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*Paula S. O'Neil, Ph.D.
Clerk & Comptroller
Pasco County, Florida*

April 2, 2013

The Honorable Ted Schrader, Chairman
Board of County Commissioners
Pasco County Courthouse
37918 Meridian Avenue
Dade City, Florida 33525

Dear Chairman Schrader:

On your behalf, the Internal Audit Division conducted an audit of Community Development's Neighborhood Stabilization Program as of January 25, 2011. The audit objectives were to assess internal controls, compliance with internal policies and procedures, and adherence to grant requirements and agency agreements.

The results of the audit and management response to the recommendations are presented in the attached report. Additional items not included in this report were discussed and addressed by Community Development management and county staff.

Exhibits provided by Community Development management may be viewed upon request and are not included in the final report. The Internal Audit Division reviewed management responses to the recommendations and these exhibits do not alter the risk accepted by the Community Development Department.

The Internal Audit Division encourages management to implement the recommendations in order to mitigate the County's risks and exposures presented in this report. Please let me know if you wish to further discuss our comments and recommendations.

I am requesting that the Board receive and file this report, and also direct the County Administrator to implement the recommendations made by the Clerk & Comptroller.

Sincerely,

*Paula S. O'Neil, Ph.D.
Clerk & Comptroller*

*Office of Paula S. O'Neil
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Pasco County, Florida*

**Pasco County Board of County Commissioners
Audit of Community Development
Neighborhood Stabilization Program (NSP)**

April 2, 2013



**Internal Audit Division
Report 2013 – 04**

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Background

Pasco County Board of County Commissioners has various programs funded by federal and state grants to provide affordable housing opportunities to families with very low, low, and moderate income. The Community Development Department is responsible for administering and monitoring these programs.

On July 29, 2008, President Bush signed the Housing and Economic Recovery Act of 2008. Among the provisions of the bill is an appropriation of \$3.9 billion for local governments for the redevelopment of abandoned and foreclosed homes and residential properties in areas of greatest need, named the Neighborhood Stabilization Program (NSP1). Additional NSP funds were made available in 2009 and 2010 under the American Recovery and Reinvestment Act and Dodd-Frank Wall Street Reform and Consumer Protection Act.

The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. This is being accomplished through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. Any rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary to comply with applicable laws, codes and other requirements relating to housing safety, quality, and habitability, in order to sell, rent, or redevelop such homes and properties.

NSP grantees must use at least 25% of the funds appropriated for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of the area median income. In addition, all activities funded by NSP must benefit low and moderate income persons whose incomes do not exceed 120% of area median income.

Pasco County was awarded approximately \$19.5 million (NSP1), \$29.5 million (NSP2) and \$5.2 million (NSP3) under the three acts noted above in 2009, 2010, and 2011, respectively. The NSP funds are tracked separately using different fund account numbers. The NSP1 (B125) and NSP2 (B123) funds are to be expended by 2013. The NSP3 (B130) funds must be expended within three years of being received.

NSP Fund	Award Amount	Expended (as of 9/30/11)	Percent Expended
NSP1	\$19.5 million	\$17.6 million	90.3%
NSP2	\$29.5 million	\$26.8 million	90.8%
NSP3*	\$5.2 million	n/a	n/a
Total	\$54.2 million	\$44.4 million	81.9%

*As of 9/30/11, \$1,119.71 was expended.

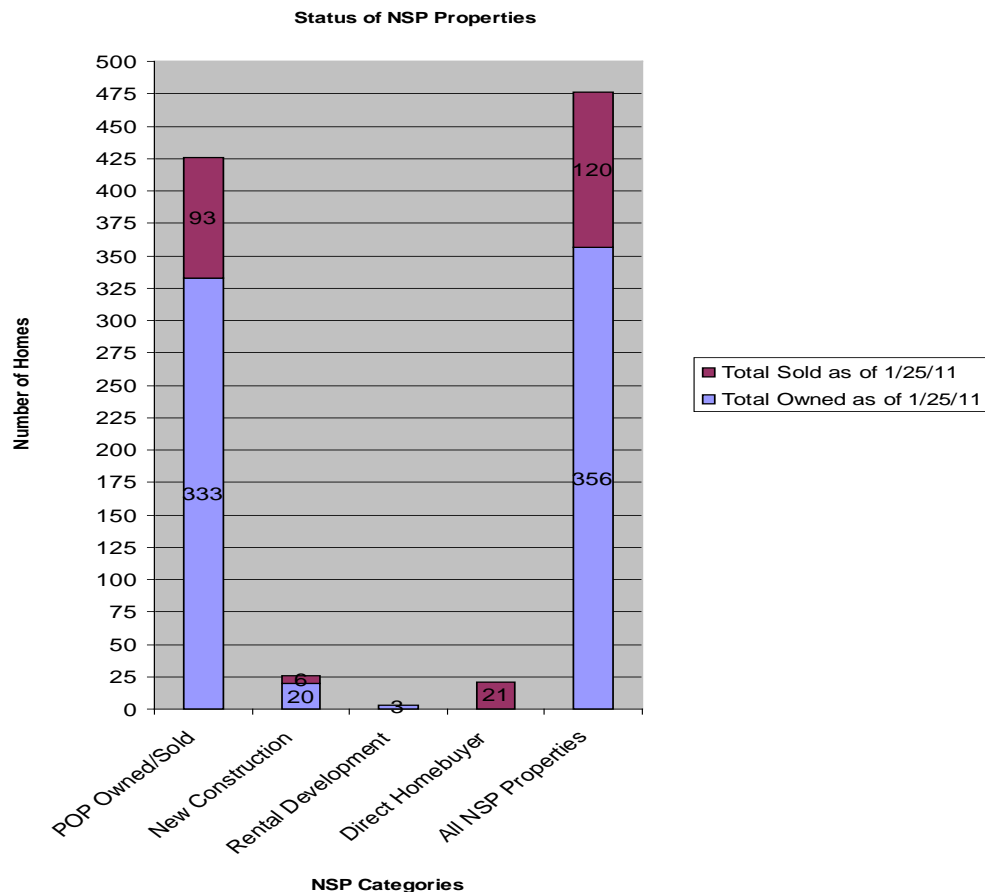
The NSP1 and NSP2 funds assist families or individuals by providing:

