



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit Review of
State Housing Initiative Partnership (SHIP)
Home Investment Partnership Program (HOME)
Hurricane Housing Recovery Program (HHR)**

**Prepared By:
Internal Auditors of Brevard County
March 10, 2008**

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March 10, 2008

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the approved 2006/2007 internal audit plan, we hereby submit our internal audit report covering the Department of Housing and Human Services State Housing Initiative Partnership (SHIP), Home Investment Partnership Program (HOME) and Hurricane Housing Recovery program (HHR). We will be presenting this report to the Audit Committee at the next scheduled meeting on April 30, 2008.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues related to our internal audit of the SHIP, HOME and HHR programs.
Background	This provides an overview of the SHIP, HOME and HHR programs.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Issues Matrix	This section gives a description of the issues and recommended action as well as Managements' responses.

We would like to thank the various departments and all those involved in assisting the Internal Auditors in connection with the review of the SHIP, HOME and HHR programs.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as “High” risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as “Moderate” risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as “Low” risk could escalate into operational issues, but can be addressed through the normal course of conducting business.

During the course of our work, we discussed the control design and operating deficiencies with management. Our observations and recommendations for improving controls and operations are described in detail in the Issues Matrix included in this report. A summary of issues identified and their relative risk rating is provided below.

Issues	Risk Rating
1. Attempts to reconcile SAP with the State’s SHIP Tracking software revealed a discrepancy of cash available of approximately \$650K. Management brought this difference to our attention at the beginning of the internal audit, and HHS has a State SHIP representative assisting with the reconciliation issue.	Moderate
2. Of the 14 Housing rehabilitation and development program files reviewed, exceptions were noted in all 14 files. The exceptions in all files related to missing information (incomplete files), such as, check copies, checklist, project warranty, etc.	Moderate
3. Of the 21 HOME fund expenditures selected for testing, the following exceptions were noted: <ul style="list-style-type: none"> a. One invoice was not paid within 45 days of date received, per County policy; b. 17 invoices were not stamped with the date received, so timely payment was not able to be tested; c. 3 invoices were not approved within 10 days of receipt, per County policy. 	Moderate
4. Of the 25 First time home buyer program files reviewed, exceptions were noted in 4 files. The exceptions in all files related to missing information (incomplete files), such as, the “How much can I afford” worksheet, the SHIP class certificate of completion and the Prequalification questionnaire, the Homeowner’s As-Is Affidavit, and the good faith estimate.	Low
5. Of the 25 time sheets selected for testing, it was noted that two time sheets were not stamped “posted” after input into SAP in accordance with County policy.	Low
6. Of the 25 Utility and security deposit program files reviewed, an exception relating to the posting of security deposit money to incorrect cost centers was noted in 2 files.	Low

Background

Background

SHIP:

The State Housing Initiatives Partnership program (SHIP) provides funds from the state to local governments as an incentive to create partnerships that produce and preserve affordable homeownership and multifamily housing. The program was designed to provide very low, low and moderate income families with assistance to purchase a home, money to repair or replace a home and many other types of housing assistance.

The SHIP program was initiated under the Sadowski Affordable Housing Act, which was passed by the State Legislature on July 7, 1992. Through this program, Brevard County receives a monthly allocation, determined by its population, of the documentary stamp surcharge collected by the State. To access the SHIP Trust Fund, Brevard County must submit a Housing Assistance Plan that details the strategies for expending funds, while meeting the specific requirements of the SHIP program.

On March 2, 1993, the Brevard County Board of County Commissioners approved Ordinance 93-02, that:

- 1) established the Brevard County Affordable Housing Trust Fund;
- 2) designated the Housing and Capital Program Division, now known as the Housing and Human Services Department, as the responsible entity for administering the SHIP program;
- 3) established the Brevard County Housing Assistance Program, now known as the Housing Team within the Brevard County Housing Partnership, defined as government, private individuals, developers, lenders and other dedicated to the provision of affordable housing; and
- 4) created an Affordable Housing Council, whose members will be representatives of the partnership. The Affordable Housing Council has made recommendations on funding priorities for the SHIP program and incentives for the development of affordable housing in Brevard County.

More information regarding the SHIP program can be found at the following websites:

<http://www.flhousing.org/> and http://www.brevardcounty.us/Human_Services/

HOME:

The HOME program is a grant to states and units of general local government to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low and very low income Americans.

