

# Audit of SHIP Funds

## **Division of Inspector General** **Neil Kelly, Clerk of the Circuit and County Courts** **Audit Report**

**Bob Melton, CPA, CIA, CFE, CIG**  
**Inspector General**

Audit Conducted by:  
**Sheena Patel, CIA, CIGA**  
**Senior Inspector General Auditor**

**Report No. BCC - 152**  
**January 30, 2017**



*Division of Inspector General*  
*Phone (352) 253-1644*  
*Fax (352) 253-1645*

*Clerk of the Circuit Court*

*Post Office Box 7800*  
*Tavares, Florida 32778-7800*

---

January 30, 2017

Board of County Commissioners

We have conducted our audit of the SHIP funds of the Board of County Commissioners' Housing and Community Development Division, as scheduled per the Clerk's Annual Inspector General Audit Plan.

We appreciate the cooperation and assistance provided by the Housing Services Division. Responses were received from management on January 24, 2017. The report was presented to management and responses were requested on October 4, 2016.

Respectfully submitted,

***Bob Melton***

Bob Melton  
Inspector General

cc: The Honorable Neil Kelly, Clerk of Circuit & County Courts  
David Heath, County Manager  
Dorothy Keedy, Community Services Department Director

**Know of Fraud, Waste, or Abuse?**  
Contact our hotline at (352) 253-1643 or  
email [fwa@lakecountyclerk.org](mailto:fwa@lakecountyclerk.org)

# TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>1</b>
Scope and Methodology .....	1
Overall Conclusion.....	2
Background.....	2
<b>OPPORTUNITIES FOR IMPROVEMENT .....</b>	<b>3</b>
1. Management Should Implement Time Studies.....	3
2. Controls Related To The Home Rehabilitation Program Need Improvement.....	4
3. Controls Related To The Transitional Housing Program Need Improvement. ....	6
4. Annual Reviews For Verification Of Eligibility Should Be Performed For Demolition And Replacement Projects.....	7
5. Annual Reports Should Reflect The Addresses For Which Aid Was Provided. ....	8
<b>APPENDICES .....</b>	<b>9</b>
Appendix A – Management’s Response.....	9

# INTRODUCTION

## Scope and Methodology

We conducted an audit of the Housing and Community Development Division’s State Housing Initiative Partnership (SHIP) funds. Our audit objectives were:

1. To determine compliance with federal, state, and local requirements for use of the SHIP funds.
2. To determine whether controls and procedures are reasonable to ensure a cost effective program and minimize opportunities for fraud.

To determine compliance with federal, state, and local requirements for use of the SHIP funds; we obtained and reviewed requirements for use of the SHIP funds; we obtained and reviewed a sample of transactions relating to each of the programs offered by the Lake County SHIP program including administrative activities; we determined whether projects were appropriately administered and funded; and we reviewed the use of the waiting list including length and order of service. For projects requiring mortgages and contractor work, we reviewed files to determine whether work was performed by a licensed contractor, whether work was properly overseen and permitted, and that mortgage documents were properly prepared and recorded.

To determine whether controls and procedures are reasonable to ensure a cost effective program and minimize opportunities for fraud, we obtained and reviewed annual reports sent to the Florida Housing Finance Corporation; we compared the reports to actual activities; we reviewed policies and procedures; we reviewed access and authorization for use of purchasing cards; and we reviewed a sample of payments made. We also reviewed files for evidence of conflicts of interest, and we verified recipient eligibility. For projects requiring mortgages and contractor work, we reviewed the process for contractor selection and oversight of work performed; we also reviewed a sample of transactions and reviewed work for reasonableness of cost and necessity.

Our audit included such tests of records and other auditing procedures as we considered necessary in the circumstances. The audit period was July 1, 2014 through April 30, 2016. However, transactions, processes, and situations reviewed were not limited by the audit period.