- Pasco Opportunity Program (POP) - Provides funding for various not-for-profit agencies to acquire, rehabilitate and sell homes to low and moderate income households.
- Homebuyer Assistance Program - Provides down payment assistance to individuals purchasing foreclosed and abandoned homes.

- Special Needs Housing - Provides rental housing to those in the most need, such as physical, mental and development handicaps, and those transitioning from homelessness.
- Demolition - Provides funding for demolition of foreclosed and abandoned homes.
- Construction - Provides funding for construction of new homes on vacant lots.

The NSP3 program requires local governments to create a target area for funding that is small enough to impact the community.

According to Community Development’s master log of NSP properties provided to Internal Audit, as of January 25, 2011, 93 out of 426 (21.83%) homes purchased for resale had been sold. In our random sample of 31 County/POP agency owned homes 12 have been rehabilitated, 3 were in the process of rehabilitation, and work had not been started on 15 homes. (One home was not actually purchased according to Community Development Manager, but appeared on the NSP Master Log).



Community Development follows regulations and procedures established by the U.S. Department of Housing and Urban Development (HUD), the State of Florida and the Pasco County Board of County Commissioners (BCC).

Scope

Internal Audit reviewed and tested properties acquired, rehabilitated, constructed and/or sold through the Neighborhood Stabilization Program as of January 25, 2011. NSP1 and NSP2 funds were included in our testing; the NSP3 funds had not been received as of our audit date. The objective of our audit was to assess internal controls, compliance with internal policies and procedures, and adherence with grant requirements and agency agreements/contracts.

Methodology

As part of our review, Internal Audit took the following actions:

- Obtained, documented and reviewed program information, laws, regulations, policies and agreements/contracts issued by HUD, approved by the Board of County Commissioners and/or department policy to determine NSP requirements.
- Obtained and reviewed a listing of NSP properties per Community Development as of January 25, 2011. Randomly and judgmentally selected an 11% sample of NSP properties acquired, rehabilitated, and/or sold; a total of 52 properties were included in our test sample. Statistical information is noted below:

NSP Category	Total per NSP Master Log	Number Selected for IA Testing	Percentage Tested
POP Owned	333	31	9%
POP Sold	93	14	15%
New Construction - Owned	20	2	10%
New Construction - Sold	6	0	0%
Rental Development	3	3	100%
Direct Homebuyer	21	2	10%
Totals	476	52	11%

- Performed site visits between 3/11/11 - 4/19/11 and on 12/29/11 to verify POP owned properties in our sample were properly maintained and secured to prevent vandalism, unauthorized access and liability; a total of 29 properties were visited.
- Reviewed case files for each property in our sample to determine property was eligible for purchase, acquisition, or rehabilitation, costs appear reasonable and allowable, contractor selection was appropriate, homebuyers were eligible, sales price was appropriate (if applicable) per program requirements, and verified insurance coverage for POP owned properties.
- Compared actual rehabilitation costs to estimated costs per Community Development and contractor selected to complete rehabilitation. We reviewed change orders for properties with actual rehabilitation costs exceeding contractors original bid by 10%.
- Obtained and reviewed list of expenditures per Finance and backup documentation attached to checks to determine expenditures appear reasonable and appropriate for each property in our sample.

The results of our review are presented below:

Findings and Recommendations

1. A considerable amount of authority has been granted to the Community Development Manager. Many department policies and procedures include a clause for the Community Development Manager's override which causes a break down in internal controls. The Community Development Manager has also been granted the authority to:
 - Purchase homes through the National Stabilization Trust fund without prior approval.
 - To approve change orders for rehabilitation of properties without policies or limitations.
 - Make exceptions to the homebuyer loan deferment criteria.
 - Approve 100% County financing of a home or homebuyer without other approval.

We recommend:

- Employees not being given sole authority to override policies and procedures.
- Adoption of more specific policies and procedures for Community Development with approval by upper management.
- Approval by upper management for any deviation from established criteria and/or policies, with proper documentation.

