). Grant #10DB-D4-09-21-01-K09 was awarded in 2010 to assist in the recovery from damage caused by Tropical Storm Faye (2008).

The Housing, Human, & Veteran Services (HHVS) Department oversees the DRI Grant awards for Collier County. HHVS selects projects sponsored by local organizations (subrecipients) for recovery efforts and uses grant funds to reimburse these subrecipients when work is completed. Subrecipient projects receiving funding were for hurricane repairs and hardening activities to single and multi-family homes, along with Water, Sewer, and Drainage Improvements in low and very low income communities throughout Collier County. In addition, from January 2008 to June 2010, HHVS awarded grant funds directly to 46 low and very low income single family homeowners in the Naples and Immokalee communities for repairs to damage caused by Hurricane Wilma.

In April 2011, HHVS submitted an initial reimbursement pay request under an \$87,020 rehabilitation contract for repairs from damages sustained during Hurricane Wilma to a single family property located at 3404 Seminole Ave in Naples. Clerk's Finance reviewed the request and noted that the homeowner was listed as a joint owner of another property; however, HHVS intake forms for the grant application did not disclose this asset. This prompted Clerk's Finance 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 property and noted discrepancies between the invoices submitted and the actual work completed. As a result, Clerk's Finance did not pay the invoices included in the pay request. See *Interim Report 2011-5A* for the results of Internal Audit's inspection.

In addition to the physical inspection, Internal Audit reviewed the HHVS intake file and determined the homeowner was ineligible to participate in the DRI Grant Program. Interim Report 2011-5A focused on the initial pay request and the comparison of invoices to work completed at 3404 Seminole Ave. and did not address the homeowner's eligibility.

As a result of the eligibility issue, the Clerk of Courts requested the Internal Audit Department perform an audit to verify the eligibility of single family homeowners who received DRI Grant funds directly from HHVS. The scope of the audit includes the homeowner of the property located at 3404 Seminole Ave.

## Summary

The following observations were generated during this review:

1. DEO grant requirements to ensure applicants do not receive any duplication of benefits were not followed.
2. Sufficient documentation to determine applicant compliance with HUD Section 8 income limits was not obtained.
3. Collier County DRI Administrative Plan guidelines for determining applicant eligibility were not enforced.

The audit observations reflect a lack of program oversight by prior HHVS management to confirm applicants met DRI eligibility requirements. HHVS management should implement procedures to ensure compliance with current and future grant program requirements. The inability to properly administer grant programs may result in grantor agencies demanding repayment of grant funds and may impair Collier County's ability to secure future grant awards.

## Observations

### **1) DEO grant requirements to ensure applicants do not receive any duplication of benefits were not followed.**

The "Duplication of Benefits" section in the Florida Department of Economic Opportunity (DEO) Action Plan Amendment for the Use of 2008 Disaster Recovery Funds states:

*"Section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act prohibits any person, business concern, or other entity from receiving financial assistance with respect to any part of a loss resulting from a major disaster as to which he has received financial assistance under any other program or from insurance or any other source... Local governments must certify that there will be no duplication of benefit."*

Single family homeowners receiving DRI grant funds are required to sign a "Duplication of Benefits" statement at the time of application certifying the applicant has not receive funds from any other source for home repairs due to hurricane damage.

As noted previously, Internal Audit reviewed the HHVS intake file for the homeowner at 3404 Seminole Ave in June 2011. Internal Audit observed a signed "Duplication of Benefits" statement on file. However, during an interview with Internal Audit on July 21, 2011, the homeowner disclosed that she did receive insurance proceeds as a result of hurricane damage; had informed HHVS of this in 2009 during the DRI application process; and did not sign a "Duplication of Benefits" statement. The homeowner presented to Internal Audit her copy of the application package, which included an unsigned "Duplication of Benefits" statement. Per the homeowner, HHVS staff asked repeatedly what she did with the insurance proceeds. The homeowner stated she told HHVS staff the proceeds were used to pay off the mortgage on the house at 3404 Seminole Ave, hire a contractor to repair the roof on the house, and provide financial assistance to family in Haiti. The contractor subsequently absconded with the money without doing any repairs to the roof, hence the homeowner's application for DRI grant funds. The homeowner then stated HHVS staff told her to sign the "Duplication of Benefits" statement.

