

**Audit of Housing and
Community Development –
State Housing Initiatives
Partnership (SHIP) Program**

**Report by the
Office of County Comptroller**

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July 28, 2003

Richard T. Crotty, County Chairman
And
Board of County Commissioners

We have conducted an audit of the Housing and Community Development Division - State Housing Initiatives Partnership (SHIP) Program. The audit was limited to determining whether SHIP funds received from the State of Florida were expended to provide affordable housing to low-income citizens of Orange County through the implementation of the County's approved Local Housing Assistance Plan. In addition, we determined compliance with SHIP laws, rules, and regulations. The period audited was October 1, 2000 through June 30, 2002. Our audit was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary in the circumstances.

Responses to our Recommendations for Improvement were received from the Division Manager and are incorporated herein.

We appreciate the cooperation of the personnel of the Housing and Community Development Division during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit Lalchandani, County Administrator
John Warbington, Interim Director of Growth Management Department
Mitchell Glasser, Manager of Housing and Community Development Division

EXECUTIVE SUMMARY

Executive Summary

We have conducted an audit of the Housing and Community Development Division - State Housing Initiatives Partnership (SHIP) Program. The period audited was October 1, 2000 through June 30, 2002. The audit was limited to determining whether SHIP funds received from the State of Florida were expended to provide affordable housing to low-income citizens of Orange County through the implementation of the County's approved Local Housing Assistance Plan. In addition, we determined compliance with SHIP laws, rules, and regulations.

Based on the results of our testing, we found SHIP funds were expended in accordance with the Local Housing Assistance Plan and complied with SHIP laws, rules, and regulations. Improvements are needed as follows:

Program files for the Down Payment Assistance Program and the Homeowner Rehabilitation Program were not always complete. Files did not always contain documentation required by the State or the documentation was not always complete.

Mortgage notes for down payment assistance did not always reflect the actual amount borrowed. In some cases, the full amount of assistance is not required and a refund is made to Housing and Community Development. Differences ranged from \$141 to \$1030.

Procedures were not in place to ensure homeowners utilizing SHIP assistance continue to occupy their homes during the amortization period as required by Florida Statutes.

Provisions of an agreement with a not-for-profit agency to administer a program using SHIP funds were not followed. The agency provides low interest loans for multi-family affordable housing projects. Requirements such as returning accrued interest and principal loan repayments to Housing and Community Development and maintaining closing documents at Housing and Community Development had not been followed.

Tenant eligibility was not monitored for all of the developments that have received assistance with SHIP funds.

Administrative costs reported on the SHIP annual report that is submitted to the Florida Housing Finance Corporation do not agree to the actual amount spent. The regulations allow the Housing and Community Development Division to utilize up to 5% of their annual SHIP distribution and this is the amount that was reported.

The Orange County Code requires the affordable housing advisory board to submit a report to the Board of County Commissioners each year. The advisory board does not prepare or submit any reports to the Board. The Housing and Community Development Division prepares and submits any reports or information to the Board. The code should be amended or followed.

Management concurred with all the audit recommendations for improvements and corrective actions are planned.

ACTION PLAN

AUDIT OF HOUSING AND COMMUNITY DEVELOPMENT – SHIP PROGRAM
ACTION PLAN

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
1.	X				X	We recommend the Housing and Community Development Division ensures all necessary documents are complete and included in applicant files.
2.	X				X	We recommend the Housing and Community Development Division ensures mortgage notes for down payment assistance are recorded in the amount of funds required to purchase the home. In addition, all files for down payment assistance should contain a copy of the recorded mortgage note.
3.	X				X	We recommend the Housing and Community Development Division establishes procedures to monitor the rental or owner-occupation of homes that received assistance with SHIP funds.
4.						We recommend the Housing and Community Development Division ensures the following:
A)	X				X	Require the FCCC to return the collected accrued interest and principal loan repayments to the County on a quarterly basis; and
B)	X				X	All of the closing documents specified in the agreement be on file at the Division or amend the agreement to reflect that the documents will be maintained (open for review) at the FCCC. Documentation of these reviews should be maintained.
5.	X				X	We recommend the Housing and Community Development Division ensures tenant eligibility is monitored for all of the multi-family affordable housing developments that have been assisted with SHIP funds.