Management Response:

"There are specific items that the BCC has granted the Community Development Manager (CDM) through the Homebuyer Assistance Program Policy Statement in order for the program to be successful, effective, and efficient Please see Finding 1 Exhibit 1. The BCC granted the CDM additional responsibilities through the agreement with the National Community Stabilization Trust, approved June 23, 2009. Please see Finding 1 Exhibit 2. The Homebuyer Assistance Program Policy was approved by the BCC on April 6, 1993, and has been revised several times since. Prior to the audit, policies and procedures were evaluated and some were revised for greater efficiency and effectiveness. Some policies and procedures are still pending the BCC approval including the delegation of signature authority.

The policies that can be overridden by the CDM are principally in the area of loan approval. The internal policy that covers loan approvals is described in Finding 1 Exhibit 3. The Community Development Division (CDD) feels that there are enough significant controls with these policies that misuse will not occur.

On the issue of 100 percent financing, a process improvement procedure is being pursued to address this issue. In October 2012, the Pasco County CDD created a Process Improvement Team (PIT) Crew to review the existing policies and procedures related to 100 percent financing. Specific points the team is addressing included not only the identification of houses to qualify for 100 percent County financing, but also the

homeowner underwriting and approval process. The PIT crew is currently at its halfway point and will continue to work through identifying process improvements, with an anticipated completion during the first quarter of 2013. Once this PIT crew has finished its recommendations and have been approved by the CDM, they will be presented to the BCC for formal approval and acceptance as a standard operating procedure for the division. It is anticipated that these recommendations will provide a solid framework of criteria that must be met in order for 100 percent County financing to be authorized.”

NSP Master Log

2. Community Development maintains an NSP Master Log for the purpose of recording properties purchased and information related to each property. One property listed on the NSP Master Log was not actually purchased and there were no notes indicating this on the log; the Community Development Manager confirmed our finding. This property listed a tenant check date, acquisition amount, appraised value, improved value, and contract amount.

We recommend management correct the NSP Master Log and develop procedures to ensure the spreadsheet is accurate, complete, and updated in a timely manner. If the NSP Master Log is to be deemed reliable and accurate, the purpose, content, and accountability must be documented in policies and procedures.

Management Response:

“While the Neighborhood Stabilization Program (NSP) Master Log is an internal document, it provides a “snapshot” to assist staff in determining how closely staff is to meeting the requirements of the program. The Master Log also serves as a quick guide to the status of the projects under the program.

Due to the complex data involved in updating the NSP Master Log, it was previously updated on a quarterly basis. We do agree that the Master Log should be updated more regularly. Since the audit was completed, a policy has been implemented to update the Master Log on a bi-monthly basis.

Please see Finding 2 – Exhibit 1. A snapshot of the log is attached as Finding 2 – Exhibit 2.”

Property Acquisition, Rehabilitation and Sale

3. For one property in our test sample, an engineer report to assess current or past damage to the foundation was recommended in the appraisal. There was evidence of past settlement on the exterior of the home and some of the rooms were sloping inside the home, according to the appraisal. It appears this property was purchased without having an engineer report completed.

We recommend the following steps be taken by management prior to the purchase of homes:

- Investigate and take into account potential issues that appear to be significant and could be costly to repair.
- Review and take into consideration appraisal comments.

Management Response:

“We agree with this finding. In all future transactions, the comments of the appraiser will be taken into account. The appraisal reviews are now being completed in this manner, and the CDD will investigate and take into account potential issues that appear to be significant and could be costly to repair on all future transactions.”

4. Per department policy, for properties located in a flood zone, the Maximum Rehabilitation Determination Form should be completed to ensure rehabilitation does not exceed 50% of the building’s value in accordance with the National Flood Insurance Program (FEMA); new construction specifications must be followed for properties with anticipated rehabilitation costs more than 50% of building value. For two properties in our test, it appears the form was not completed and the rehabilitation costs may have exceeded allowable limits. For one additional property, the form was completed and the estimated and actual repairs exceeded the limits indicated on this form.

We recommend management:

- Document that the estimated rehabilitation is in accordance with FEMA regulations and value limits approved by the Board of County Commissioners.
- Follow all HUD and FEMA regulations that apply, as well as department policies.

Management Response:

“The Flood Determination Form was discontinued in 2011 and replaced by information on the tracking sheet. Pasco County requires that all FEMA rules be met prior to the issuance of a Building Permit. Staff may have underestimated the value when conducting a prior determination of maximum rehabilitation amount. However, no project rehabilitation exceeded the maximum amount required by FEMA regulations. Please see Finding 4 -Exhibit 1 for the Acquisition Policy - Flood Zone.”

5. On 7/28/09, the Board of County Commissioners approved the maximum estimated improved property loan-to-value at acquisition be increased from 100% to 120%. This is limited to properties having a sales price under \$100,000. For properties valued more than \$100,000, the maximum increased from 100% to 110%. For sixteen properties in our test sample, the final estimate for bid specifications and/or the actual rehabilitation costs were significantly higher than the initial estimate completed by Community Development’s Housing Specialists.

