

Duval County Housing Finance Authority

July 27, 2001

Report #531

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



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Report No. 531

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we examined the activities of the Duval County Housing Finance Authority (DCHFA) and present this report thereon.

DCHFA is an independent authority of the City of Jacksonville, established in 1979 under Chapter 65 of the Ordinance Code. The purpose of the DCHFA is to encourage the investment of private capital and utilize public financing to alleviate a shortage of affordable residential and rental housing facilities for the benefit of low, moderate, and middle income families and persons within Duval County, Florida. To fulfill its purpose, the Authority is authorized to issue single and multi-family mortgage revenue bonds and 501(c)(3) multi-family bonds in principal amounts specifically approved by the City Council. Until 1987, the City Treasurer acted as staff for the Authority. The only activity of the Authority occurred once per year if the Board of Directors voted to issue bonds. In 1987 DCHFA refunded several of its early bond issues and used bond insurance to free up the cash reserves of those early issues. This is the source of DCHFA's fund balance which it has used chiefly to make low interest mortgage loans to housing related projects. Also in 1987, DCHFA hired its first employees, an Executive Director and a secretary. In 1992, DCHFA was selected by the City Council as Duval County's administrator for the State Housing Initiatives Partnerships Program, also known as the SHIP Plan. Administration of the SHIP Plan has significantly increased the amount of funds flowing through DCHFA for housing related grants and loans. DCHFA receives no funding from the City, but funds its budget with interest earnings and with a percentage of SHIP funds allocated for program administration. Currently, DCHFA has a staff of five full-time employees and one part-time employee.

The DCHFA has prepared a separate letter providing its introductory statement, which is attached hereto.

STATEMENT OF OBJECTIVES

After performing a preliminary survey of all of DCHFA's activities, we selected the following objectives for our audit:

1. To determine if mortgage loans made with DCHFA Authority funds and SHIP funds are properly approved, recorded, and supported by proper documentation.
2. To determine if mortgage payments are accounted for properly.
3. To determine if income monitoring payments are accounted for properly.
4. To determine if DCHFA funds held in bank accounts outside the City pool are being accounted for properly.
5. To determine if SHIP funds are being granted and loaned by DCHFA in accordance with all applicable laws and regulations.

Our preliminary survey showed that DCHFA's outstanding bond issues are payable solely from the revenues, receipts, and resources pledged under their respective trust indentures and do not constitute a debt or liability of the DCHFA or the City. Each of the single family bond issues is audited annually by a certified public accountant, as are the apartment complexes which support each multi-family bond issue. Therefore, we did not include any of DCHFA's outstanding bond issues in our audit objectives and did not perform any audit testing on them.

STATEMENT OF SCOPE

Objectives 1 and 2 - The audit scope for detailed testing includes all DCHFA mortgages receivable from October 1, 1999 to December 31, 2000 and all SHIP mortgages receivable from July 1, 1999 to December 31, 2000.

Objective 3 - The audit scope for detailed testing includes all revenue from income monitoring for the period from October 1, 1999 through December 31, 2000.

Objective 4 - The audit scope for detailed testing includes all DCHFA bank accounts which have been open at any time since July 1, 1999.

Objective 5 - The audit scope for detailed testing includes all SHIP funds distributed by DCHFA during the period from July 1, 1999 through June 30, 2000 (the SHIP Program's most recent fiscal year).

STATEMENT OF METHODOLOGY

Our examination consisted of a review of the laws and regulations governing DCHFA and its functions, the documentation and assessment of internal controls, discussions with employees, and detailed testing of DCHFA's records. In most instances due to small sample sizes, we tested all transactions within the audit period. In a few instances we judgmentally selected a sample of transactions for detailed testing.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgements and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Overall, we found no evidence of misuse of funds, however based on our audit objectives and audit testing, we reached the following conclusions:

1. Not all DCHFA mortgage loans have been properly approved and recorded in the appropriate accounting records by DCHFA and not all DCHFA mortgage loans are supported by proper documentation.
2. DCHFA has not accounted for all mortgage payments properly.
3. Based on the testing performed, it appears that income monitoring payments are being accounted for properly.
4. Although we accounted for the disposition of all DCHFA funds held in bank accounts outside the City pool during our audit period, we noted numerous problems and internal control weaknesses that require corrective action.
5. Not all SHIP funds are being granted and loaned by DCHFA in accordance with all applicable laws and regulations, good business practices, or standard industry practices.

In addition to our findings on which we base our conclusions, we noted DCHFA's internal control strengths and weaknesses which we identify hereafter.

INTERNAL CONTROL STRENGTHS

Internal Control Strength #1

All outstanding single family mortgage revenue bond issues are audited annually by an independent Certified Public Accountant.