AUDIT OF HOUSING AND COMMUNITY DEVELOPMENT – SHIP PROGRAM
ACTION PLAN

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
6.	X				X	We recommend the Housing and Community Development Division reports the actual administrative expenses for the administration and implementation of the strategies of the SHIP Program on the annual report submitted to the State of Florida.
7.	X				X	We recommend the Housing and Community Development Division either propose an amendment to the Orange County Code eliminating the requirement that the Affordable Housing Advisory Board submit a report to the Board of County Commissioners on August 31 st of each year (reflects current practices), or request the advisory board submit the annual report to the BCC in accordance with Orange County Code.

INTRODUCTION

Background

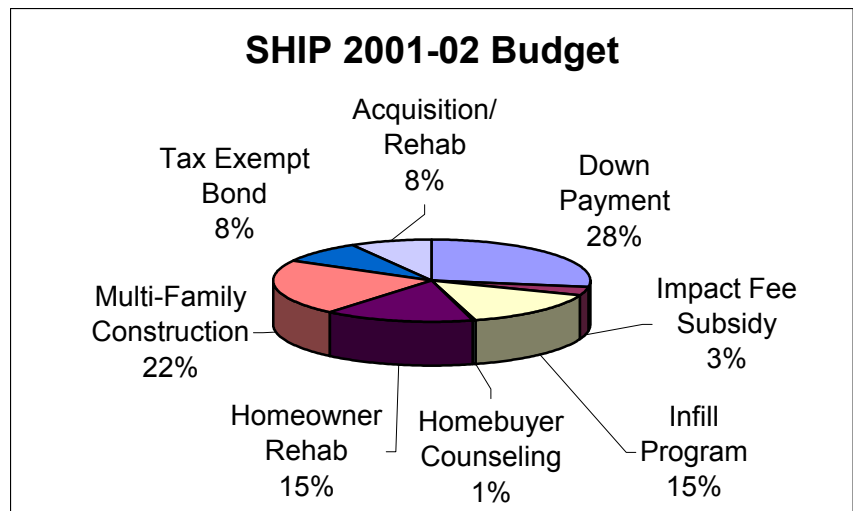
The State of Florida has developed the State Housing Initiatives Partnership (SHIP) Program, which was created by the William E. Sadowski Affordable Housing Act of 1992. The act establishes a dedicated revenue source to be used by local governments and municipalities to stimulate the production of affordable housing. All eligible local governments and municipalities are required to submit to the Florida Housing Finance Corporation a Local Housing Assistance Plan describing the proposed use of SHIP funds, which must be approved by the Corporation to receive funds. Funds are disbursed monthly as documentary stamp revenues are deposited with the State of Florida (State).

The purpose of the program is to provide funds to local governments as an incentive to create partnerships to produce and preserve affordable home ownership and multifamily housing. Targeted populations are those with very-low, low, and moderate incomes. Very-low income is income up to 50% of the area medium income, low income is up to 80%, and moderate is up to 120% of the Orlando area medium income. At least 30% of funds must be reserved for very-low income households, up to 30% for low income, and the remainder may be spent on moderate income. The 2002 Income Limits for very-low income ranges from \$19,150 to \$36,100 based on a household size from one person up the eight persons. Low income ranges from \$30,650 to \$57,750 and moderate from \$45,948 to \$86,640 per year. Homes purchased must not exceed 90% of the Median Area Purchase Price, as established by the U.S. Department of Treasury. Assistance provided may be in the form of grants, deferred payment loans, or direct loans, as established by the local government. The recapture of funds by the local government must be provided for in the event that the household receiving assistance ceases to occupy the unit and, for rental units, the owner must agree to set aside affordable units for 15 years. Local governments have a 24-month period to implement their strategies for a given State fiscal year. Funds may be used for both home ownership and rental housing activities; however, a minimum of 65 percent of funds must be used for home ownership activities. In addition, at least 75 percent of the funds must be used for

construction, rehabilitation, or emergency repairs of affordable, eligible housing.