Four of the 16 properties in our test would not have been eligible for purchase if the final estimate was used to calculate the percentage of loan and estimated rehabilitation costs to the after-rehabilitation appraised value. Three of these four properties plus one additional property would not have been eligible to purchase if the original estimate had more accurately reflected the actual rehabilitation required.

The purchase price plus actual rehabilitation costs were greater than 120% of the after-rehabilitation appraised value for these properties.

We recommend management review procedures to make sure that thorough and reliable initial inspections are performed by the Community Development Housing Specialists to ensure original rehabilitation estimates are as accurate as possible and that homes qualify for purchase based on the purchase price plus estimated costs for improvement in accordance with the Board of County Commissioners policies and procedures and NSP guidelines.

Management Response:

"In 2009, when the County received almost \$20 million in NSP funds, this amount of funding was greater than the budget for the entire division. At that time, five building inspectors that were to be laid-off from the Building Inspections Division were transferred to the CDD to assist with implementation of the NSP Program. While they knew the mechanics, they were not efficient at construction estimation. It was during this period of time that the Clerk of Court examined our operations.

Since then, all of the building inspectors returned to their previous positions, and the CDD now uses only general contractors to prepare estimates for projects. As a result, the knowledge has improved significantly and staff is more experienced and trained to prepare more accurate estimates. While final costs can never be established until walls are ripped open, and systems are made to operate, which sometimes occurs after a multiple-year dormancy, this skill set allows a much better estimation of costs and, therefore, a more informed decision about a particular property.

In addition, the CDD has created a Minimum Standards Checklist. Each housing inspector is trained on and utilizes the checklist to help assure that homes accurately qualify for purchase under the NSP regulations. Please see Finding 5 - Exhibit 1."

6. According to the Owner-Occupied Rehabilitation policy, the contractor selected to perform rehabilitation must be within 10% of Community Development's final estimate. The agreements for each POP agency state this policy shall be followed with the developer (POP agency) acting as the owner. For four properties in our test sample, the winning bid was more than 10% higher than the base bid amount; ranging from 22.72% to 36% higher. Three of these four properties were the low bid as required by NSP guidelines.

We recommend management:

- Review procedures to determine the cause of the disparity between estimates.
- Include documentation and justification for the variances in contracts awarded to bidders that are not within 10% of Community Development's final estimate for rehabilitation and attach such to contract copy maintained in case file.

Management Response:

“The Owner-Occupied Rehabilitation Policy Statement (Finding 6 -Exhibit 1) was used as a base for the Pasco Opportunity Program (POP) procedures, but the policy was created for a homeowner rehabilitation program, not for a program for not-for-profit agencies. As part of the POP, homeowners are not required to select the low bidder. They can use any contractor within 10 percent (if over \$12,000.00) or 20 percent (if under \$12,000.00) of the County estimate. However, the POP agencies are required to use the low bidder as part of the Developer Agreement (See original POP Agreement approved by the BCC, for Tampa Bay Community Development Corporation (CDC) on June 2, 1998 (Finding 6 Exhibit 2). In the cases where the bids are above 10 percent of the estimate, the bids are examined by staff. Sometimes the cost of the addendum is not included in the base bid, and sometimes our staff estimated low. The Owner-Occupied Rehabilitation Policy Statement revisions will be presented to the BCC in February or March 2013 and will reflect these changes. Please see Finding 6 -Exhibit 3. In the future, documentation and justification for variances will be placed in the file.”

7. For ten properties in our test sample, the total rehabilitation costs exceeded the contractor’s original bid by more than 10%; ranging from 11.42% to 154.13%. We reviewed the change orders to document the nature of additional expenses. The following was noted:
- Numerous change orders were for repairs that could have been included in the bid specifications prepared by the housing specialists. Items included, but were not limited to, the following: replace or install new doors, door knobs and handles, tile work, install blinds, replace window screens, hurricane shutters, install new cabinets, countertops and faucets, new bathroom mirror, new microwave and dishwasher, replace sod.
 - Several change orders appear to be for additional expenses incurred for repairs already listed in the bid specifications. The majority appear to be for painting expenses included in spec 87 of the bid proposals.
 - Several change orders were for allowance items. For three cases, an additional \$2,286, \$78 and \$314 was charged for trimming bushes and landscaping. For one of these three cases, the change order did not indicate if the \$400 allowance for installing landscaping and removing vegetation was deducted.
 - For one case, we noted that an additional \$440 was paid to install a new sprinkler pump and pressure switch that was already listed in a previous change order as “re-do entire sprinkler system from front to side of house, includes repair of sprinkler pump (labor + materials, all inclusive)” for \$1,008. It appears Community Development authorized payment to have the sprinkler pump fixed twice, totaling \$1,448.
 - One change order was for a \$30 “service charge;” however, there was no explanation as to what service was provided.

- For three properties, it appears 44% of the change orders were for pool and/or spa expenses, totaling \$14,042.96. This is in addition to the \$3,502 of repairs already included in bid proposals.
- One change order was for replacing a dishwasher; this was noted on the initial inspection report, but was not included on the final estimate for bid specifications.
- One change order included a 20% profit when the contract was approved for a 10% profit. The discrepancy was discovered by Finance and corrected prior to being paid.