DCHFA Response

Copies of the audits are available upon request. The audits contain no criticisms of DCHFA.

Internal Control Strength #2

Once DCHFA's accounting information is recorded on the City general ledger, no changes may be made to the City general ledger without approval of City General Accounting.

INTERNAL CONTROL WEAKNESSES

Internal Control Weakness #1

DCHFA does not have written policies and procedures governing its primary functions; the issuance of single and multi-family mortgage revenue bonds and 501 (C)(3) bonds and the loaning and granting of money from its fund balance and SHIP funds.

Recommendation

DCHFA management and staff should prepare and the DCHFA Board of Directors should approve written policies and procedures governing DCHFA's primary functions.

DCHFA Response

DCHFA will develop written policies and procedures to be adopted by the Authority.

Internal Control Weakness #2

DCHFA does not have written policies and procedures governing basic accounting and administrative duties. For example, we noted the following weaknesses which should be addressed in written policies and procedures.

- Check remittances are not restrictively endorsed by the person opening the mail.
- Remittances are not recorded on a control sheet for comparison with the bank deposit.
- There is no documented supervisory review of bank statement reconciliations.

Recommendation

DCHFA management and staff should prepare and the DCHFA Board of Directors should approve written policies and procedures governing DCHFA's accounting and administrative duties.

DCHFA Response

DCHFA will develop written policies and procedures to be adopted by the Authority.

Internal Control Weakness #3

DCHFAs does not have written bylaws to govern the conduct and record keeping of its Board meetings.

Recommendation

The DCHFAs Board of Directors should adopt written bylaws to govern the conduct and record keeping for DCHFAs Board meetings.

DCHFAs Response

DCHFAs will develop written policies and procedures to be adopted by the Authority.

Internal Control Weakness #4

SHIP mortgage receivables were not recorded in the City general ledger. During our field work, we expressed our concern that SHIP mortgages receivable were not recorded in the City general ledger and recommended to DCHFAs that SHIP mortgages receivable be recorded in the general ledger as soon as possible. DCHFAs responded and prepared the necessary journal entries to record SHIP mortgages receivable in the City general ledger.

Recommendation

When DCHFAs requests that a check be written out of their pooled cash account in order to loan funds, DCHFAs should prepare the necessary journal entry to debit a mortgage receivable. If the loan closing is delayed, DCHFAs should prepare a journal entry to debit escrow cash instead of the mortgage receivable.

DCHFAs Response

During the Audit Period, DCHFAs staff encountered difficulty trying to account for SHIP mortgage receivable principal disbursements as expenditures for SHIP reporting purposes, and mortgage receivable advances for City general ledger reporting purposes. Subsequent to the Audit Period, a recording procedure was established that satisfies the two reporting requirements. DCHFAs will continue to work with the City=s Accounting Division to ensure the proper recording of SHIP mortgage receivables in the City general ledger.

Internal Control Weakness #5

DCHFAs does not maintain copies of all contracts on file.

Recommendation

DCHFAs should maintain executed copies of all contracts to which they are a party on file in their offices.

DCHFAs Response

The contracts referenced by the Council Auditors were either located, or copies obtained, after the conclusion of the Audit Period. Full contract files will be maintained in the DCHFAs office in the future.

AUDIT OBJECTIVES #1 and #2

In order to determine if mortgage loans are properly approved, recorded, and supported by proper documentation, we requested a list from DCHFA of all outstanding mortgage loans and their balances as of December 31, 2000. For the loans serviced by DCHFA, we sent confirmations to the borrower of the funds to confirm the balance of the loans at December 31, 2000. For the loans serviced by a mortgage servicing company, we sent confirmations to that company to confirm the loan balance at December 31, 2000. We did not confirm 10 of the loans because they had already been confirmed by the City's outside auditors on September 30, 2000. We did obtain copies of the confirmations for those ten loans.

We examined all documents in the folders maintained by DCHFA for each outstanding loan. We specifically looked for the following items: (a) a loan documentation checklist, (b) the name of the borrower, (c) the purpose of the loan, (d) the signature of the borrower, (e) assets, liabilities, income, and expenses of the borrower, (f) a credit report on the borrower, (g) an appraisal on the collateral for the loan, (h) review of loan documents by an attorney representing DCHFA, (i) a loan amortization schedule, (j) interest rate of the loan, (k) a note or a mortgage deed, and (l) the current loan balance.

We compared the balance of each loan per the independent confirmation to the balance for each loan per DCHFA's subsidiary record (a Microsoft Excel spreadsheet kept by the DCHFA Controller) and to the balance of each loan per the City's general ledger.