# Overall Conclusion

We conclude that overall, the Lake County SHIP program is in compliance with federal, state, and local requirements, and that controls and procedures are reasonable to ensure a cost effective program and minimized opportunities for fraud. We did, however, note some opportunities for improvement. Opportunities for Improvement are included in this report.

## Background

The Lake County SHIP program is managed through the Housing and Community Development Division of the Community Services Department. The County receives a percentage of the Florida Documentary Stamp Tax fee which is distributed by the Florida Housing Finance Corporation (FHFC) for use for the SHIP program. Funds are used to provide rent and utility assistance, down payment assistance, and home repair or replacement assistance for very low, low, and moderate income households as well as those with special housing needs. Those with special housing needs include the homeless, the elderly, migrant farmworkers, and the disabled. The funds can also be contributed towards transitional housing projects to help homeless families transition into housing.

The FHFC, which administers the program, publishes guidelines for the program including qualifying income levels, limits on the purchase price of homes and rent, and that housing must be in Lake County. Monetary limits are updated annually. The program also specifies where funds may be used as indicated in the table below:

Percentage of Funds	How Funds Must be Used
≥ 65%	Home Ownership
≥ 75%	Construction, rehabilitation, or emergency repair
≤ 20%	Manufactured Housing
≥ 30%	To serve very low income households
≥ 30%	To serve low income households
≤ 10%	Administrative costs

Each year, the County must prepare and submit a report to the FHFC. This report details each of the households receiving funds, the qualifying income level, the amount funded, and the type of funding provided. The FHFC also requires the County to have a Local Housing Assistance Plan (LHAP) which details each of the programs provided by the County and any additional requirements imposed by the County based on funding amounts and other factors.

The funds are issued to the County based on the State Fiscal Year from July 1 through June 30. The County received \$1.25 million in SHIP funds in State FY 2015-16 and \$1.49 million in State FY 2014-15.

# 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. Responses to our recommendations for improvement are included as Appendix A.

## 1. Management Should Implement Time Studies.

There is no documentation to support the allocation of salaries. During State Fiscal Year 2014-15, \$41,560 in salary related expenditures were made from the SHIP administrative funds. This amount increased to \$56,447 in State Fiscal Year 2015-16 through May 6, 2016, two months before the year end. Rule Chapter 67-37 Florida Administrative Code states that “The salary allocated to SHIP Administrative Expenditures of any employee shall reflect activities involving administration of the SHIP programs; no SHIP program funds are permitted to be expended for the administration of activities not involving SHIP funds.” We reviewed 10 transactions related to personal services expenditures. The time was allocated to the SHIP administrative funds. However, we were unable to determine whether the amount charged for the personal services was appropriate, as there are no documented timesheets or time studies to support the allocations of time to the SHIP Administrative funds. Each year, the Division manager estimates the time allocations based on the expected program budget and the types of projects to be funded; however, there is no basis for the estimation. The following table shows the salary allocations for the SHIP administrative funds for the past three fiscal years:

Staff Job Title	County FY 2014	County FY 2015	County FY 2016
Division Manager	10%	10%	10%
Community Development Specialist	30%	10%	10%
Program Supervisor	N/A	50%	50%
Program Associate	N/A	10%	10%
Program Associate	N/A	5%	5%

Documentation does not exist to support these allocations. If time is not allocated based on actual time worked or documented time studies, there is no way to determine whether the amount of personal services allocated to the SHIP funds solely “reflects activities involving administration of SHIP programs.” This could result in SHIP funds paying for non-SHIP related activities or conversely for other grant programs to be paying for SHIP activities, thus risking the potential loss of funds for non-compliance with requirements.

**We Recommend** management implement staff time studies at least annually to support estimates of salary allocations. Alternatively, management could require time sheets with time charged by grant.