Orange County adopted their Local Housing Assistance Plan with Resolution No. 93-M21, approved on April 27, 1993. Article VII of the Orange County Code establishes local housing assistance in Orange County. It also designates the Housing and Community Development Division (HCD) in the Growth Management Department as having primary responsibility for the implementation and administration of the program and also creates the local housing assistance trust fund.

The Florida Housing Finance Corporation’s allocation to Orange County for the 2001-2002 State fiscal year was \$6,009,629. Orange County’s major funding strategies under the approved Local Housing Assistance Plan for this funding year are as follows:



- ◆ Down Payment Assistance Program The purpose of this program is to provide funds for down payment and closing costs associated with purchasing a home. The assistance is secured by a mortgage with no interest that is forgiven after ten years of ownership. The maximum award is \$10,000 with a maximum sales price of a home being \$126,000 for new construction and \$111,000 for existing units.

- ◆ Infill Program This program provides funds to reduce the amount of the first mortgage to a qualified homebuyer. If a prospective homeowner qualifies for down payment assistance with a home to be built in an infill area, they are then eligible for additional SHIP funds. An infill area is a property that is located in an area in which the infrastructure is available, however, the property is not developed. The assistance is secured in the same manner as the above program with the maximum award and sales prices also being the same.
- ◆ Multi-Family Construction Program This strategy assists newly constructed or existing multi-family developments serving low and very-low income households. A not-for-profit agency assists in the administration of this program. The assistance is secured with a mortgage and a note that requires repayment over a fifteen-year period. Interest on the note begins accruing when the development is occupied and is generally at a rate of 15%. The interest is retained by the administering agency with only the principal being returned to Orange County. The development must comply with income and rent requirements during this period.
- ◆ Homeowner Rehabilitation Program This program provides deferred payment loans for the rehabilitation of substandard owner-occupied single-family units, with a maximum award of \$28,000. The assistance is secured by a mortgage with no interest that is forgiven after ten years. SHIP funds are also used in the form of a grant for minor repairs of code violations in a home for a maximum of \$7500.

The HCD has 42 positions and administers programs that are funded by both the State of Florida and the Federal government. The Division provides affordable housing for low-income families and individuals, renewal projects for blighted neighborhoods, and rent subsidies for low-income families and individuals within Orange County, with the exception of the City of Orlando. The Housing Development

Section administers the Down Payment Assistance Program, Infill Housing Program, Multi-Family Construction Program, as well as other minor programs. The Housing Rehabilitation Section administers the Home Owner Rehabilitation Program and the Fiscal Section manages the funds in connection with the Comptroller's Office. The administrative budget is less than five percent of the SHIP distribution and program income.

**Scope, Objectives,
and Methodology**

The scope of the audit entailed determining whether SHIP funds received from the State were expended to provide affordable housing to low-income citizens of Orange County through the implementation of the County's approved Local Housing Assistance Plan (LHAP). The scope also included determining whether the LHAP was administered in compliance with SHIP laws, rules, and regulations. The period under audit was from October 1, 2000 to June 30, 2002. The objectives of the audit were to determine the following:

1. Whether the HCD has complied with requirements of applicable laws and rules pertaining to its programs and operations involving SHIP funds;
2. Whether the HCD is administering the LHAP as approved by the Orange County Board of County Commissioners (BCC);
3. If internal controls over the County's administration of the Ship Program were adequate;
4. If the County is properly receipting, depositing, and recording all applicable State revenues related to the SHIP Program.

To determine whether the HCD has complied with requirements of applicable laws and rules pertaining to its programs and operations involving SHIP funds, we performed the following procedures:

- ◆ We confirmed the County adopted an ordinance requiring the creation of a local housing assistance trust fund, adopting a local housing assistance plan by resolution to be implemented through a local housing partnership, designating the responsibility for the administration of the local housing assistance plan, and creating the affordable housing advisory committee as required by Florida Statutes. We accomplished this by reviewing Orange County Code, the Orange County Consolidated Annual Financial Report, the LHAP, and minutes of the advisory board meetings.
- ◆ We determined whether HCD advertised the availability of housing assistance in the newspaper (and included the required information) by observing the advertisement in the Orlando Sentinel newspaper.
- ◆ We verified that the purchase price of a new or existing home, which may be sold or rehabilitated, did not exceed 90 percent of the average area purchase price. The BCC has approved a limit on the purchase price for a home using SHIP funds. We determined this price was within the guidelines of the program by comparing it with the limits listed on the Florida Housing Finance Corporation website. The website lists the average price of homes by Florida county for the previous year. Program requirements only allow homes of 90 percent or less to qualify for SHIP funds. We also verified the purchase price included in actual SHIP client files did not exceed this limit.
- ◆ To determine whether sponsors or persons eligible for SHIP funds were required to sign a contract to comply with the award conditions, we reviewed a sample of award files for the various programs and ensured each file contained a signed contract with a provision for recapture requirements.
- ◆ By observing the employees working on the various tracking files, we confirmed HCD developed a tracking system for monitoring SHIP funds as

specified in the Florida Administrative Code. We also used printouts of these files for program compliance and sample selection.

- ◆ We obtained a copy of the SHIP annual report and determined if the report was submitted timely; was certified by the County Administrator; and, information included on the report was documented and accurate. This was done by comparing the report to supporting documentation.
- ◆ We reviewed the Orange County Code relating to affordable housing and verified HCD was complying with the code by reviewing reports and activities of the HCD.

In addition, we selected samples of activities from the major strategies of the LHAP: the Down Payment Assistance Program; Infill Program; Homeowner Rehabilitation Program; and the Multi-Family Construction Program and tested each as noted below.

For the Down Payment Assistance and Infill Programs, we reviewed files associated with 30 disbursements and verified the following:

- ◆ The required SHIP forms and other documentation were received from the lender;
- ◆ The property was located within Orange County;
- ◆ The home did not exceed the maximum allowed sales price;
- ◆ The buyer's income was calculated correctly, documented, and within prescribed limits;
- ◆ The correct amount of assistance was provided;
- ◆ A signed commitment letter was in the file to verify the receipt of the assistance check;

- ◆ Post-closing documents were present, specifically a recorded second mortgage;
- ◆ The account information was entered on the HCD tracking file;
- ◆ There was evidence of home ownership monitoring; and
- ◆ Other required documentation was present.

For the Homeowner Rehabilitation Program, we reviewed files associated with 30 disbursements and verified the following:

- ◆ The required SHIP documents, specifically evidence of home ownership and calculation (and documentation) of homeowner's income, were on file;
- ◆ The homeowner had authorized work to be performed;
- ◆ The work was competitively bid and completed in the allotted period of time;
- ◆ If temporary displacement assistance was received, we verified the correctness of the check and reviewed the evidence of receipt by the homeowner;
- ◆ We confirmed amounts paid to contractors was documented with invoices and was not greater than the allowable amount;
- ◆ We verified the homeowner signed a completion letter and the final inspection was in the file;
- ◆ If the assistance was for total rehabilitation, we verified before and after pictures of the home and determined whether the recorded promissory note was on file;

- ◆ We examined evidence of home ownership monitoring; and
- ◆ We determined whether other required documentation was present.

For the Multi-Family Construction Program, we verified the following:

- ◆ We confirmed repayments on loans paid to the administrating agency, Florida Community Capital Corporation (FCCC) were being disbursed to the County on a quarterly basis by reviewing receipts on the County's financial system;
- ◆ We went on site to the FCCC to review their files. We selected a sample of two completed developments. To determine whether affordable rents were being charged to eligible tenants by the developments, we compared the rents currently being charged for the apartments to the allowable rent amounts provided by the Florida Housing Finance Corporation. By reviewing the bank statements for the FCCC checking account specifically used for administration of these developments, we confirmed the development was making the correct payments on the loan and the payments were being deposited into the loan account. We reviewed State monitoring reports for tenants to confirm their eligibility to reside in the developments, as required annually. We reviewed disbursements to the FCCC during the audit period from Orange County's SHIP Trust Fund. For disbursements related to Multi-Family projects, we reviewed the checking account and bank statements to verify funds were disbursed to the developer for the intended project. By reviewing the project files maintained at the FCCC, we confirmed the disbursements were supported by commitments for financing on behalf of Orange County with the appropriate provisions included. By reviewing other appropriate documentation, we verified developers were selected on the basis of an objective RFP process. We reviewed closing

documents, from files at the HCD, for the projects and certifications as a qualified affordable housing project issued by HCD; and

- ◆ We also reviewed disbursements from the SHIP Trust Fund to the FCCC not related to the Multi-Family projects. By reviewing the terms of the agreement between the agency and Orange County, we determined whether these disbursements were in compliance with the terms of this agreement.