Through our extensive audit testing, we became aware of additional mortgage loans which were not on the list of mortgage loans supplied to us by DCHFA. We added these loans to our population of outstanding loans and performed significant audit testing on them in forming our audit conclusions.

We determined which loans were made during the audit period based on the date of the loans. We compared the amount of each loan per the loan documents to the corresponding receivable set up in the City's general ledger. We attempted to trace each loan/mortgage receivable to the next monthly report provided by DCHFA to their Board of Directors. We reviewed the board minutes of the month immediately following the date of the loan. We also verified that DCHFA's Board of Directors approved the loans by searching through all of the board minutes during the audit period specifically looking for the vote count and the date of approval. In addition we verified that the loans were approved by the City Council by using the Council Secretary's legislative tracking system to find the ordinance number approving the loans.

From the population of mortgages receivable, we judgmentally selected five mortgage loans and looked for the most recent three payments that should have been made on those mortgages. We reviewed DCHFA's deposit records for the payments and then traced the deposits to DCHFA's mortgages receivable account in the City's general ledger.

Our audit findings and recommendations for Objective #1 are as follows:

Finding #1

None of the 29 outstanding loans made by DCHFA from SHIP funds were recorded on the City General Ledger. Loans outstanding at September 30, 2000 that were not on the general ledger totaled \$5,539,013.49.

Recommendation #1

When DCHFA requests that a check be written out of their pooled cash account in order to provide loan funds, DCHFA should prepare the necessary journal entry to debit escrow cash or set up a mortgage receivable, as appropriate. If escrow cash is debited, then DCHFA should prepare the necessary journal entry to set up the mortgage receivable in the general ledger upon closing the transaction.

DCHFA Response

During the Audit Period, DCHFA staff encountered difficulty trying to account for SHIP mortgage receivable principal disbursements as expenditures for SHIP reporting purposes, and mortgage receivable advances for City general ledger reporting purposes. Subsequent to the Audit Period, a recording procedure was established that satisfies the two reporting requirements. DCHFA will continue to work with the City's Accounting Division to ensure the proper recording of SHIP mortgage receivables in the City general ledger.

Finding #2

At least 19 loans made from SHIP funds totaling \$2,141,677 were not recorded by DCHFA on the City general ledger or on any subsidiary record kept by DCHFA.

Recommendation #2

See recommendation #1 above.

DCHFA Response

During the Audit Period, DCHFA staff encountered difficulty trying to account for SHIP mortgage receivable principal disbursements as expenditures for SHIP reporting purposes, and mortgage receivable advances for City general ledger reporting purposes. Subsequent to the Audit Period, a recording procedure was established that satisfies the two reporting requirements. DCHFA will continue to work with the City's Accounting Division to ensure the proper recording of SHIP mortgage receivables in the City general ledger. The DCHFA will also ensure its subsidiary mortgage receivable records agree with the City general ledger.

Finding #3

DCHFA's accounting records were inadequately documented so that one could not tell from their accounting records whether certain disbursements that DCHFA had made were for grants or loans.

Recommendation #3

See recommendation #1 above.

DCHFA Response

The DCHFA will provide adequate documentation in the accounting records, which readily identifies whether disbursements are for grants or loans.

Finding #4

In 12 of 34 loans that we independently confirmed with the loan servicer or the borrower, the balance per the confirmation did not agree with the balance per DCHFA's subsidiary record. In eight of the 12 loans, the difference ranged from \$225.37 to \$9,354.63.

DCHFA Response

For these files, the DCHFA subsidiary records have been reconciled and agree with the loan servicer's or the borrower's records (as the case may be).

Finding #5

In one of the 31 loans reviewed that were recorded on the general ledger, the balance on the general ledger agreed with the balance per the confirmation, but did not agree with the balance per DCHFA's subsidiary record.

DCHFA Response

For this loan file, DCHFA's subsidiary records have been reconciled and agree with the City's general ledger.

Finding #6

DCHFA does not assess late charges when borrowers are late with their payments even when the loan agreement specifically calls for late charges.

DCHFA Response

The DCHFA staff will implement the provisions of loan documents as written.

Finding #7

DCHFA does not send out invoices or remittance advices or utilize coupon books for the mortgage loans that it services.

DCHFA Response

The source loan documents (e.g., a promissory note) set forth the borrower's independent obligation to pay when due. The source loan documents clearly identify the amount and time when such payments are due. Because of the non-standard nature of DCHFA's loan products and/or grants, a uniform coupon book commonly seen for conventional single family residential loans is not feasible. Further, a coupon book is not legally required for collection of payment. When a loan is due for

collection, DCHFA refers the file to legal counsel to prepare any necessary written demand to the borrower for payment on a case by case basis.