Participating jurisdictions may use HOME funds for a variety of housing activities, according to local housing needs. Eligible uses of funds include tenant-based rental assistance, housing rehabilitations, assistance to homebuyers, and construction of new housing. HOME funding may also be used for site acquisition, site improvements, demolition, relocation, and other necessary and reasonable activities related to the development of non-luxury housing. Funds may not be used for public housing development, public housing operating costs, or for Section 8 tenant based assistance.

All housing developed with HOME funds must serve low and very low income families. For rental housing, at least 90% of families benefited must have incomes at or below 60% of the area median income; the remaining 10% of the families benefited must have incomes at or below 80% of the area median income. Assistance to homebuyers and home owners must be to families with incomes at or below 80% of the area median income.

Background - continued

HOME - continued:

HOME funds are allocated using a formula designed to reflect relative housing need. Forty percent of the funds are allocated to states and 60 percent is allocated to units of general local government. All states are eligible for HOME funding. The remaining funds are allocated using a formula designed to reflect relative housing need. Units of general local government that receive a formula allocation of \$750,000 are eligible to receive HOME funds. To participate, jurisdictions that receive more than \$500,000, but less than \$750,000 must use local or state funds (including state HOME funds) to fill the gap between the formula allocation and \$750,000. Jurisdictions that would receive less than \$500,000 by formula allocation may not receive HOME funds from HUD directly, but may receive HOME funding from their States. All participating jurisdictions must have a HUD approved Consolidated Plan.

For more information relating to the HOME program, please refer to the following websites:

<http://www.hud.gov/> and http://www.brevardcounty.us/Human_Services/

HHR:

In 2005, the Florida Legislature created the Hurricane Housing Recovery program (HHR) which was further defined by Emergency rule 67ER057. It appropriated \$208 million of HHR funds in July 2005 for the 28 counties most severely affected by the hurricanes of 2004. This new program was designed to assist with general housing recovery efforts in specifically named counties. Counties were encouraged through additional funding to exert an inter-local program with its affected municipalities within those 28 counties.

The county jurisdictions responsible for implementing the SHIP program were identified to serve as the primary delivery system for the new HHR program. The Hurricane Housing Work Group recommended modeling the HHR program to be consistent with the design aspects of SHIP.

The Hurricane Housing Work Group recommended for HHR an allocation formula that weighs both the extent and the intensity of housing damage in the area. The Florida Legislature opted to use a readily available source of information on hurricane damage: the assessment produced by FEMA. Due to the nature of this assessment, damage level information was only available at the county wide level. It was not possible to document the extent to which one city was damaged more than another city within a county. For this reason, the Florida Legislature appropriated \$208 million of HHR funds to 28 housing offices at the county level.

In order to engage participation throughout the entire community in the 28 HHR counties, the Work Group created a new incentive that is not used in the SHIP program: the supplemental community collaboration allocation. As noted in the written recommendations of the Work Group, 'supplemental community collaboration funds shall be provided to eligible counties and eligible municipalities that are willing to bring together business interests, government, and social services, civic and faith based organizations to work formally together on community planning and recovery efforts'. To be eligible for this additional funding, each county and its eligible municipalities must describe their collaborative strategy and the planning process undertaken as part of that strategy.

Brevard County chose to participate in the collaboration efforts and as a result received approximately \$11.8 million in HHR funding to be expended over a 3 year period.

For additional information relating to the HHR program, please refer to <http://www.flhousing.org/>.

Background - continued

Selected Statistics

SHIP Funds		FY 06/07 Budget		FY 06/07 Actual		FY 05/06 Budget		FY 05/06 Actual
<i>Revenues</i>								
SHIP Doc stamp	\$	634,812	\$	1,453,306	\$	2,925,688	\$	2,810,872
Interest		207,595		242,461		-		150,061
Reimbursements		241,082		267,788		-		47,148
Other miscellaneous		-		1,342		-		30,869
Statutory 5% reduction		(54,175)		-		(146,284)		-
Balance Forward		5,131,388		5,131,388		3,354,686		3,354,686
Total Revenues		6,160,702		7,096,285		6,134,090		6,393,636
<i>Expenditures</i>								
Salaries and benefits		269,307		206,764		613,606		437,191
Other contracted services		3,884,238		935,775		2,498,422		133,755
Repair and maintenance		1,890,265		236,183		2,985,403		598,259
Other operating expenses		116,892		110,469		36,659		93,043
Total Expenditures		6,160,702		1,489,191		6,134,090		1,262,248
Revenue and Balance Forward over (under) Expenditures	\$	-	\$	5,607,094	\$	-	\$	5,131,388