To determine whether the HCD is administering the LHAP as approved by the BCC, we obtained a copy of the SHIP annual report and compared the activities reported with those planned in the LHAP. We also reviewed a sample of award files for the various strategies listed in the LHAP to determine consistency with the plan.

To determine if internal controls for the administration of the SHIP Program were adequate, we surveyed and evaluated the system of internal control through discussions with key employees and observation of SHIP activities. We reviewed check vouchers for various disbursements from the Local Housing Assistance Trust Fund in the Finance and Accounting Department to determine if the transactions were adequately documented and related to the SHIP program. For the Multi-Family Construction Program, we performed the following procedures:

- ◆ We performed a reconciliation between the year-end report submitted by the FCCC in administering the projects and the HCD project list. We verified that the year-end report included a copy of the FCCC's audited annual financial statements, which we then reviewed.
- ◆ We sent negative confirmations to the developers currently repaying loans to confirm the original and current loan balances that were reported in the year-end report.

INTRODUCTION



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- ◆ We prepared a proof of cash for the FCCC's loan checking account and reviewed the bank statements to check if interest earned is retained in the account as per the agreement with Orange County.
- ◆ We verified the FCCC was using the entire amount specified in the agreement for low-interest mortgage loans during each year in the audit period. Specifically, we reviewed the year-end report and compared the information with the disbursements to the agency.

To confirm the County was properly receipting, depositing, and recording all applicable revenues related to the SHIP Program, we obtained the total SHIP allocation from the State website for the July 1, 2001 to June 30, 2002 State fiscal year. We compared the State allocation to the revenues reported on the County's financial system for the SHIP trust fund to verify the amounts agreed.

Overall Evaluation

Based on the results of the work performed, the Orange County Housing and Community Development Division materially complied with applicable laws and rules pertaining to its programs and operations involving SHIP funds and is administering the LHAP as approved by the BCC. In our opinion, controls over the County's administration of the SHIP Program, including receipting, depositing, and recording of State revenues related to the SHIP Program were adequate. However, opportunities for improvement were noted and are described herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. Procedures Should Be Enhanced to Ensure SHIP Program Files Are Complete

Files do not always contain all required documents

Thirty homebuyer files for the Down Payment Assistance Program and thirty homeowner files for the Homeowner Rehabilitation Program were selected for testing to determine compliance with program policies and procedures. For the Down Payment Assistance Program, we noted the following:

- ◆ One file did not contain an executed copy of the mortgage application;
- ◆ Two files did not have an executed copy of the HUD 1 Settlement Statement;
- ◆ Eight files for \$67,500 in down payment assistance did not have Orange County listed as the second mortgage holder on the proof of insurance; and
- ◆ Four files had no evidence of title insurance.

For the Homeowner Rehabilitation Program, we noted the following:

- ◆ Five files did not contain the required SHIP forms (Authorization for Release of Information, Asset Addendum to the Application, and Resident Income Certification Form).
- ◆ Eighteen of the 25 Authorization for Release of Information forms and 17 Asset Addendums were incomplete with no applicant name or type of assistance. In addition, two of the Resident Income Certifications were not signed by the SHIP representative. These incomplete documents represent a total of \$281,322 in SHIP assistance.

For the Down Payment Assistance Program, the Housing Development Section developed a document checklist that specifies all of the required documents and these documents are also listed as being required in the Housing and

RECOMMENDATIONS FOR IMPROVEMENT



Community Development Down Payment Assistance Program Guidelines, Chapter V, Role of Participating Lenders. The Orange County Housing Rehabilitation Program Policy and Procedure Manual, Section XIII, Applications and Files, states, “OCHRS shall maintain accurate files and records on each applicant and all documentation pertinent to the homeowner shall be included.” Without proper documentation, applicants could receive funds without meeting the requirements.