HHVS staff was informed of this issue in July 2011 by the Clerk and construction contractor hired under the DRI grant program. HHVS informed the homeowner in a letter dated October 3, 2011 that the pay request for rehabilitation work would not be paid because the homeowner received insurance proceeds for the same work. The homeowner was then removed from the DRI grant program.

In addition to the homeowner at 3404 Seminole Ave, Internal Audit selected a sample of 11 (25% sample size) single family applicants receiving DRI Grant funds from HHVS to determine applicant eligibility. A review of the intake files noted the following:

- 18% (2 of 11) of intake files sampled did not have a “Duplication of Benefits” statement on file. HHVS provided Internal Audit with a copy of the missing “Duplication of Benefits” statements. However, each statement was signed and dated by the applicant in August 2012.
- 45% (5 of 11) of intake files sampled had a “Duplication of Benefits” statement on file, but were signed and dated by the applicants in either February or May of 2012 – 3 to 4 years after the date of application.

HHVS provided Internal Audit with an e-mail from the Florida DEO dated January 30, 2012, requesting assistance from DRI sub-grantees in addressing a duplication of benefits concern raised by HUD. HUD reviewed DEO grant files and concluded there was a lack of a duplication of benefits analysis to ensure housing rehabilitation projects funded by DRI grants were not funded from FEMA, SBA, insurance proceeds, or other sources. DEO requested assistance from sub-grantees with implementing several corrective actions, including obtaining an affidavit or some other certification that the owners of the housing rehabilitation projects have received, will receive, or have not received insurance benefits, FEMA or SBA funds. HHVS staff was in the process of obtaining this information as a result of the audit concern raised by the Clerk’s Office.

DRI Grant funds were awarded to one ineligible applicant and potentially to other ineligible applicants. Based upon the lack of “Duplication of Benefits” statements or other due diligence by HHVS, the County may be required to reimburse funds to the grantor agency and may result in the County being denied future grant awards. Without pertinent communications from external agencies, Clerk’s Finance may not be aware of all fiscal or compliance related issues and their impact to financial reporting.

#### **Recommendations:**

- HHVS should review intake files for proper documentation and compliance with grant regulations.
- HHVS should implement procedures to ensure compliance with federal, state, and county grant program guidelines for current and future grant awards.
- HHVS should forward communications, including e-mails, from external agencies to Clerk’s Finance so Finance is advised of any fiscal or compliance related concerns that could impact processes.

#### **Management Response:**

*“Management concurs with the observations and recommendations. Regarding the first recommendation, HHVS has not accepted any applications under the DRI program since 2010. However, management recognizes the importance of compliant intake processes for all programs. To that end HHVS has recently adopted an approach of a specialized role within the department to income qualify participants, and has added two additional layers of approval with a specified detailed review. Also, HHVS is implementing a process to conduct internal quality/compliance reviews of all grant files by management.*

*Regarding the second recommendation, HHVS has contracted with a technical assistance contractor to develop, update and refine policies and procedures related to the Disaster Recovery Initiative program. This assistance will allow HHVS to maintain and improve compliance with federal/state regulations. HHVS also is in the process of internally, and in some cases with external assistance, developing a complete compliance manual with policies and procedures; building on what is in existence today. This is a large undertaking, but is in progress with substantial accomplishment expected in 2013. For any future awards, HHVS will endeavor to establish compliant practices and procedures prior to beginning administration. This may require a small investment of technical assistance to assure a proper, compliant start to any new program.*

*Regarding the third recommendation HHVS does make it a routine practice to communicate and share emails from grantor agencies that are applicable to fiscal and/or grant compliance; and management will reinforce this with the staff members.”*

## **2) Sufficient documentation to determine applicant compliance with HUD Section 8 income limits was not obtained.**

Collier County’s DRI Administration Plan for single family rehab/replacement program requires applicants to meet specific eligibility criteria including:

- Total Household income must not exceed the very low, low, and moderate limits set for the HUD Section 8 program at the time assistance is provided. The gross income of all household members occupying the dwelling is included in calculating household income.

A review of HHVS intake files for single family applicants receiving DRI Grant funds noted for one recipient that a spouse was listed on the property deed but was not listed on the application nor included in the HHVS household income calculation. Based on file documentation, it is unclear if the gross income of one or two household members should have been included in the HHVS household income calculation. As a result, the HHVS household income calculation could not be compared to the appropriate HUD Section 8 income limit.