**2. Controls Related To The Home Rehabilitation Program Need Improvement.**

We reviewed a sample of home rehabilitation projects funded during the audit period as well as a sample of those funded during prior periods. During our review, we noted the following:

- A. Mortgage amounts are not within Local Housing Assistance Plan (LHAP) Guidelines. According to the Local Housing Assistance Plan for FY 2012-15 during which the projects were funded, the maximum allowable funding amount for the Rehabilitation program is \$48,000 per project. The mortgage amount is above the maximum allowed amount for two of the five rehabilitation projects reviewed, as noted in the table below:

Recipient	Max. Allowable Funding Amount	Amount Approved for Funding	Amount Over Maximum
Rehabilitation Project 1	\$48,000	\$65,000	\$17,000
Rehabilitation Project 2	\$48,000	\$65,000	\$17,000
		Total Over Maximum	\$34,000

The amount encumbered for each of these projects is \$17,000 above the maximum allowed amount. Combined, this amount could fund an entire project. When the amount funded exceeds the maximum allowable amount, there is the perception that some applicants are receiving preferential treatment. Additionally, this takes away from funding that could serve other households in need.

- B. Recipients do not meet all funding requirements. Recipients for four of the five projects sampled were not qualified for funding. The Local Housing Assistance Plans (LHAPs) that include state FYs 2012-2016 state that, “the current appraised/market value of the home must be greater than the first mortgage and the estimated amount of assistance requested.” The table below indicates the value of the home versus the amount of assistance plus the amount of the first mortgage:

Recipient	1 <sup>st</sup> Mortgage Amount	Assistance Amount	1 <sup>st</sup> Mortgage Plus Assistance	Appraised Value of Home	Excess Mortgages Over Value
Homeowner A	\$0.00	\$65,000	<b>\$65,000.00</b>	\$30,200	<b>\$34,800.00</b>
Homeowner B	\$43,624.81	\$65,000	<b>\$108,624.81</b>	\$27,395	<b>\$81,229.81</b>
Homeowner C	\$16,711.74	\$45,000	<b>\$61,711.74</b>	\$31,772	<b>\$29,939.74</b>
Homeowner D	\$37,372.30	\$45,000	<b>\$82,372.30</b>	\$65,626	<b>\$16,746.30</b>

The encumbrances on the properties range from almost \$17,000 to over \$80,000 above the value of the properties. If any of the recipients were to violate the terms of the agreement, resulting in a

recapture of funds, the County would only be able to recover the amount of the property value that is above the first mortgage. If the property is less than the value of the first mortgage, then nothing could be recaptured. The SHIP rehabilitation mortgage would essentially be an unsecured loan because there is not enough equity in the property to support the loan. When funds are not be recovered, this prevents other households in need from receiving the benefits of the program. Additionally, this gives the recipient no incentive to adhere to the requirements as there is no fear of repercussions.

- C. Satisfactions of mortgages are not always recorded in a timely manner. According to Section 701.04(2), Florida Statutes, “Within 60 days after the date of receipt of the full payment of the mortgage, lien, or judgment, the person required to acknowledge satisfaction of the mortgage, lien, or judgment shall send or cause to be sent the recorded satisfaction to the person who has made the full payment.” We noted that seven of the nine SHIP mortgages sampled for which the mortgage term has ended have not been satisfied in a timely manner. The table below indicates the number of days the unrecorded satisfactions are past due for recording as of August 16, 2016:

Sample No.	Date Mortgage Term Ended	Due Date for Recording of Satisfaction	Date Satisfaction Recorded	Days Satisfaction Past Due for Recording
1	February 29, 2016	April 29, 2016	Not Recorded	<b>107</b>
2	March 2, 2016	May 1, 2016	Not Recorded	<b>105</b>
3	March 2, 2016	May 1, 2016	Not Recorded	<b>105</b>
4	March 3, 2016	May 2, 2016	August 3, 2016	<b>91</b>
5	March 4, 2016	May 3, 2016	Not Recorded	<b>103</b>
6	March 18, 2016	May 17, 2016	Not Recorded	<b>89</b>
7	March 30, 2016	May 29, 2016	Not Recorded	<b>77</b>

According to management, any satisfactions are recorded once a year when additional aid, in the form of an intern, is provided to the office. When a satisfaction of a mortgage is not recorded in a timely manner, it can hinder the homeowner’s ability to encumber property, transfer title, or make other changes to the property. It can also cloud any title searches performed on the property. If the satisfactions are not recorded, there is increased potential that they will be missed or forgotten. This could lead to added legal and other costs in future funding years, straining already tight administrative budgets.