We Recommend the Housing and Community Development Division ensures all necessary documents are complete and included in applicant files.

Management’s Response:

Concur. The program checklist developed by HCD is used as a tool to help ensure that required program documents are not overlooked. The HCD checklist will be amended to remove unnecessary items not required by the Florida Housing Finance Corporation. HCD will ensure that all necessary documents are complete and included in the applicant files.

2. Mortgages for Down Payment Assistance Should Reflect the Actual Amount of Funds Used for the Purchase of a Home

Mortgage notes may be recorded for an amount greater than what was borrowed

We reviewed checks submitted to the Housing Development Section from title and mortgage companies for a refund of down payment assistance due to a decrease in the amount of assistance required to purchase the home at the time of closing. Twenty-six percent (4 of 15) of the checks were not reflected as a decrease in the amount borrowed on the second mortgage note. Differences ranged from \$140.61 to \$1029.83 on \$5,000 of assistance and \$867.60 on \$17,500 of assistance. In addition, two (13%) of these fifteen files reviewed did not contain a copy of the recorded mortgage note, as required in Housing and Community Development Down Payment Assistance Program Guidelines, Chapter VII,

Role of the Title Companies. Therefore, the notes had to be reviewed at the Official Records Department.

Mortgage notes should only reflect the amount of assistance actually required to purchase the home. When homebuyers close on the mortgage loan for the purchase of their home, the title company may not require the entire amount of down payment assistance. The title company will return the unused funds to Orange County, but the HCD does not always reduce the amount of the mortgage note to reflect actual amount of assistance used to close on the purchase of the home. Applicants may have mortgage notes for a greater amount than borrowed. If the applicant were to sell their home before the ten-year forgiveness period, the remainder of the money not forgiven would be returned to the County and the applicant could be paying more than was borrowed. In addition, without a copy of the recorded mortgage note, HCD cannot be assured the closing took place.

We Recommend the Housing and Community Development Division ensures mortgage notes for down payment assistance are recorded in the amount of funds required to purchase the home. In addition, all files for down payment assistance should contain a copy of the recorded mortgage note.

Management's Response:

Concur. HCD will review all loan documentation received after closing to ensure that the Orange County mortgage notes for down payment assistance are recorded in the amount of funds required to purchase the home. In addition, all files for down payment assistance will contain a copy of the recorded second mortgage note.

3. Procedures to Monitor Whether Assisted Homes Have Been Rented or Otherwise Non-Owner Occupied Should Be Implemented

Homeowners are not monitored for rental of their homes

The HCD does not have procedures in place to ensure homeowners utilizing the Down Payment Assistance, Infill, or Homeowner Rehabilitation Programs have not rented, leased, subleased, or otherwise ceased to occupy their homes during the ten-year amortization period. We reviewed a sample of 20 property owners who received total rehabilitation assistance during the period of 1996 through 2000.

We noted one instance where a homeowner who received total rehabilitation for \$26,930 with SHIP funds in August of 2001, was not the same name listed as the property owner in the County Property Appraiser's records in September of 2002. We noted the property had a quitclaim deed in March of 2002. Discussions with the Program Manager of the Housing Rehabilitation Section indicated a homeowner in that neighborhood informed an inspector that the homeowner had died (which was verified by us with the Orlando Sentinel obituaries). However, no further follow-up was conducted by the Department.

Section II.B.8 of the Housing Rehabilitation Policy Manual states, "...In the event of the death of the original borrower, if... an adult heir meets the eligibility criteria... repayment of the loan is not required..." Section 420.9075(4)g, Florida Statutes, states "Loans or grants for eligible owner-occupied housing...shall be subject to recapture requirements as provided by the county...in its local housing assistance plan." The 2001-2002 Local Housing Assistance Plan, approved by the Orange County Board of County Commissioners on April 17, 2001, states "the principal balance will be due...if the house is rented or ceases to be owner-occupied." This stipulation is also noted in the contract signed with the applicant. Without monitoring of this requirement, heirs or other occupants may not be in need of affordable housing and may have obtained up to \$28,000 of SHIP funds for renovations without meeting the ongoing eligibility requirements.