DRI Grant funds may have been awarded to an ineligible applicant. The County may be required to reimburse ineligible amounts to the grantor agency and may result in the County being denied future grant awards.

### **Recommendation:**

- HHVS should implement procedures to ensure compliance with HUD Section 8 income limits for current and future grant awards.

### **Management Response:**

*“Management concurs with the observation and recommendation; and emphasizes this observation was on one file only. As noted above, HHVS has not accepted any applications under the DRI program since 2010. However, HHVS fully understands and appreciates the importance of following both grantor requirements and locally adopted grant management plans. As noted above, HHVS has recently re-organized and developed a single point of contact for all application processing. HHVS has also developed a single application along with program specific supplemental forms. The re-design of the application and eligibility process specify all required documents, and use of this tool/form should reduce or eliminate errors of omission in the intake process. In addition to a single point of contact, all applications have a two stage review process after completion to ensure full compliance with income limits/eligibility and grantor compliance. For any future programs, compliance requirements would be evaluated and integrated into the process prior to implementation, significantly reducing the potential for intake errors.”*

## **3) Collier County DRI Administrative Plan guidelines for determining applicant eligibility were not enforced.**

Collier County’s DRI Administration Plan for single family rehab/replacement program requires applicants to meet specific eligibility criteria including:

- Property tax, mortgage payments, and utility bills must be current and ownership must not be jeopardized by any other threat of foreclosure, default, or clouded title.
- All applicants that may have a business or familial relationship with a member of the Collier County BCC, Housing Rehabilitation Specialist, Program Administrator, and participating construction contractors must fully disclose this relationship at the time of the application, at the point in time that the conflict occurs, and definitely before a construction contract is executed.

HHVS procedures for determining applicant eligibility did not include the verification of any outstanding liens against the applicant's property that may result in foreclosure, default, or clouded title; nor were applicants required to disclose any business or familial relationship with any Collier County Commissioner, Housing Rehabilitation Specialist, Program Administrator, and participating construction contractors.

DRI Grant funds may have been awarded to ineligible applicants. The County may be required to reimburse ineligible amounts to the grantor agency and may result in the County being denied future grant awards.

**Recommendations:**

- HHVS should implement procedures to ensure compliance with federal, state, and county grant program guidelines for current and future grant awards.
- HHVS procedures should include due diligence efforts to confirm grant applicant eligibility.

**Management Response:**

*“Management concurs with the observation and recommendations. Management believes the responses to the other two observations sufficiently outline planned activities to achieve compliance in the intake and eligibility processes for individual applications under grant programs. Specifically to this item, however, HHVS has instituted a conflict of interest procedure relative to program qualification for all county, sheriff office, and school district personnel when applying for assistance through an HHVS program and also requires this disclosure on the revised application form.”*

## Conclusion

The Clerk's Internal Audit Department acknowledges that the HHVS Department has undergone several staffing changes and that the deficiencies cited in this report occurred under prior management. HHVS management should ensure staff is familiar with federal, state, and county requirements for current and future grant awards; continue to identify all household members and include all sources of income when determining compliance with HUD Section 8 Income Limits; and perform due diligence to obtain the necessary documentation to confirm applicants meet eligibility guidelines. The inability to properly administer grant programs may result in grantor agencies demanding repayment of grant funds and may impair Collier County's ability to secure future grant awards.

It is County management's responsibility to understand and implement the proper controls in order to limit the risk of fraud, error, and misappropriation of county assets. The Clerk's Internal Audit Department may recommend improvements in audit reports, but ultimately it is the duty and decision of management to formulate processes that ensure compliance with federal, state, and county laws and policies.

The Clerk's Internal Audit Department wishes to thank the HHVS staff for their cooperation during this review.

**Additional Management Comments:**

*“Management appreciates the delineation between current and prior administrations and a nod to the improvements being made to bring the department into compliance and operate in a compliant manner going forward. Management recognizes there is still room for improvement and appreciates the guidance offered by the internal auditors. We thank the staff of the clerk's office for working so closely with us on this audit. We look forward to a continued parallel focus on grant compliance in an effort to retain grant funds flowing into our community to meet key needs, and do so in a compliant and efficient manner.”*