- D. Annual reviews for verification of eligibility are not performed. There are no annual reviews performed on files once they have been funded and the projects have been completed. In order to remain eligible and not have funds recaptured, recipients must adhere to the terms of their agreement with the County. Requirements may change from year to year, but actions requiring repayment of funds back to the program may include, but are not limited to, the following:



- a. Failure to remain owner occupied
- b. Sale of the property during the mortgage term
- c. Transfer of title or any part of interest
- d. Leasing or renting of the property during the term
- e. Destruction or abandonment of the property
- f. Failure to pay property taxes and assessments
- g. Failure to maintain hazard insurance
- h. Failure to comply with the terms of the mortgage
- i. Failure to comply with the terms or any first mortgage

An annual review of the files will ensure that the recipients remain eligible for the funding. Additionally, any monies that should be recaptured into the program, and used to help other eligible households, will be returned promptly into the fund. If no review is performed, funds that should have been recaptured may possibly never be recognized and returned to be used to serve those that are truly in need.

**We Recommend** management:

- A. Ensure amounts funded are within established guidelines.
- B. Ensure the equity in the process is sufficient to cover the SHIP mortgage.
- C. Record satisfactions of mortgages within 60 days of term end. Additionally, statutes should be reviewed and processes amended according to changes in statutory requirements as necessary.
- D. Perform at least an annual review to verify eligibility status of recipients.

### **3. Controls Related To The Transitional Housing Program Need Improvement.**

There was only one Transitional Housing project funded by the SHIP program during the audit period. During our review of this project, we noted the following:

- A. Mortgage documents are not always prepared, executed, and recorded for all funding requiring a lien on the property. As of June 17, 2016, mortgage documents have not been prepared or recorded for the sole transitional housing project funded during the audit period on January 30, 2015, a year and a half later. The Local Housing Assistance Plan (LHAP) states that for transitional housing projects, “A lien will be placed on the property for the mortgage period...Funds shall be secured with a 0% interest, deferred payment 15 year loan secured by recorded mortgage and note forgiven on a prorated basis monthly.” If the mortgage is not recorded timely there is the potential for the funded agency to obtain another lien on the property which would take primary position in any foreclosure proceedings. If not recorded at all, Lake County would not receive any notification regarding any foreclosure proceedings on the property as there would be no documentation of Lake County’s interest in the property on public record. This could lead to an inability to recover funds if the funded agency does not adhere to program requirements, which would further reduce funding to other eligible households in need of housing in Lake County.

- B. The original promissory note is not maintained in the project file. We reviewed the case file for the sole transitional housing project during the audit period and found that the file did not contain the original signed promissory note. There were no copies or other evidence in the file that the note exists.

Section 702.015, Florida Statutes, states that the elements of a foreclosure must “Contain affirmative allegations expressly made by the plaintiff at the time the proceeding is commenced that the plaintiff is the holder of the original note secured by the mortgage.” The “original note” or “original promissory note” is defined as “the signed or executed promissory note rather than a copy thereof.” If the original note is lost, destroyed, or stolen, the plaintiff must provide an affidavit providing various details of the note. The affidavit must also “Include as exhibits to the affidavit such copies of the note and the allonges [attachments] to the note, audit reports showing receipt of the original note, or evidence of the acquisition, ownership, and possession of the note as may be available to the plaintiff.” If there is no promissory note or proof the note exists, Lake County cannot foreclose on the property funded in the event that the agency does not fulfill the requirements of the program. As any recovered funds would replenish the SHIP program, this could mean significant reduction of funding to aid eligible households in need of this funding.