We Recommend the Housing and Community Development Division establishes procedures to monitor the rental or owner-occupation of homes that received assistance with SHIP funds.

Management’s Response:

Concur. The vast majority of low income households assisted under Orange County’s affordable housing programs are not in a financial situation that allow them the ability to rent out, lease or otherwise vacate their home. However, on an annual basis HCD, through the use of the Orange County Property Appraisers web site, will conduct a random sampling of SHIP assisted loans as a means to monitor continued owner occupancy.

4. Provisions of the Agreement For Program Administration Should Be Followed

Orange County signs an agreement with Florida Community Capital Corporation (FCCC), a not-for-profit agency, for each year of SHIP funding to assist in the administration of the Multi-Family Construction Program. We noted the following concerns related to the agreement between Orange County and the FCCC:

Funds are not
returned to the
County

- A) The HCD does not require the Florida Community Capital Corporation (FCCC) to return accrued interest or principal loan repayments deposited into the Loan Account each calendar quarter to Orange County as required by their funding and program administration agreement. Principal loan repayments deposited into the account total approximately \$10,000 per month.

The Multi-Family Affordable Housing Funding and Program Administration Agreement Article 1, County Funding, Section 1.4, Deposit of Funds, states that FCCC agrees to deposit all principal loan repayments into a segregated interest bearing account. Section 1.5, Return of County Funds, states at the end of each calendar quarter, FCCC shall return to Orange

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County any accrued interest earned on SHIP funds and principal loan repayments deposited into this account. We were informed that these funds have not been returned to Orange County because the intentions are for the FCCC to use these funds for additional multi-family developments. These funds, if returned to Orange County, could be used for additional multi-family projects or for other SHIP strategies such as the Down Payment Assistance or Homeowner Rehabilitation Programs. In addition, as these monies are in the FCCC possession, their safety and security is not assured.

- B) While closing documents were on file at the FCCC for the three multi-family construction projects we selected for testing, copies of the FCCC first mortgage, notes and mortgages for the project loan, recorded deeds, fully executed closing statement, and other items noted in the agreement were not on file at the HCD.

Closing documents
are not provided to
Orange County

Section 1.3 B, of the agreement requires FCCC to submit a list of closing documents to the HCD fourteen days after closing on a qualified project loan. Both FCCC and HCD feel that it is adequate in retaining all of the closing documents at the FCCC, which are available for review. However, the County has not documented that it has reviewed the documents. Without copies or notations of review maintained of the specified documents, the County cannot be assured that the project has been closed in the manner specified in the agreement and all of the affordability restrictions and requirements associated with the use of SHIP funds may not be met.

We Recommend the Housing and Community Development Division ensures the following:

- A) Require the FCCC to return the collected accrued interest and principal loan repayments to the County on a quarterly basis; and

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FOR IMPROVEMENT**



- B) All of the closing documents specified in the agreement be on file at the Division or amend the agreement to reflect that the documents will be maintained (open for review) at the FCCC. Documentation of these reviews should be maintained.

Management's Response:

Concur. At the end of each calendar quarter FCCC will return any accrued interest earned on SHIP funds and principle loan repayments deposited into the Loan Account. Future agreements will be amended to reflect that documents will be maintained (open for review) at FCCC. HCD will review the closing documents of each project loan closed in a timely manner. HCD staff will document the project loan reviews and copies of pertinent loan documents will be retained at HCD.

5. Tenant Eligibility Should Be Monitored For Each Project

The HCD does not ensure that tenant eligibility is monitored for all of the multi-family affordable housing developments that have been assisted with SHIP funds. Of the two completed developments that we reviewed, one had not been monitored for tenant eligibility.

Tenants may not be eligible for affordable housing

Section 67-37.015(3) of the Florida Administrative Code requires staff with administrative authority for a local housing assistance plan assisting rental developments monitor and determine tenant eligibility at least annually for 15 years. Orange County's Local Housing Assistance Plan states Orange County will be responsible for monitoring affordability and regular tenant monitoring reports.