Finding #8

We tested a sample of 14 loan payments that should have been received by DCHFA and found that 6 loan payments had not been received. The payments were overdue anywhere from one to thirteen months at the time of our audit testing.

DCHFA Response

The DCHFA staff will implement the provisions of loan documents as written and will develop procedures regarding the monitoring of timely receipt and recordation of payments.

Finding #9

We tested the eight loan payments that were received to determine if the principal and interest amounts credited to the loans by DCHFA agreed to the loan amortization table. The total loan payment was correct for all 8 payments, but the amounts of principal and interest credited to the loans did not agree to the amounts due per the loan amortization table for six of the eight payments.

DCHFA Response

Due to the non-standard nature of the Authority's loans in accordance with its mission, the terms of DCHFA loans vary from transaction to transaction. DCHFA staff will prepare and maintain records of individualized amortization tables reflecting the terms of the specific loan.

Finding #10

We found that one loan's annual interest payment was nine months overdue when we called it to DCHFA's attention. DCHFA was unaware of the overdue payment.

DCHFA Response

The DCHFA staff will implement the provisions of loan documents as written and will develop procedures regarding the monitoring of timely receipt and recordation of payments.

Finding #11

We found that one borrower had never made a payment and was five months behind on their payments before DCHFA contacted them. The borrower stated that they had been waiting to receive an invoice or coupon book.

DCHFA Response

This was a loan to an experienced multifamily developer. The loan documents contained clear payment terms (amount and timing) and provided that payment is an independent legal covenant of the borrower. There is no legal requirement that the borrower receive a coupon book or demand letter as a condition precedent of the borrower's timely and full payment. The borrower's payments are now timely.

Recommendations # 4 - 11

We strongly recommend that DCHFA utilize an outside contractor to service all loans. DCHFA should eliminate the use of their subsidiary mortgage records and prepare a journal entry to update mortgages receivable in the general ledger monthly upon receiving remittance advices from the outside servicer. If DCHFA decides to perform the loan servicing function in house, we recommend DCHFA review its current staffing level to determine whether it can perform the servicing function without the need to increase staff size.

DCHFA Response

DCHFA will continue to investigate the feasibility of contracting with a cost-efficient, outside loan servicer. However, the mission of DCHFA is to provide affordable housing options to eligible persons and as a result, the loans and grants made by DCHFA are not standardized and uniform as one finds with the conventional loans made by institutional lenders (which standardized loans are then sold on the secondary market). To accomplish its mission, the nature of loans and grants offered by DCHFA renders the feasibility of finding a cost-efficient outside servicer difficult, and even then, the reliability and level of service from such third party servicing provider would not be guaranteed due to the wide variety among each of the files. In the event DCHFA cannot effectively contract with an outside servicer, then DCHFA will adjust duties of existing staff so that DCHFA's mortgage portfolio is properly serviced.

Finding #12

We reviewed all of DCHFA's loan files and found that they were incomplete and unorganized. The documents in the files were in no particular order. In many cases, it would have been difficult, if not impossible for a loan officer who was unfamiliar with the loans, to review the files and ascertain the purpose of the loans, the amount of the loans, the servicer of the loans (In one instance, DCHFA was not sure who the servicer was for a loan.), etc. In our review of the loan files,

- we were not able to ascertain the name of the borrower in three of the 58 loan files reviewed.
- we were not able to ascertain the purpose of the loan in 24 of the 58 loan files reviewed.
- we were not able to locate the signature of the borrower in four of 58 loan files reviewed.
- we were not able to locate financial information about the borrower in 41 of 55 loan files reviewed for financial information.
- we were not able to locate a loan amortization schedule for 20 of the 42 loans which should have had them.
- we were not able to ascertain the interest rate of the loan in eight of the 58 loan files reviewed.

- we were not able to find an executed note or mortgage deed in the file for six of the 58 loan files reviewed.
- we found that DCHFA does not obtain credit reports on borrowers.
- we found that DCHFA does not obtain appraisals on collateral.

Recommendation #12

We recommend that DCHFA organize and update all loan files and

- adopt the use of a documentation checklist to insure that grant and loan files are complete.
- adopt the use of a standard application (with standard required attachments) to be filled out for all grant and loan requests prior to consideration of the loan by the Board of Directors.
- adopt the use of a standard loan contract to be used for all loans.
- obtain credit reports on all borrowers when there is no credit enhancement covering the full amount of the loan.
- obtain appraisals on collateral when there is no credit enhancement covering the full amount of the loan.

DCHFA Response

DCHFA will organize and update its mortgage loan files. In addition, DCHFA will develop written policies and procedures to be adopted by the Authority considering the Council Auditor's recommendations set forth above.