We recommend:

- Community Development Housing Specialists take more time and care to ensure all necessary repairs are included in the initial inspection and original bid specifications.
- Management establish more effective policies and procedures for handling change orders to ensure additional expenses submitted by contractors are accurate, reasonable, and appropriate.
- Based on dollar amount, require approval by upper management for change orders that increase the contract by more than 10%.
- Management carefully monitor change orders approved after the bid award to maintain the integrity of the bid process.

Management Response:

“Item: Community Development Housing Specialists take more time and care to ensure all necessary repairs are included in the initial inspection and original bid specifications. - Housing Specialists do take necessary care to ensure bid specifications are developed thoroughly and properly. These items took place during the time when nonpermanent staff was involved in the operations.

Item: Management establish more effective policies and procedures for handling change orders to ensure additional expenses submitted by contractors are accurate, reasonable, and appropriate. - The CDD Housing Specialists are being more thorough and ensuring that all necessary repairs are included in the initial inspection and original bid specifications. In addition, we have also created teams with team leaders that provide an additional level of review. This item is also related to Finding 5.

Item: Based on dollar amount, some change orders that increase the contract by more than ten percent require approval by upper management for change orders and management carefully monitors change orders approved after the bid award to maintain the integrity of the bid process. A change order is approved quickly, many times verbally. Change orders are not necessarily reflective of poor construction technique or skills. For example, when a wall is removed on an older house that has been vacant for two or three years, there may be more repairs necessary than originally anticipated. However, it is important that the process of review is open and transparent. While the Clerk of Court

recommends that a ten percent change order trigger upper management review, it is not necessarily required on smaller construction contracts.

The CDD recently changed its policy to have the department head or ACA review all change orders that bring a cumulative change to POP contracts of more than 15 percent of the original construction price for contracts less than \$20,000.00. For projects of more than \$20,000.00, ten percent will be the threshold. This will ensure a sufficient review of the program by upper management.

Change orders are also approved by the owner, the housing specialist in charge of the project, the lead housing specialist, and the CDM. Please see Finding 6 - Exhibit 1 which is the Rehab Policy Statement that was approved by the BCC on April 6, 1993, and has been revised several times.

For the individual concerns that are reported on specific cases listed above, a response is listed in Finding 7 - Exhibit 1.”

8. For three POP owned properties in our test sample, the homeowners' association fees were over \$2,000 per year. Although, these properties qualified to be purchased through the NSP programs, these fees seem very high for homebuyers with very low, low, or moderate income. It should be noted that these homes had not been sold as of 6/8/12 and NSP funds are being used to pay HOA fees and to maintain these properties. The fees range from \$2,112 to 4,685.40 per year (or \$176 to \$395.45 per month), with the highest HOA fees being for a water front condominium with three homeowners' associations.

We recommend management establish guidelines that address homeowner's association fees prior to the purchase of a home and consider a monthly cap that is deemed appropriate for low and moderate income homebuyers and continued affordability.

Management Response:

“We agree with this finding. A cap was set in May 2012 and is \$50.00 monthly. In addition, the CDD has not acquired as many properties with homeowners associations and will only consider the property if the fee is below the new cap. Please see Finding 8 -Exhibit 1.”

9. For numerous properties, it took more than six months from the date of purchase for Community Development to post the open bid request for rehabilitation. Three properties took a year or longer; one property took more than two years and was vandalized during this time. We also noted that little progress had been made on one property that was purchased in July 2007; it appears the home had been demolished (permit issued on 9/1/11), but construction had not yet been started at the time of our audit. NSP funds are being used to pay additional monthly expenses on these properties until the rehabilitation is completed and homes are sold. Expenses include, but are not limited to the following: utilities, insurance, taxes, homeowner association fees, lawn maintenance, etc.

We recommend:

- Management develop procedures to ensure bid requests are posted in a timely manner.
- Complete rehabilitation in a prescribed timeframe to ensure homes are ready for sale within a set timeframe.

Management Response:

“The CDD purposefully purchased a large amount of properties at the same time in order to have an impact on the real estate market and decrease the amount of homes available for purchase, ultimately stabilizing prices. According to our real estate colleagues, this practice has proven to be successful. Additionally, expenditure deadlines needed to be met. The NSP regulations require that all funds be committed within 18 months of receipt, and 4 years to spend the grant allocation.

NSP was created in response to the foreclosure crisis. Homes were being vacated and abandoned. The real estate market was flooded with listings, which caused values to plummet. This led to citizens losing their life savings, and governments facing massive revenue declines.

From a micro-level standpoint of real estate management, purchasing many homes and not putting them back on the market in a timely manner may not seem correct from a macro-level policy making standpoint of neighborhood stabilization, this was a strategy that made sense.

However, there will be no further NSP funding, and the real estate market has generally stabilized, and this is a practice we do not expect to replicate.”