Of the seven completed multi-family SHIP assisted developments located in Orange County, five also received assistance from the Low-Income Rental Housing Tax Credit (LIHTC) Program. These five developments do not require further review by the County since they are reviewed

annually by the State and reported to the Florida Housing Finance Corporation for tenant eligibility. However, the remaining two developments noted from above are not included in this process.

Without yearly monitoring, eligible tenants could move out of the development and be replaced by tenants who are not in need of affordable housing before the required 15-year period has been met. In addition, there could be a risk of loss of State funding if adequate monitoring is not performed.

We Recommend the Housing and Community Development Division ensures tenant eligibility is monitored for all of the multi-family affordable housing developments that have been assisted with SHIP funds.

Management's Response:

Concur. Multi-family projects that receive tax credits in addition to SHIP funds are monitored by the Florida Housing Finance Corporation (FHFC). HCD will obtain copies of the annual reports submitted by tax credit projects to FHFC. HCD will conduct annual monitoring site visits of non-tax credit projects that have received SHIP funds. To determine tenant eligibility a random sampling of the tenant files will be conducted.

**6. Administrative Costs Reported to the State
Should Be Documented**

Reported
administrative
expenses are not
documented

There was no documentation of SHIP funds expended for administration in the SHIP annual report remitted to the Florida Housing Finance Corporation on September 10, 2001. The amount reported for administration was exactly 5% of the annual State distribution; and not actual administrative expenses for the period. HCD is permitted to use up to 5% of the SHIP annual State distribution and up to 5% of their program income to administer and implement the strategies of the SHIP Program per section 420.9075(6) of the Florida Statutes. Testing indicated administrative type

RECOMMENDATIONS FOR IMPROVEMENT



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expenses for the County 2000-01 fiscal year and for the period of October 1, 2001 through June 30, 2002 were 4.89% and 2.45%, respectively. Although, through testing, administrative expenses do not appear to be over 5%, the amount reported on the SHIP annual report should be the amount actually spent to ensure that expenses do not go over the 5% limit. Without maintaining administrative expenses within the 5% limit, a possible loss of funding could result.

We Recommend the Housing and Community Development Division reports the actual administrative expenses for the administration and implementation of the strategies of the SHIP Program on the annual report submitted to the State of Florida.

Management's Response:

Concur. HCD will report actual administrative expenses in its SHIP annual report for each SHIP fiscal year beginning July 1 and ending June 30 of the following year.

7. Provisions of the Orange County Code Should Be Followed or Amended

Advisory board does
not submit report to
BCC

The affordable housing advisory board did not assist the HCD in preparing the SHIP annual report required by Florida Statutes, or submit a report to the Board of County Commissioners (BCC) by August 31 of each year. Section 2-182(b) of the Orange County Code requires the affordable housing advisory board to submit a report to the BCC by August 31 of each year to assist the County in preparing the SHIP annual report. This report is required by Section 420.9075(9) of the Florida Statutes to be submitted to the Florida Housing Finance Corporation on September 15th of each year. HCD prepares this report, which is certified by the County Administrator. Florida Statutes only requires submission of the Local Housing Assistance Plan (LHAP) to the BCC, but not the annual report. According to the HCD, the affordable housing advisory board is not as involved in the day to day aspects of the SHIP program as originally

RECOMMENDATIONS FOR IMPROVEMENT



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anticipated when the code was written. Further, HCD stated the code contains requirements that are not needed or in line with current practices.

We Recommend the Housing and Community Development Division either propose an amendment to the Orange County Code eliminating the requirement that the Affordable Housing Advisory Board submit a report to the Board of County Commissioners on August 31st of each year (reflects current practices), or request the advisory board submit the annual report to the BCC in accordance with Orange County Code.

Management's Response:

Concur. HCD will look into the possibility of amending Orange County Code, Sec. 2-182, Reporting Requirements, to eliminate the requirement for the Affordable Housing Advisory Committee to submit a report to the Board of County Commissioners on August 31 of each year.