HOME Funds		FY 06/07 Budget		FY 06/07 Actual		FY 05/06 Budget		FY 05/06 Actual
<i>Revenues</i>								
Economic Environment	\$	3,957,935	\$	984,423	\$	2,591,760	\$	2,376,049
Interest		-		2,599		-		1,524
Reimbursements		-		56,040		-		3,700
Statutory 5% reduction		(197,897)		-		(129,588)		-
Total Revenues		3,760,038		1,043,062		2,462,172		2,381,273
<i>Expenditures</i>								
Salaries and benefits		46,085		46,944		72,216		17,886
Other contracted services		3,239,088		934,908		-		1,465,024
Repair and maintenance		-		-		-		500,080
Other operating expenses		60,299		36,210		2,271,801		177,079
Capital outlay		-		-		-		194,193
Grants and aid		414,566		25,000		118,155		8,150
Total Expenditures		3,760,038		1,043,062		2,462,172		2,362,412
Revenue and Balance Forward over (under) Expenditures	\$	-	\$	-	\$	-	\$	18,861

Background - continued

Selected Statistics - continued

HHR Funds		FY 06/07 Budget		FY 06/07 Actual		FY 05/06 Budget		FY 05/06 Actual
<i>Revenues</i>								
Hurricane housing	\$	6,613,314	\$	5,917,274	\$	4,107,089	\$	5,348,188
Interest		157,530		227,435		-		58,351
Reimbursements		51,950		54,782		-		1,017
Statutory 5% reduction		(341,140)		-		(205,354)		-
Balance Forward		2,977,402		2,939,921		-		-
Total Revenues		9,459,056		9,139,412		3,901,735		5,407,556
<i>Expenditures</i>								
Salaries and benefits		344,535		317,536		133,803		36,318
Repair and maintenance		4,547,390		2,350,302		3,439,432		2,292,877
Other operating expenses		398,996		223,615		298,500		118,687
Capital outlay		64,000		63,854		30,000		19,753
Grants and aid		4,104,135		1,461,329		-		-
Total Expenditures		9,459,056		4,416,636		3,901,735		2,467,635
Revenue and Balance Forward over (under) Expenditures	\$	-	\$	4,722,776	\$	-	\$	2,939,921

Amounts per SAP reports.

NOTE: All FY 06/07 balances are for the year ended September 30, 2007 and are not audited.

Objectives and Approach

Objectives and Approach

Objectives

Objectives of the current internal audit review of the SHIP, HOME and HHR programs include the following:

<input type="checkbox"/> Determine that controls are in place to ensure compliance with grant agreements, applicable Florida Statutes and the applicable Board of County Commissioners' policies, procedures, resolutions, and ordinances.
<input type="checkbox"/> Determine that the records and documentation maintained by management is sufficient to establish an audit trail for all transactions of the SHIP and HOME programs.
<input type="checkbox"/> Determine that the expenditures of the programs are compliant with grant agreements and Florida statutes and properly authorized.
<input type="checkbox"/> Determine that there are adequate procedures in place for the administration of HHS programs and grants.

Approach

Our audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we held an entrance conference with the Director of Housing and Human Services department and other personnel related to the SHIP, HOME and HHR programs to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then conducted interviews with responsible personnel and documented their role in the processes.

Detailed Testing

The purpose of this phase was performance of testing procedures based on our understanding of SHIP, HOME and HHR program operations, applicable County ordinances, Federal and State statutes. Our procedures included observation and inquiry, walk through and testing of individual transactions. The time period covered by testing was October 1, 2005 through September 30, 2007. We utilized sampling and other auditing techniques as follows to meet our audit objectives outlined above and performed the following:

- Review of department compliance with grant policies, procedures and statutes.
- Review of revenue determinations and calculations.
- Review of reconciliation of SAP to federal reporting software.
- Input and accuracy of payroll and travel expenditures.
- Review general compliance with statutes, policies, procedures, administrative orders and by-laws.

Reporting

At the conclusion of our audit, we summarized our findings related to the Department of Housing and Human Services SHIP, HOME and HHR programs. We conducted an exit conference with Management. We have incorporated Management's responses into our report.