10. According to Community Development department policy, the sale price of rehabilitated homes should be the lower of the after-rehabilitation appraised value or the total costs of acquisition and rehabilitation. For nine properties, the sales price exceeded the lower of these values. However, it appears all of the homes were sold at the homebuyer’s appraisal values or less.

We recommend management evaluate the Pasco Opportunity Program Sales Price procedure to determine if the homebuyer’s appraisal would be a better improved value to use than the one completed prior to rehabilitation. If the policy remains unchanged, establish controls to ensure homes are sold according to policy.

Management Response:

“This recommendation is acknowledged. Since this occurred, the policy was changed, in fact almost immediately after the program started. The Department of Housing and Urban Development (HUD) requires that the property sell for less than the total investment in the property. Management adheres to that policy. HUD also provides online tools, resources, and assistance with these issues. These tools will be utilized as control measures to ensure homes are sold according to this policy. Please see Finding 10 -Exhibit 1.”

11. For two properties in our test there were concerns related to the sale of property. The following items were noted:

- For one property, the title company did not have the mortgage and note signed or recorded at time of purchase. There was an un-notarized letter in the case file signed by the POP agency stating they are in agreement to honor the unrecorded mortgage and note. There appears to be other properties that this title company did not record the mortgages and notes. Community Development did not deem it necessary to record these mortgages because of the good relationship they have with the various POP agencies. This title agency is no longer being used. This property has since been sold to a homebuyer.
- One property was sold without Community Development's knowledge. Developer agreements state the County must review the homebuyer's file before any properties are sold. The homebuyers filled out an application and submitted income information after the purchase, but did not attend the eight hour homebuyer counseling course as required by NSP guidelines nor did they sign a recapture note as required by department policy.

We recommend:

- Management develops procedures to ensure all mortgages and notes are recorded to prevent unnecessary risk of repayment to the County.
- If permissible, immediately record all unrecorded mortgages.
- Management remind all POP agencies and title companies that Pasco County must be contacted or informed prior to the sale of any NSP properties to ensure all policies and procedures are followed in accordance with NSP guidelines.

Management Response:

"A title company that once was contracted by the County failed to record many mortgages from the agencies. This title company did not have the wherewithal to provide the money for recording and documentary stamps and wait for reimbursement. We discovered this at about the time their contract was about to expire, therefore a new title company was selected. To ensure that this does not reoccur, the costs of recording and documentary stamp taxes are now charged to the CDD by the Clerk of Courts, and not paid by the title company at the time of recording.

Because of this action, our newest (POP) agency sold a house without our knowledge. The agency believed that if the client was paying cash, they did not need the CDD approval. The lack of a recorded mortgage caused the title company not to notify us that the house was being sold. Fortunately, when this was discovered, the homeowner worked with us, completed an application, and we determined that they were eligible for the program.

Staff now works more diligently with every POP agency and the contracted title companies to ensure that this will not occur again, and it has not. The County is prepared to pay for the closing costs of the signed documents and contacts the title company if they are not being recorded in a timely manner. As a result, the CDD management created the

Recording Fees and Tracking Policy which is being rigidly adhered to. Please see Finding 11 -Exhibit 1.

We do not believe there are any mortgages left from this era that were unrecorded. If there are, the CDD will proceed to have them recorded.”

12. It was noted during our file review, that the workflow checklists were not filled out completely and/or consistently and/or in a timely manner. Community Development staff does not always date and initial each step that has been completed; some items were checked off, some only had initials, some only had the date, and some items were left blank, even though completed.

We recommend management:

- Remind staff to include the date each step is performed along with appropriate staff member initials on the workflow checklist, in accordance with department policy and to ensure proper internal controls and monitoring of construction.
- Remind staff to complete the workflow checklist in a timely manner in order to accurately document the progress of each property.
- Periodically review files to ensure procedures are being followed.

Management Response:

“We agree with this comment. The recommended steps are being completed and procedures are being followed. Additional internal controls and monitoring have been initiated. These controls include the creation of a Workflow Checklist to ensure that each step was being followed and appropriate staff is initialing each step. Additionally, the files are also being reviewed after completion by a professional level employee to make sure all these steps are being completed. Please see Finding 12 - Exhibit 1.”

Homebuyers

13. Two properties were sold to applicants who owned homes. The loan applications do not appear to contain an adjustment to income for additional assets. According to the HAP Lender Guide, assets are assumed to give the owner increased payment ability, even if they do not currently produce income; an imputed income is required to be calculated based on a passbook rate. The lender guide also defines annual income as income of all adult household members that is anticipated to be received during the coming 12 month period.

We recommend management develop procedures to ensure HAP Lender guidelines are followed and to ensure homebuyers properly include all anticipated income (i.e. rental) in accordance with these guidelines. If the homebuyer does not anticipate their assets to generate any income, then the passbook rate should be calculated as additional income and be included on the loan application. This may help ensure home loans are only granted to those who meet the eligibility criteria.

Management Response:

“We concur with this finding. This asset was overlooked by the CDD Senior Project Clerk. To address this issue, all files are reviewed by two project clerks. In addition, all processors have gone to off-site training within the last year. The CDD is scheduling these staff members to attend training annually. In addition, we have recalculated the income of those two files, and the applicants remain eligible for the program.”