Finding #13

We reviewed the six loans made during the audit period (four from Authority funds and two from SHIP funds) to see if they had been posted to the general ledger in a timely manner (within one month). We found that only one had been posted to the general ledger in a timely manner, three had not been posted to the general ledger at all, and two were posted after four months. The effect of DCHFA's delay in posting was that the general ledger did not reflect DCHFA's true financial condition.

Recommendation #13

When DCHFA closes on a loan, it should immediately prepare the journal entry to post the receivable to the general ledger.

DCHFA Response

In the future, DCHFA plans to follow the transaction accounting recommended by the Council Auditor in response to Internal Control Weakness #4 and Finding #13 above.

Finding #14

We reviewed the six loans made during the audit period (four from Authority funds and two from SHIP funds) to see if they were included in the financial report provided to the Board of Directors at the next monthly Board meeting. We found that the financial information provided to the Board did not reflect DCHFA's true financial condition because only one of the six loans was included in the next report to the Board of Directors.

Recommendation #14

DCHFA should provide the Board of Directors with accurate, up to date financial information. This could be accomplished by posting information to the City general ledger in a timely manner (see recommendation #13 above) and providing the Board members with printouts directly from the City general ledger. In addition, DCHFA should provide information to the Board members regarding any reconciling items that may not have been posted yet.

DCHFA Response

DCHFA plans to follow the accounting recommended by the Council Auditor in response to Finding #14 above.

Finding #15

We reviewed the six loans made during the audit period (four from Authority funds and two from SHIP funds) to see if they were approved by DCHFA's Board of Directors. We found that two loans were not approved by the Board of Directors. DCHFA's charter established the Board as DCHFA's governing body and as such, the Board should approve all loans.

Recommendation #15

We recommend that the DCHFA Board of Directors adopt a written policy requiring Board approval of all loans. The loan documentation checklist recommended in recommendation #12 above should require a copy of the Board minutes showing approval of the loan prior to closing the loan.

DCHFA Response

The DCHFA will establish written policies and procedures (where none exist) governing the administration of the Jacksonville Housing Assistance Plan ("HAP") for SHIP loans, and the DCHFA will establish written policies and procedures governing the approval of all loans not governed by the HAP.

Finding #16

We reviewed the four loans made during the audit period that required Council approval to see if DCHFA obtained Council approval. DCHFA obtained Council approval for the three new loans. However, DCHFA allowed the assumption of an existing loan approved by Council in 1989 by a different entity without obtaining Council approval.

Recommendation #16

DCHFAs should consult legal counsel regarding the assumption of the loan without Council approval.

DCHFA Response

DCHFA is an independent authority experienced in lending. This loan was assumed by another entity and included an additional credit enhancement from a third party entity that was not present in the original transaction. The assumption: (1) contained an additional guaranty than was set forth in the original loan, and (2) created no additional appropriation nor change in liability of the Authority or the City. Therefore, the Office of General Counsel believes additional presentation to the City Council was unnecessary.

Finding #17

DCHFA does not utilize contract numbers to track loan payments and as a result, there have been instances where payments were credited to the wrong loan when a borrower had more than one loan outstanding.

Recommendation #17

DCHFA should develop and adopt the use of a contract numbering system. The contract number should be on the loan agreement, the file, and all documents in the file. The contract number should be recorded in the general ledger along with the name of the borrower. Borrowers should be required to include the contract number on all payments. DCHFA should include the contract number in all deposits.

DCHFA Response

The DCHFA will utilize a contract numbering system.

Background for Finding #18

At the October 18, 2000 DCHFA Board meeting, a representative of an organization with an outstanding loan from DCHFA appeared before the DCHFA Board. The representative asked the DCHFA Board for forgiveness of the outstanding loan of \$71,000. After the representative answered the Board=s questions, the Board voted to forgive the loan. The representative thanked the Board and the Board took up the next item on the agenda. There was no qualification of the Board=s action. For example, the motion was not to approve the forgiveness of the loan, subject to City Council approval. As far as DCHFA and the representative were concerned, the loan was forgiven at that moment.

Two months before this action, DCHFA was the recipient of a legal opinion (dated August 10, 2000), which clearly stated “When the amount of the delinquent bill or judgement exceeds five thousand dollars, such delinquent bill or judgment can only be written-off with the approval of City Council.”

Finding #18

The DCHFA Board does not have the authority to approve the write-off of loans in excess of \$5,000 and therefore did not have the authority to write off this loan.

Recommendation #18

In accordance with the General Counsel's legal opinion, DCHFA should introduce an ordinance before City Council requesting any loan write-offs in excess of \$5,000. DCHFA should introduce an ordinance requesting the write-off of the \$71,000 loan discussed above.