Issues Matrix

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Topic SHIP, HOME and HHR Programs			
Moderate	1 SAP Reconciliation		
	<p>SHIP Tracking is a program developed by the State for use by SHIP grantees. SHIP Tracking is client based and SAP is invoiced based. SHIP Invoice Tracking (SIT) and Periodic Invoice Tracking (PIT) are additional tracking mechanisms in excel spreadsheet format, created by Housing and Human Services (HHS) personnel.</p> <p>The reconciliation between SHIP tracking and SAP is required to be done annually; however, the department has decided to reconcile monthly, beginning in March 2007. At the time of our audit, these reconciliations had not been done due to the department focusing on the out of balance issue, discussed below.</p> <p>Attempts to reconcile the two systems revealed a discrepancy of cash between SAP and the State SHIP tracking of approximately \$650K. The variance appears to be expenses reported in SAP but not in SHIP tracking, from which the SHIP annual report is generated, thereby causing the State to have a higher cash available balance than the balance shown in SAP. Management brought this difference to our attention at the beginning of the internal audit, and HHS has a State SHIP representative assisting with the reconciliation issue.</p>	<p>We recommend:</p> <ol style="list-style-type: none"> a. Management continues to investigate the reconciliation issue ensuring it is timely resolved. b. Going forward, Management perform monthly reconciliations of the SHIP tracking and SAP balances. 	<p>This issue was resolved on January 31, 2008. HHS staff identified an inaccuracy with reports submitted to the State prior to the initiation of the audit. It was brought to the attention of the internal auditors by staff. The State of Florida Housing Finance Corporation assigned a Technical Advisor who worked with HHS staff to resolve the issue. The State of Florida Housing Finance Corporation has received and approved the modified reports.</p> <p>ECD: March 2008 Testing Date: Closed</p> <p>HHS staff will perform monthly reconciliations of SAP and SHIP tracking for the immediate future. Once management deems it appropriate, the reconciliations will be performed quarterly.</p> <p>ECD: March 2008 Testing Date: September 2008</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Topic SHIP, HOME and HHR Programs			
Moderate	2 Housing Rehabilitation and Development Program		
	<p>We discussed with Housing and Human Services (HHS) personnel, the rules and policies related to the Housing Rehabilitation and Development program. We selected all 14 program participants for the years under audit (FY 05/06 and 06/07) and reviewed the client files for compliance with Florida Statutes, the Local Housing Assistance Plan (LHAP) filed by the County with the State, and the department’s internal procedures.</p> <p>Of the 14 files reviewed, exceptions were noted in all 14 files. The exceptions in all files related to missing information (incomplete files), such as, checklists, project warranty, etc. This information is necessary to determine compliance with Florida Statutes relating to eligibility and as supporting documentation for funds expended under this program.</p> <p>Of note to the auditors, is that there appears to be no standard organization to the files. Files had documents in different places making location of items difficult and time consuming.</p>	<p>We recommend Management implement a file standardization policy. This would include use of a checklist to ensure all necessary information is contained in the files.</p>	<p>Of the fourteen files, eleven were emergency repairs and three were rehabilitation projects. Although checklists are routinely used when setting up housing project files, this practice has not always been consistently observed with emergency repair files. These projects are small and require minimal paperwork. Additionally, construction files (work specifications and inspection reports) are maintained separate from the administrative files until the project is complete.</p> <p>To improve efficiency, all emergency repair projects will be maintained in files similar to housing rehabilitation files and checklists will be used. Additionally, staff will ensure that all files being reviewed will include both the administrative and construction file.</p> <p>ECD: April 2008 Testing Date: December 2008</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Topic HOME Program			
Moderate	3 HOME Funds		
	<p>We discussed with HHS personnel the rules and policies related to the HOME program. We selected 21 program expenditures, which accounted for 95% of total expenditures for testing. The following errors were noted:</p> <ul style="list-style-type: none"> • One invoice was not paid within 45 days of the date received, as required by County policy; • 17 invoices were not stamped with the date received, so timely payment was not able to be tested; • 3 invoices were not approved within 10 days of receipt, per County policy. 	<p>We recommend Management emphasize to employees the importance of appropriate and accurate documentation relating to program expenditures, as well as following the County and Department expenditure process.</p>	<p>Management has always and continues to emphasize the County's policy requiring all requests for payments to be date stamped in at the time of receipt into the Department. Management will re-emphasize, through a department email, the importance of compliance with County policy regarding prompt payment of invoices.</p> <p>ECD: March 2008 Testing Date: September 2008</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Topic	SHIP, HOME and HHR Programs		
Low	4 First Time Home Buyer (FTHB)		
	<p>We discussed with HHS personnel the rules and policies related to the First Time Home Buyer (FTHB) program. We selected 25 program participants for the years under audit (FY 05/06 and 06/07) and reviewed the client files for compliance with Florida Statutes, the Local Housing Assistance Plan (LHAP) filed by the County with the State, and the department’s internal procedures.</p> <p>Of the 25 files reviewed, exceptions were noted in 4 files, as follows:</p> <ul style="list-style-type: none"> • One file was missing the “How much can I afford” worksheet, the SHIP class certificate of completion and the Prequalification questionnaire. • One file was missing the “How much can I afford” worksheet and the Homeowner’s As-Is Affidavit. • One file was missing the good faith estimate. • One file was missing the Homeowner’s As-Is Affidavit. <p>While check lists were used, not all check list items were included and it appears there is not consistent, uniform organization to the files. Files had documents in different places making location of items difficult and time consuming. It is also noted that none of the missing documents related to compliance with Florida Statutes, but were related to the department’s internal procedures.</p>	<p>We recommend Management emphasize to employees the importance of file organization and completeness.</p> <p>We also recommend that management review its checklists to ensure items required by the checklists are appropriate and if the item is not considered necessary for the file, remove the item from the checklist.</p>	<p>Currently, HHS contracts with Community Housing Initiative (CHI) to administer the First Time Home Buyer program. Staff works closely with CHI to ensure that all local and State program requirements are met. Present procedures require that CHI maintain the client’s file until closing. At closing, all files are provided to HHS.</p> <p>In response to the exceptions on the four files identified above, it is important to note that the documents identified as missing are not State requirements for compliance, but tools utilized by the Department and CHI to improve program efficiency. Additionally, the affordability worksheet is a document that is completed during the Homebuyer education class and the As-is Affidavit is only used for existing homes. These two documents have only recently been included as part of the file that is provided to HHS.</p> <p>HHS staff will review and update the current checklist to accurately reflect needed documentation.</p> <p>ECD: April 2008 Testing Date: December 2008</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Topic	SHIP, HOME and HHR Programs		
Low	5 Payroll		
	In order to test payroll, we selected five time reporting periods from the two fiscal years under audit (total of 10 reporting periods) and requested the pre and post SAP reports. We then selected individual employees for testing. Of the time sheets selected for testing, it was noted that two time sheets were not stamped "posted" after input into SAP.	We recommend Management emphasize to employees the importance of appropriate and accurate documentation relating to payroll, as well as following the County payroll process.	Management believes the two time sheets not stamped were an oversight and not the norm. Management will re-emphasize, through a department email, the importance of compliance with County policy regarding payroll input and reporting. ECD: March 2008 Testing Date: September 2008