14. According to HUD regulations, grantees shall ensure the sale of properties remains affordable to individuals or families whose incomes do not exceed 50% of area median income. For one homebuyer in our sample, it appears continued affordability was not taken into consideration. At the time of purchase, the homebuyer’s housing expenses were calculated to be 48.24% of his/her income; the County loan was deferred.

We recommend management assist homebuyers in selecting a home or rental property with continued affordability in mind in accordance with HUD regulations.

Management Response:

“At the time of the audit, the affordability level was at a higher level we no longer allow, even though it was eligible under the program at that time. Both the CDD staff and the bank personnel felt that the applicants could afford the unit since the affordability level has changed, this should no longer be an issue.”

Deferred Loans

15. According to department policy, if a buyer’s front end ratio is greater than 28% or the back end ratio is greater than 38% of their gross income, the county loan may be deferred for five years. For one homebuyer in our test sample, it appears their County loan was not eligible for deferment based on the debt ratios per the revised loan application in case file; the buyer’s front and back end ratios were both only 21.93%.

We recommend:

- Community Development staff follow and adhere to department policies.
- Deviation from policies be authorized by appropriate personnel and properly documented in the case file.
- Management revise the loan deferment policy if reasons exist for allowing loan deferments other than debt ratios.
- Community Development staff re-calculate debt ratios and maintain calculations in the case file each time a loan is deferred.

Management Response:

“This was the Robert Short Case, 7230 Ivanhoe Drive, #09-6184, there was a notation in the file that the lender would not count the part-time job as income, so would not approve a payback loan from the County. The lenders and HUD regulations look at income differently. HUD regulations

require that everyone living in the household must have their income included, while lenders only include income from individuals that are on the loan. HUD requires us to look at part-time income, but this lender would not include it; therefore, their calculations indicated that a payback loan would not be affordable to the buyers. As was stated in Finding 1 - Exhibit 3, if the lender requests that a loan is deferred, we review that request. If it would result in the lender not approving the loan, we would make the loan a deferred loan. In addition, the CDD staff is now taking additional time to document case files and maintain documentation when debt ratios and calculations change, especially when a loan payment is deferred.”

Expense Testing

16. Community Development does not track expenses on the loan disposition statements that occur after rehabilitation is finished. Per Community Development Manager, the expenditures are kept in a file by case instead.

We recommend management develop a method of tracking expenses for each property that will enable an accurate account of what has been spent on each individual property at any given time. This will make it easier to determine how much was spent on each property, what each POP agency owes, and what portion of the POP agency loans were written off.

Note: Internal Audit was not provided the Master Case Expenditure List at time of audit; we were unable to test this spreadsheet for validity. The list was provided after the completion of fieldwork and draft report.

Management Response:

“The current process has been in existence since the program started. The CDD staff had some misunderstanding of exactly what Internal Audit wanted. The division tracks expenses by case number in a file known as POP and HAP expenditures” that is located on the share directory of the division computers. Please see Finding 16 -Exhibit 1.”

17. There were twelve properties in our test sample with concerns related to Utility deposits. The following was noted:
- For a total of 11 sold properties in our test sample, Pasco County reimbursed the POP agencies for the water and/or electric deposits; however, it appears these deposits were not returned to the County upon sale of the home. Clarification on electric and water deposits was requested by Board Finance on 10/2/09. The response from Community Development indicated that deposits did not need to be repaid because they are added to the final loan amount that is repaid by the POP agencies when a home sells. All properties that this comment pertains to sold at a loss.
 - For one property in our test sample, the invoice documentation submitted for electric deposit reimbursement does not appear to be sufficient. The explanation and address were hand written on the original invoice and the deposit amount (\$580) seems considerably higher than all electric deposits in our sample (\$300).

Additionally, this property was listed incorrectly on another invoice submitted for deposit reimbursement; we determined the invoice was actually for another case.

We recommend:

- Management establish procedures to verify deposits are returned to Pasco County when a home is sold.
- Management review all invoices submitted by POP agencies for accuracy, completeness and proper documentation to ensure expenses are appropriate, reasonable and recorded properly.

Management Response:

“We agree with this finding. We have taken measures to make sure that it does not occur again by creating a policy for Utility Deposits Upon Sale. Please see Finding 17 -Exhibit 1. This policy has been disseminated among all CDD employees and is located on the share directory.”

18. It appears one POP agency paid a Tampa based company a flat fee of \$50 to cut/mow their properties. This fee seems high when compared to other similar size POP owned properties that are being mowed for less (\$20-\$30). It appears one vendor has been billing a POP agency for mowing two properties with no or very little grass. The POP agency has been reimbursed by the County for those expenses. These properties did not appear to have been mowed just prior to our visit, as indicated by invoices submitted.

We recommend management:

- Make every effort to ensure costs are limited to a reasonable expense since lawn mowing expenses are not included in determining the sales price of a house and are paid out of NSP funds.
- Consider adopting a policy that requires a budgeted or maximum allowable amount for routine expenses. Competitive bidding may help to ensure funds are spent appropriately and efficiently.
- Management work with the POP agencies to establish a better system of oversight and to ensure properties are visited more frequently to verify that all contracted maintenance is necessary and is being properly performed.