DCHFA Response

The DCHFA has not executed any documents satisfying the mortgage of record; DCHFA will take the action necessary to implement its decision. Additionally, the DCHFA will establish written policies to write-off loans. It should be noted that if this transaction were closed today, that it would have been a forgivable grant.

Audit Objective #3

In order to determine if income monitoring payments are being accounted for properly, we obtained a list of all apartment complexes for which DCHFA performs income monitoring. We reviewed the applicable bond indenture for each apartment complex to verify the amount of the annual monitoring fee on a per unit basis. We then recalculated the total annual fee and reviewed DCHFA's copies of their deposits of those fees. We verified that the checks received were for the correct amounts and traced the deposits to the City general ledger.

The records for income monitoring were well-maintained and we did not have any findings for this audit objective.

Audit Objective #4

To determine if DCHFA funds held in bank accounts outside the City pool are being accounted for properly, we requested a list from DCHFA of all bank accounts that had been open at any time since July 1, 1999 for SHIP funds and October 1, 1999 for DCHFA funds. We used bank confirmations to independently confirm the balance of each account at a point in time and to determine if the bank was aware of any other DCHFA bank accounts or loans.

We reviewed DCHFA's bank reconciliations for the audit period. We also reviewed the bank statements for unusual items and traced every withdrawal of funds into another account or into the city pool. Our findings are listed below.

Finding #19

On the advice of the Council Auditor's Office, DCHFA has attempted to close all of its outside, operating bank accounts and instead to utilize the City pool. One bank has reopened a closed account twice in order to deposit mortgage payments that were received.

Recommendation #19

We recommend that DCHFA close all outside bank accounts (except for its brokerage account) and deposit the funds in the City pool. DCHFA should contact bank management if problems persist in permanently closing any accounts.

DCHFA Response

DCHFA will contact bank management regarding the permanent closure of this account.

Finding #20

Although DCHFA stated that the signatories on all of their bank accounts were the Executive Director and the Board Chairman, the audit revealed that the Executive Director had the ability to withdraw funds from the DCHFA brokerage account with a single phone call. No signature was required.

Recommendation #20

The purchase or sale of securities within this account and the withdrawal or transfer of funds from this account should require the signatures of DCHFA's Executive Director and Board Chairman.

DCHFA Response

DCHFA has completed new signature cards complying with the recommendation. It is noted that no unauthorized transfers in fact occurred during the Audit Period.

Finding #21

Bank account reconciliations are not being prepared in a way that clearly shows a comparison between the book balance and the statement balance as of the statement date.

DCHFA Response

A bank reconciliation will be prepared, printed, and dated, and provided to the Executive Director for review. During the Audit Period, bank statements were in fact reviewed.

Finding #22

There is no supervisory review of bank reconciliations.

DCHFA Response.

See DCHFA's Response to Finding #21 above.

Finding #23

DCHFA does not prepare hard copies of bank account reconciliations. DCHFA's Controller prepares bank reconciliations on an excel spreadsheet and does not print them out. We were unable to determine if the reconciliations were prepared in a timely manner because there was no way to ascertain the date that each reconciliation was prepared since they were all saved in the same computer file.

DCHFA Response

See DCHFA's Response to Finding #21 above.

Recommendations #21-23

DCHFA's Controller should prepare a written bank account reconciliation each month which clearly compares the book balance on the statement date to the statement balance, and then explain any differences between the balances with reconciling items. The reconciliation, the bank statement, and a general ledger balance sheet printout should be given to DCHFA's Finance Director along with documentation of any reconciling items. The Finance Director should review the bank reconciliation for accuracy and initial and date the reconciliation to indicate his review and approval.

DCHFA Response

See DCHFA's Response to Finding #21 above.

Opportunity for Improvement

Currently, journal entries to update escrow cash amounts recorded in the general ledger are only prepared and recorded once per year.

Recommendation

We recommend that journal entries to update escrow cash amounts in the general ledger be prepared at least quarterly so that the Quarterly Summary financial report is accurate. DCHFA could also update the general ledger monthly which would allow DCHFA to provide its Board members with up-to-date financial information printed directly from the general ledger.

DCHFA Response

After the conclusion of the Audit Period, DCHFA commenced procedures to update escrow cash quarterly on the City's general ledger. In addition, DCHFA staff will update the City's general ledger monthly, and provide its Board members with current financial information.

Audit Objective #5

In order to determine if SHIP funds are being granted and loaned by DCHFA in accordance with all applicable laws and regulations, we reviewed the general ledger and recorded all payments of SHIP funds during the audit period. We then reviewed DCHFA's files to locate corresponding SHIP Agreements, audit reports on subrecipients, and inspection reports on the various properties. We also reviewed DCHFA's Board minutes to look for Board approval of the various grants and loans.