**We Recommend** management:

- A. Ensure the proper execution of any mortgage prior to the funding of projects. Additionally, mortgages should be placed on public record within a reasonable timeframe after execution and funding.
- B. Require a promissory note be signed prior to funding any projects requiring a mortgage. The original, signed promissory note should be maintained in the project file.

#### **4. Annual Reviews For Verification Of Eligibility Should Be Performed For Demolition And Replacement Projects.**

There are no annual reviews performed on files for the demolition and replacement projects. In order to remain eligible and not have funds recaptured, recipients must adhere to the terms of their agreement. Requirements may change from year to year, but actions requiring repayment of funds back to the program may include, but are not limited to, the following:

1. Failure to remain owner occupied
2. Sale of the property during the mortgage term
3. Transfer of title or any part of interest
4. Leasing or renting of the property during the term
5. Destruction or abandonment of the property
6. Failure to pay property taxes and assessments
7. Failure to maintain hazard insurance
8. Failure to comply with the terms of the mortgage
9. Failure to comply with the terms or any first mortgage

An annual review of the files will ensure that the recipients remain eligible for the funding. Additionally, any monies that should be recaptured into the program, and used to help other eligible households, will be returned promptly into the fund. If no review is performed, funds that should have been recaptured may possibly never be recognized and returned to be used to serve those that are truly in need.

**We Recommend** management perform at least an annual review to verify eligibility status of recipients.

## **5. Annual Reports Should Reflect The Addresses For Which Aid Was Provided.**

Errors were made in the property addresses noted on the annual report. The address of the property funded was not always reflected on the annual report. An annual report is submitted to the Florida Housing Finance Corporation after the end of each year. The report shows an itemization of all funding provided through the SHIP program in the previous year by program. The report indicates the recipient of the funds as well as the property address. We reviewed a sample of 30 files and noted that in four out of the 30 files sampled (13 percent), the address reported did not match the address for which aid was given. In one instance, this appears to be a typo with apartment “No. 201” listed instead of the correct apartment “No. 101.” In the other three instances, the address reported is the address the recipient lived in at the time of the application. In all cases, the aid facilitated a move to a new address. The new address, for which aid was provided, should have been the address reported. When the incorrect addresses are reported, it can make it difficult to determine if aid is duplicated by address.

**We Recommend** management ensures that the correct funded property addresses are included on the annual report.

# APPENDICES

## Appendix A – Management’s Response



January 24, 2017

Mr. Bob Melton, Inspector General  
Division of Inspector General  
Lake County Clerk of the Circuit Court  
P. O. Box 7800  
Tavares, FL 32778

**RE: Audit of SHIP Funds Response**

Dear Mr. Melton:

Enclosed please find the response to the Office of Inspector General's Audit of SHIP funds of the Board of County Commissioners Division of Housing and Community Development. Please accept my apologies for the delay in submitting the response.

If you have any questions on the information submitted, please don't hesitate to contact me. We look forward to working with you on implementing some of the suggestions contained in the audit.

Sincerely,

Dorothy A. Keedy, AICP  
Director of Community Services Department

C: David Heath, County Manager  
Bill Veach, Deputy County Manager  
Cheryl Howell, Housing and Community Development Manager

DEPARTMENT OF COMMUNITY SERVICES  
P.O. BOX 7800 • 315 W. MAIN ST., SUITE 233, TAVARES, FL 32778 • P 352.742.6589 • F 352.742.6505  
*Board of County Commissioners • [www.lakecountyfl.gov](http://www.lakecountyfl.gov)*