Management Response:

“This vendor also performed security checks and landscaping on the properties. However, Tampa Bay CDC did obtain a new landscape maintenance firm through a competitive bidding process, which was more cost reasonable. All POP agencies are required to use competitive bidding for their non-professional services, where possible and reasonable, in accordance with the written developer agreements. The CDD staff conducts sporadic checks to ensure compliance with property maintenance and security. Through this effort, the CDD makes every reasonable effort to ensure that costs are reasonable. It is not feasible to have a maximum lawn care amount, since lawns are cut on a schedule. However, since agencies visit their properties more often, they can and do curtail the activity of lawn cutting if it is not necessary.”

Insurance Certificates/ Coverage

19. An insurance certificate was not in the file and could not be provided by Community Development for one property. It appears 10 out of 27 insurance certificates received were not on file with Community Development and were requested as a result of our inquiry; they were dated after our request for proof of insurance. Twenty five out of 27 insurance certificates did not list the BCC as additional insured and loss payee, and two properties specifically excluded General Liability coverage, which are requirements of the developer agreements.

We recommend management:

- Establish procedures to ensure insurance certificates are received for each property in a timely manner and maintained in case files.
- Require developers to provide proof of insurance prior to, or at closing, to ensure properties acquired with NSP funds are insured.
- Review insurance certificates to determine that coverage is adequate and accurately lists the Board of County Commissioners as required.

Management Response:

“The CDD agrees with this finding. At or before closing, the CDD now receives confirmation that the property is insured. All insurance certificates are being reviewed to ensure the property carries the proper coverage, and a log is kept to make sure the insurance is valid and current. The log is reviewed monthly to ensure that insurance certificates are received, and the insurance agencies send the CDD notice of cancellation since the County is an additional insured party. Please see Finding 19 -Exhibit 1 and Finding 19 -Exhibit 2.”

Site Visits

20. Six of the 29 properties visited by Internal Audit were not properly secured; doors were unlocked and Internal Audit staff was able to enter the homes. One of these properties had a memo in the case file dated 9/24/10 indicating that most doors and windows were unsecured, and the house was vandalized and various items were missing or removed. This property was not secured six months later. In addition, one home visited was missing the A/C unit and was not discovered until the home sold and the homebuyers requested an appraisal. Two properties with swimming pools (full of water) were not properly secured and appeared to be hazardous to the public and in violation of the Pasco County Land Development Code (Section 530.4). (Note: During our file review we discovered a sold property was issued an ordinance violation warning for an unsecured pool (on 9/11/09), prior to the house being sold).

We recommend management establish procedures to monitor the POP agencies to ensure homes and additional structures are properly maintained and secured to reduce the risk of vandalism, unauthorized access or occupancy, and liability and consider including these requirements in the POP Agency Agreements.

Management Response:

“The CDD staff agrees with this finding. Many of the homes were left open by the contractors for their subcontractors. Since then, contractors and the agencies are instructed to keep the buildings secure, and the CDD emphasizes this point to the agencies and contractors on a regular basis. Also, all agencies were directed to inspect and visit their properties at least once per week. Staff makes unannounced site visits occasionally, and we have not found any other properties that are not properly maintained and secured.”

Developer Fee

21. An increase in developer fees, from \$5,000 to \$7,500, was approved by the Board of County Commissioners on 4/7/09. On 3/16/10, the Board of County Commissioners approved the \$2,500 to be paid to POP agencies upon acquisition of each property. On 7/27/10, the Board of County Commissioners unanimously voted to make the above referenced changes to the developer fees retroactive to 3/01/09. The developer agreements were not updated to reflect the correct effective date. The following discrepancies were noted when reviewing developer fees paid in our test sample:

- For one property, it appears the POP agency received an additional \$2,500 they were not entitled to. This property was purchased (1/9/08) prior to the Board approved effective date (3/1/09) for the increase in developer fees. This payment was not processed by the Clerk & Comptroller. (Note: On 7/6/12, Community Development Manager requested this money be returned to the County; the POP agency acknowledged, on 7/11/12, that the funds would be returned).
- For one property, it appears the POP agency may not have received the additional \$2,500 they were entitled to. The home was purchased on 12/21/09, after the Board approved the increase in developer fees. The POP agency may have received \$7,500 upon sale of this home; however, the payment did not go through the Clerk & Comptroller, so we were not able to verify this.

We recommend management:

- Update developer agreements to reflect the correct effective date for the increase in developer fees.
- Collect the \$2,500 paid in error or deduct from future reimbursements to the POP agency.
- Determine if the correct developer fee was paid to the POP agency and take any corrective action required.

Management Response:

“The CDD staff will update developer agreements to reflect the correct effective date for increases in developer fees. All (POP) agencies have now received the correct developer fee, and three additional POP agreements have been updated. Three agreements are still pending. Please see Finding 21 - Exhibit 1 for an example of the updated version. The \$2,500.00 paid in error has been collected, and a review has shown that all other fees were paid correctly and no further action is required.”