In addition, we reviewed all previous audit reports, prepared by the State, on DCHFA's administration of the SHIP Program to determine if DCHFA was responsive to the recommendations made in the audit reports. Our findings are listed below.

Finding #24

In nine of the 31 SHIP programs tested, the dollar amount of payments made to the program exceeded the contract amount.

Recommendation #24

We recommend that DCHFA comply with contract requirements. If amounts need to be increased beyond the contract amount, then DCHFA should execute contract amendments with Board approval. The use of contract numbers (see recommendation #17) would make it easier to track payments so that a contract is not over funded by mistake.

DCHFA Response

DCHFA now uses the City's contract system for all SHIP Program contracts/loans. This system requires the utilization of signed contract amendments prior to funding additional payments.

Finding #25

For eight of the 31 programs tested, DCHFA did not have an executed copy of the standard SHIP Agreement in the file. The standard SHIP Agreement specifically states what SHIP funds can and cannot be spent on and gives the Council Auditor's Office audit rights. For three of the eight programs where a SHIP Agreement was not in the file, DCHFA did execute some other type of written agreement. We noted that one SHIP Agreement was not executed prior to the disbursement of funds.

Recommendation #25

We recommend that DCHFA set up a file for all SHIP grants and loans and adopt the use of a documentation checklist to insure that the files are complete. A SHIP Agreement should be executed for all grants and loans prior to the disbursement of funds.

DCHFA Response

DCHFA is currently reviewing existing SHIP Program contract/loan files for completeness and because the DCHFA is now using the City's contract system (see DCHFA Response #24 above), a signed contract or amendment is required prior to funding. To the extent feasible, DCHFA has standardized its loan and grant documents, checklists, and files for each SHIP program.

Finding #26

Although the grants and loans were all within the guidelines of the SHIP program approved by the DCHFA Board, DCHFA staff did not obtain specific Board approval to fund 12 of the 31 SHIP programs that received funding during the fiscal year.

Recommendation #26

We recommend that the DCHFA Board establish a clearly defined policy regarding the approval of grants and loans.

DCHFA Response

In addition to DCHFA's Response to Finding #15; the DCHFA will establish written policies and procedures (where none exist) governing the approval of SHIP loans and grants.

Finding #27

DCHFAs did not have the required audit report on file for 23 of 27 programs for which they should have had an audit report on file. Chapter 118 of the City Ordinance Code and the standard SHIP Agreement require the submission of an audit report prepared in accordance with generally accepted auditing standards, Government Auditing Standards, and the provisions of OMB circular A-133. We found instances where there were financial statements in the file, but they were unaudited, compiled, or reviewed. Unaudited, compiled, and reviewed financial statements do not fulfill the requirement for audited financial statements.

Recommendation #27

Unaudited, compiled, and reviewed financial statements should be rejected as unacceptable. The requirement for audited financial statements should be included on the documentation checklist (see recommendation #25). DCHFAs should update all files by obtaining the required audited financial statements.

DCHFAs Response

DCHFAs will review the SHIP Program agreements for audit requirements, and DCHFAs will develop written policies and procedures for this matter.

Finding #28

Although DCHFAs makes physical inspections of properties that have received grants or loans, it does not document its physical inspections.

Recommendation #28

We recommend that DCHFAs make physical inspections of all properties prior to funding grants or loans, prior to funding each draw request, and upon completion of the work. DCHFAs should include these physical inspections on the file documentation checklist (see recommendation #25) and document each inspection in the file in writing.

DCHFAs Response

Property inspections will be written and filed.

Finding #29

DCHFAs is not maintaining documentation in each SHIP Program file that the subrecipient is a qualified not-for-profit.

Recommendation #29

Where the not-for-profit status of an organization is a consideration, DCHFAs should obtain proof of the organization's current not-for-profit status. A copy of the organization's not-for-profit status should be kept in each loan or grant file and updated on an annual basis.

DCHFA Response

DCHFA will obtain proof of each organization’s not-for-profit status, where applicable, and monitor as needed.

General Comment

The City Council imposed no term limits on DCHFA board members when it drafted DCHFA’s charter.

Recommendation

Considering the prevalence of term limits within State and Local Government, including the City’s other independent agencies, we suggest that the City Council review the appropriateness of amending the DCHFA charter to include term limits on board members. If Council determines that term limits are needed, we recommend staggering the terms of the Board members.

Areas Needing Further Study

A separate audit will be necessary to determine if SHIP funds are being used for allowable expenditures and if SHIP funds are being accounted for properly by the subrecipient organizations who administer SHIP programs.