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Topic	SHIP, HOME and HHR Programs		
Low	6 Utility and Security Deposit Assistance Program		
	<p>We discussed with HHS personnel the rules and policies related to the Utility and Security Deposit Assistance program. We selected 25 program participants for the years under audit (FY 05/06 and 06/07) and reviewed the client files for compliance with Florida Statutes, the Local Housing Assistance Plan (LHAP) filed by the County with the State, and the department’s internal procedures.</p> <p>Of the 25 files reviewed, exceptions were noted in 2 files, as follows:</p> <ul style="list-style-type: none"> • One file had a \$250 security deposit posted to the incorrect cost center in SAP. The fiscal year has been closed, therefore, no correction can be made. • One file had the \$715 security deposit posted to the wrong cost center. HHS personnel have sent a request to County Finance to correct this error. 	<p>We recommend Management:</p> <ol style="list-style-type: none"> a. Correct the errors identified, if possible. b. Implement a procedure for management review of invoice coding prior to input by employees. 	<p>The item identified in FY 06/07 (\$715) has been corrected since the fiscal year has not yet been closed. The other item (\$250) is in a closed year and will not be corrected.</p> <p>ECD: March 2008 Testing Date: June 2008</p> <p>HHS Management has implemented a procedure that requires the Finance Manager to review the request for payment before input into SAP to ensure posting to the proper cost center in the future.</p> <p>ECD: March 2008 Testing Date: September 2008</p>