---

TIMOTHY I. SULLIVAN  
*District 1*

SEAN M. PARKS, AICP, QEP  
*District 2*

WENDY R. BREEDEN  
*District 3*

LESLIE CAMPIONE  
*District 4*

JOSH BLAKE  
*District 5*

**Lake County**  
**Housing Services**  
**Audit Response**  
**Department of Community**  
**Services**

**January 24, 2017**

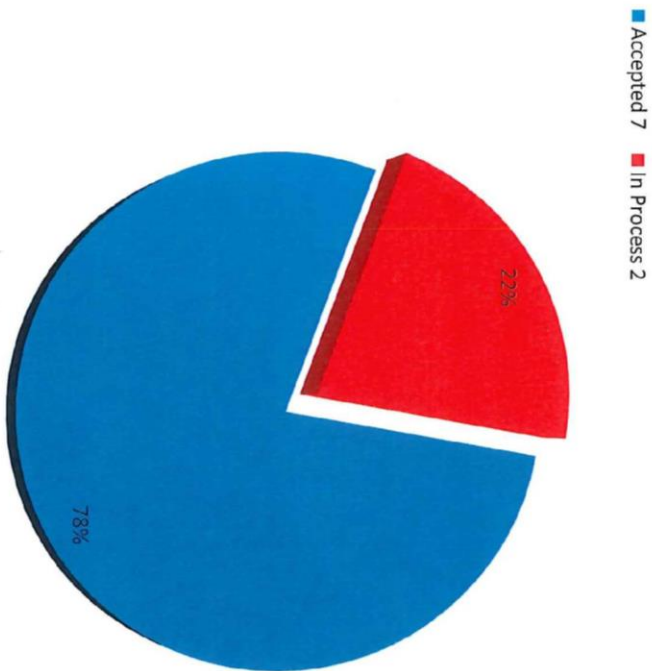
## Of the 9 recommendations ~ 9 or 100% are accepted or in process

**Audit Recommendation** – The numbers 1-5 in this column correspond to the "Audit of the SHIP Program" section numbers. Letters correspond to the individual recommendations contained within that section.

**Status** – Each recommendation is assigned a status by Housing staff:

- Accepted – "A"
- Under Consideration "UC"
- In Process "IP"
- In Process Pre Audit "PPA"

**Assessment/Action** – Staff response to the audit.



Audit Recommendation	Status	Assessment/Action
<b>1-A.</b> Recommend Management implement staff time studies annually.	A	Housing and Community Development will assess the need to conduct a staff time study annually. Implementation of a study will remain contingent upon funding and staff time allocation.
<b>2-A.</b> Ensure mortgage amounts are funded within established guidelines.	IPPA	<b>Please note, the date of activity does not denote the funding year for the project.</b> To ensure required set asides are met, the SHIP process allows for the established funding year to be determined during the close out report year; which often time differs from the activity year.
<b>2-B.</b> Ensure the equity in the process is sufficient to cover the SHIP mortgages.	IPPA	<b>Please note, the date of activity does not denote the funding year for the project.</b> To ensure required set asides are met, the SHIP process allows for the established funding year to be determined during the close out report year; which often time differs from the activity year.
<b>2-C.</b> Record satisfactions of mortgages within 60 days of term end.	A	Establish a tickler system to ensure all mortgages are recorded within a 60 day term.
<b>2-D.</b> Perform at least an annual review to verify eligibility status of recipients.	A	Utilize interns to provide annual reviews of recipients to ensure continued eligible use of the property.
<b>3-A.</b> Ensure the proper execution of any mortgage prior to the funding of projects. Mortgages should be placed on public record within a reasonable timeframe after execution and funding.	A	Establish a tickler system to ensure all mortgages are recorded within a 60 day term.
<b>3-B.</b> Require a promissory note to be signed prior the funding of projects. The original, signed promissory note should be maintained in the project file.	A	Ensure all required documents and notes are signed and recorded no later than 60 days of the close of project. Keep original document in file.
<b>4-A.</b> Perform annual review to verify eligibility status of recipients	A	Utilize interns to provide annual reviews of recipients to ensure continued eligible use of the property.
<b>5.</b> Recommend management ensures that the correct funded property addresses are included on the annual report.	A	Ensure that the final documented addresses are used in the Annual SHIP Report for tracking purposes. <b>Please note this will not prevent the use of an address being used again if a new tenant rents from the same address.</b>