DCHFA Response

DCHFA will cooperate with the Council Auditors regarding this matter. A copy of the jurisdictional agency’s audit of the DCHFA’s SHIP Program is satisfactory.

Respectfully Submitted,

Robert O. Johnson, CPA
Council Auditor

Audit Performed by:

Kyle S. Billy, CPA

Carmen Johnson

Attachment

DUVAL COUNTY HOUSING FINANCE AUTHORITY



Richard S. Browdy - Chairman
Catherine L. Childers - Secretary
Hugh H. Jones, Jr. - Member
Percy Williamson - Member
Terry A. Moore, Esquire - Member

Nathan Krestul - Executive Director

July 27, 2001

Robert O. Johnson, CPA
Council Auditor
Office of Council Auditor
117 West Duval Street, Suite 200
Jacksonville, Florida 32202

Re: Report No. 531; Duval County Housing Finance Authority (the "Audit")

Dear Mr. Johnson:

The Duval County Housing Finance Authority ("Authority") would like to thank the Council Auditor and his staff for the very professional and courteous manner with which they conducted our recent Audit. The examination was both extensive in scope and thorough in detail; and admittedly, the Audit generated many more findings than we expected. We have viewed the entire audit process as a "consultation for improvement," and we plan to correct each and every situation. Starting with the commencement of the Audit and continuing through the present time, the Council Auditor and his staff have been most helpful with our efforts to improve the Authority's accounting controls and record keeping. The Council Auditor's staff has extended professional courtesies to us by developing recommendations (both verbal and those mentioned in the Audit) to correct the concerns in the Audit. Their extra time spent with us has focused our attention on the solutions rather than only fixating on the problems. We are pleased that the Council Auditor and his staff have graciously agreed to continue to assist us, and we intend to continue to avail ourselves of their assistance.

We realize that we have some needed improvements in the accounting area and without making excuses, we intend to move forward and correct the problems. Our staff has already (1) corrected the recordings (i.e., in the accounting records) for certain financial transactions; (2) improved many of the detail accounting records; and (3) commenced the process of preparing written policies and procedures. We recognize the entire project of designing, documenting, and implementing (i.e., including staff training) the necessary internal accounting controls and recording keeping system is significant in scope. Therefore, in addition to the Council Auditor and his staff, we plan to utilize an experienced outside consultant to help us to ensure that this project will be properly completed in a timely fashion.

We recognize the Authority's accounting operation is very important and critical to the administration of the Authority's valuable community services. At the same time, we intend to continue our vigorous pursuit of the Authority's mission of providing affordable housing in this

Robert O. Johnson, CPA

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community. This mission is accomplished in a wide variety of ways, including but not limited to, issuing single family and multi-family bonds to provide funds for housing, providing loans and/or grants to build or repair homes, and the administration of the State of Florida State Housing Initiatives Partnership ("SHIP") Program for Duval County.

When a loan and/or grant is provided directly to an eligible entity, the Authority offers creative terms in order to best accomplish the goal of providing affordable housing. This goal is not otherwise easily accomplished by the private sector because typically the assisted entities' projects do not fit the traditional conventional loans offered by institutional banks. Unlike institutional banks, the Authority offers creative and favorable terms to provide incentives to these entities to construct affordable housing. By offering creative terms and working with financial institutions, the Authority is able to leverage its funds to provide more affordable housing to a greater number of needy individuals.

We believe the Authority is making a significant difference in this community. Please allow us to mention just a few of our successes.

- * The Authority's 1999 Single Family Mortgage Revenue Bond Program provided \$47,000,000 for home mortgages to 585 eligible families (34% minorities) in Duval County.
- * HabiJax recently provided 101 Duval County families with safe, affordable housing. HabiJax has stated that its continued existence is in large part due to the Authority's heartening encouragement and financial support.
- * Funded in part with Authority dollars, "Paint the Town 2001" coordinated the resources of corporate sponsors, local businesses, and individual volunteers to improve the quality of life for 46 local homeowners.
- * During the period from July 1, 1992 through June 30, 2000, the Authority has administered programs, which have provided in excess of \$22,000,000 of SHIP funds to families in Duval County. The funds were used to (1) build or rehabilitate 5,846 homes; and (2) house, assist, or counsel 18,456 families (77% very low income).

The Authority has experienced great successes and tremendous growth. Admittedly, our primary focus has been on delivering service - perhaps to the detriment of our internal needs as articulated in the Audit. We will continue to deliver our usual quality service while we also address our internal needs set forth in the Audit, and we look forward to reporting our progress in this regard.

Respectfully submitted,

Duval County Housing Finance Authority